

Thirteenth Annual Report 2001



BOARD OF DIRECTORS

Mr. Manfred Schneider (Chairman)
Mr. K. Bala Chandran
Mr. Robert Fitzgerald
Mr. C.R. Dua
Mr. Vivek Kulkarni
Mr. G. Subramaniam

MANAGING DIRECTOR

Mr. K. Bala Chandran

**GENERAL MANAGER-FINANCE
AND COMPANY SECRETARY**

Mr. R. Ganesh

REGISTERED OFFICE AND FACTORY

10(C), II Phase, Peenya
Bangalore - 560 058

CORPORATE OFFICE

43, Hosto Centre, III Floor
Millers Road, Bangalore - 560 052

AUDITORS

M/s. Deloitte Haskins & Sells
Chartered Accountants

BANKERS

Canara Bank
Deutsche Bank

LEGAL ADVISORS

Dua Associates

REGISTRAR & SHARE TRANSFER AGENTS

M/s. Karvy Consultants Limited
TKN Complex
No. 51/2 Vanivilas Road,
Opp. National College,
Basavanagudi,
Bangalore 560 004.

NOTICE TO MEMBERS

Notice is hereby given that the 13th Annual General Meeting of KRONE Communications Limited will be held on Wednesday, April 24, 2002 at 11.00 a.m at Hotel Atria, No. 1, Palace Road, Bangalore 560 001 to transact the following business :

ORDINARY BUSINESS

1. To receive, consider and adopt the audited Profit and Loss Account for the year ended 31st December 2001, the Balance Sheet as at that date and the Reports of the Directors and the Auditors thereon.
2. To declare dividend.
3. To appoint a Director in place of Mr. Robert Fitzgerald who retires by rotation and, being eligible, offers himself for re-appointment.
4. To appoint Auditors and fix their remuneration. The retiring auditors M/s. Deloitte Haskins & Sells, Chartered Accountants, being eligible, offer themselves for re-appointment.

SPECIAL BUSINESS

5. To consider and, if thought fit, to pass with or without modification, the following resolution as Ordinary Resolution :

“RESOLVED that Mr. G. Subramaniam be and is hereby appointed a Director of the Company.”

By Order of the Board

R. Ganesh
General Manager - Finance
and Company Secretary

Place : Bangalore

Date : February 28, 2002

NOTES:

1. The relative Explanatory Statements pursuant to Section 173 (2) of the Companies Act, 1956 in respect of Special Business under Sl.No. 5 is annexed hereto.

2. A member entitled to attend and vote at this Meeting is entitled to appoint a Proxy to attend and vote instead of himself and Proxy need not be a Member of the Company.
3. The instrument appointing a Proxy should be deposited at the Corporate Office of the Company not less than 48 hours before the meeting.
4. The Register of Members and the Share Transfer Books of the Company will be closed from 12.04.2002 to 24.04.2002 (both days inclusive).
5. Members are requested to notify immediately any change in their addresses directly to Company's Registrar.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173 OF THE COMPANIES ACT 1956

Item No. 5

Mr. G. Subramaniam was appointed as Additional Director with effect from February 28, 2002 and vacates his office at this Annual General Meeting pursuant to Section 260 of the Companies Act, 1956 and Articles of Association of the Company. A notice under Section 257 of the said act has been received from a Member signifying his intention to propose the name of Mr. G. Subramaniam for appointment as a Director of the Company. Mr. G. Subramaniam has filed with the Company his consent to act as a Director.

The Directors recommend his appointment as a member of the Board in the interest of the Company.

None of the Directors except Mr. G. Subramaniam are concerned or interested in the resolution.

By Order of the Board

R. Ganesh
General Manager - Finance
and Company Secretary

Place : Bangalore

Date : February 28, 2002

MESSAGE FROM THE MANAGING DIRECTOR

Dear Shareholder,

The year that passed saw global business frontiers being challenged in more ways than one. Unmistakably, this affected local boundaries within India too with technology companies like ours, being challenged by both global and local impacts.

Within the Indian telecommunications sector, a series of events that lead to delayed decisions on switching purchases, affected our *AccessNET* business. However the corporatisation of the state owned service provider into BSNL and the privatization of other companies, lead to meaningful consolidations. We believe that this augurs well for the future, as this would soon initiate a phase shift from a formative to a committed operative mode. Though the sales of the traditional MDF's were affected on account of delayed decisions, the Company has managed to secure a firm footing within the Private telecom operators market viz., Bharti, Tata Teleservices & Hughes.

On the technology front, the new high-density NT product that we introduced last year, has received acceptance and bulk supplies of over 238K lines stood delivered. Support from the parent company and efforts of the local team to successfully indigenise other related products needs a special mention here.

Besides the pricing challenges that have always existed, we are now being faced with new ones. Key among them being the slow but certain movement from wireline technology to wireless technologies. The Company has recognised this and is ready to position competitive products to address this emerging change. Notwithstanding this we believe that BSNL's commitment to secure its existing customer base by

network upgradation will open new avenues for our products.

Despite negative growth of the desktop market, the Company managed to increase its volume for some key products within the *PremisNET* segment. Though price drops are the order of the day, our focus will be to address strong associations with large national integrators without losing hold on the middle and lower end market which is distribution driven.

The Company now also has a strategic alliance with an Israeli company called Optical Access, which manufactures products based on Free Space Optics and optical based switching solutions. The first FSO link was successfully installed late last year for an enterprise. We believe that these products will compliment our existing solutions for the enterprise and carrier market.

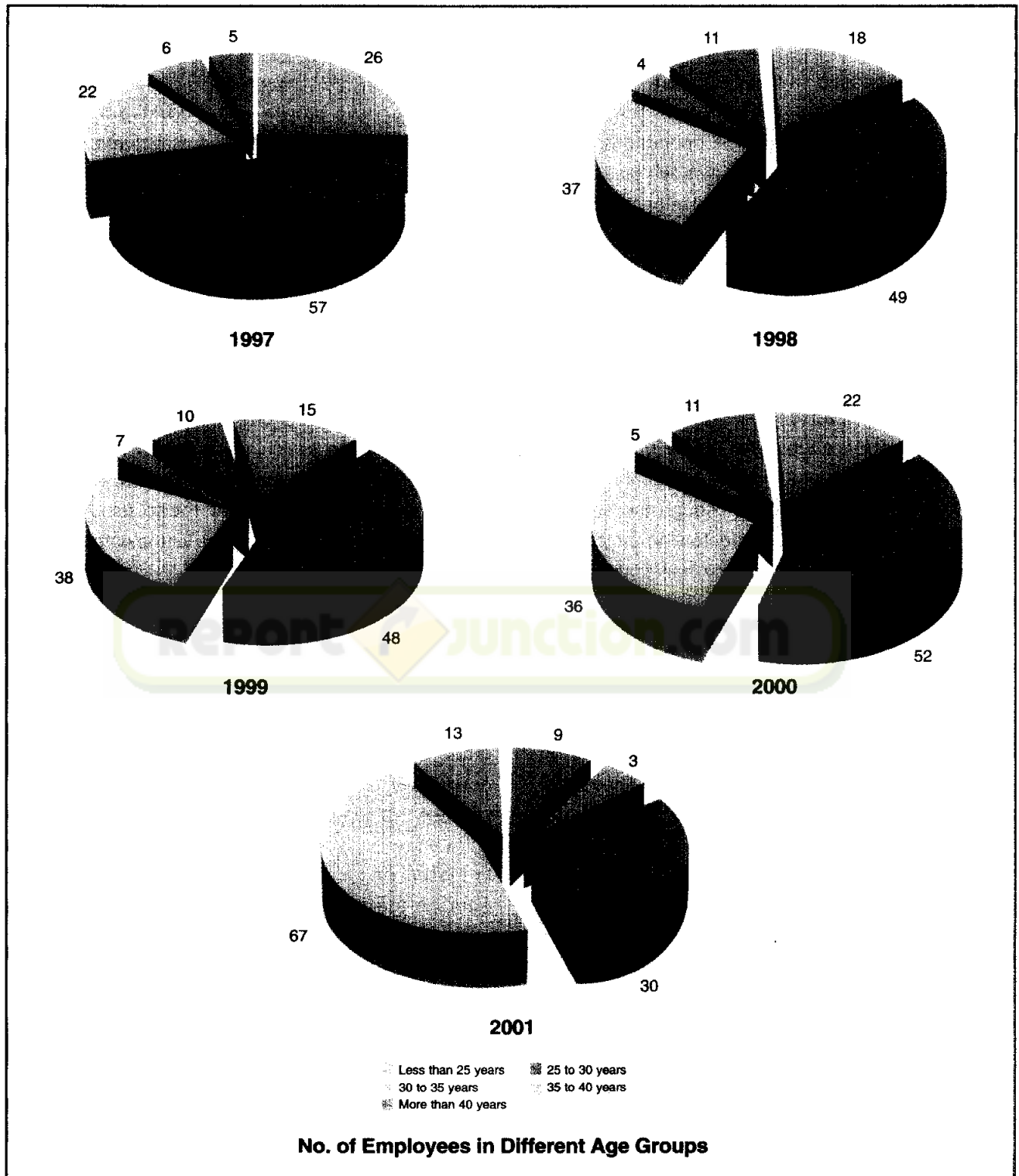
The management is not sparing actions pertaining to cost control spanning various processes within the operations. We are constantly striving to discover new avenues to add value to the market and the customer other than just price. The TPM and quality circle activities within the manufacturing process, singularly address this continuously dynamic issue.

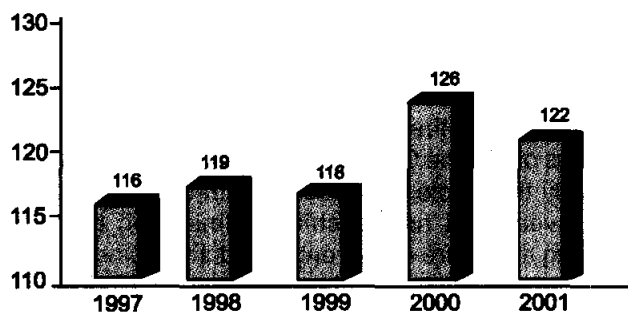
In these trying times, being closer to the market with ears on the ground, and delivering cost-effective solutions, with comprehensive quality and that too swiftly remains supreme. The Board, the management and the staff are in sync with this objective.

Thank you!

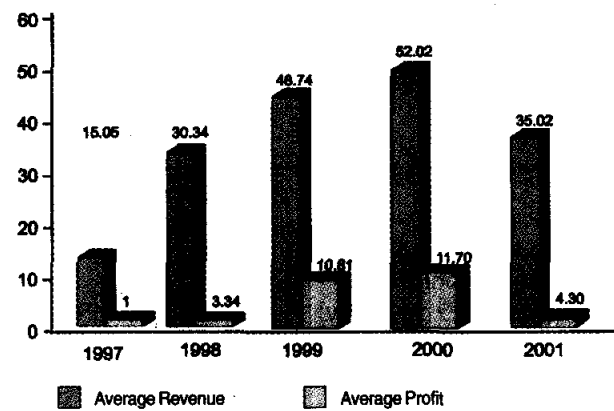
K. Bala Chandran
Managing Director

HUMAN CAPITAL

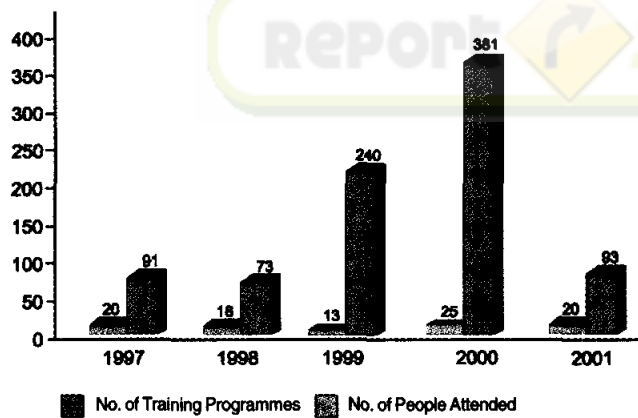




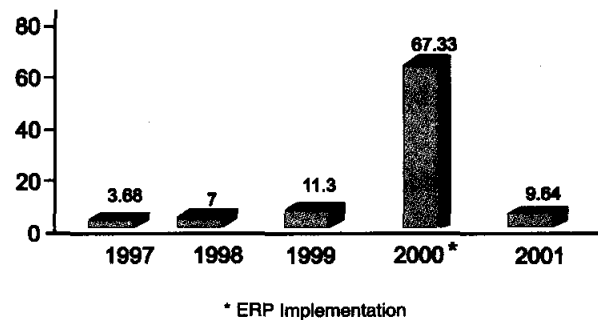
No. of Employees



**Average Revenue & Profit per Employee
(Rs. in Lakhs)**



Training Programmes



IT Spending (Rs. in Lakhs)

* ERP Implementation

DIRECTORS' REPORT

To the Members,

The Board of Directors of your Company has pleasure in presenting the Thirteenth Annual Report on the business and operations, including the financial statements for the year ended December 2001.

FINANCIAL RESULTS

(Rs. in lakhs)

	Year Ended 2001	Year Ended 2000
Gross Revenue (including Excise Duty)	4751.70	7416.36
Profit before depreciation	629.07	1562.87
Less : Depreciation	103.90	89.65
Net Profit for the year before Taxation	525.17	1473.22
Provision for Taxation	167.02	522.77
Profit after Tax	358.15	950.45
Add : Profit brought forward from previous year	2460.66	1649.51
Profit available for Appropriation	2818.81	2599.96
Appropriation General Reserve	17.91	47.53
Dividend Proposed	69.00	69.00
Income Tax on proposed dividend	7.45	22.77
Balance carried to Balance Sheet	2724.45	2460.66
	2818.81	2599.96

The year 2001 has represented challenging times. Various global events, a fall in government investment and capital projects coupled with fairly bearish consumer sentiment has impacted upon industrial performance adversely. The lowered growth of the

Indian economy from the earlier forecasts reflected in the manufacturing sector bearing the brunt of the slowdown.

Within the telecom sector in the AccessNet segment, business with switch manufacturers stalled in view of BSNL's delayed decisions on switching purchases which concluded only towards the fag-end of the calendar year. Nevertheless the company maximized its presence in the private telecom service providers market. Another important aspect that impacted the performance of the Company was the disinvestment process of one the Company's largest customer - HTL. Virtually the whole year passed with the decision on this investment not reaching culmination thereby keeping the future of this entity and it's business with our company in cloud. As is now public knowledge this was resolved subsequently. The new LSA NT high density MDF launched last year saw wide acceptance in the market and almost 230K lines were successfully delivered during the year to various sites in India.

In the PremisNET segment, business was again impacted by the global sentiments on IT, with many corporates either holding back or stalling infrastructure investments. However the Company strived to hold fort in terms of revenues and achieved a higher volume sales compared to 2000.

The Company is actively engaged in introduction of new products for the domestic and export markets which calls for a strong design capabilities within the organization in terms of hardware and people capabilities. We intend to pursue this to maintain a leadership position in a market that will soon emerge more dynamic than before.

DIVIDEND

Your Directors recommend a Dividend of 15% for the year ended December 2001 subject to the approval by the shareholders, at the Annual General Meeting.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 217 (2AA) of the Companies Act 1956, the Board of Directors report that :

- a. in the preparation of annual accounts the applicable accounting standards have been followed along

with proper explanation relating to material departures;

- b. accounting policies have been selected and applied consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period;
- c. proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- d. the annual accounts have been prepared on a going concern basis.

STRATEGY & OPERATIONS

During the coming years, the Company would be positioning new products for BSNL and Private Telecom Service Providers. The Company would also be increasing its efforts in the PremisNet segment by exploring OEM opportunities for new products and working with larger Value Added Resellers (VAR).

The Company has embarked on a number of cost reduction initiatives both in operations and material inputs. This was a prime concern considering the difficult market situation. The results of the Quality Circles and TPM activities were vigorously implemented.

DIRECTORS

Mr. Herbert F Kroll has ceased to be a Director of the Company. The Directors place on record their appreciation for the valuable advice and guidance given by him while he was a Director of the Company.

Mr. G. Subramaniam joined the Board as an Additional Director with effect from 28th February 2002.

Mr. Robert Fitzgerald retires by rotation and being eligible offers himself for re-appointment.

PARTICULARS OF EMPLOYEES

Information as per Section 217(2A) of the Companies Act, 1956 read with the Rules framed thereunder forms a part of this Report. However, as per the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956, the Report and Accounts are being sent to all shareholders of the Company excluding the statement of particulars of employees under Section 217(2A) of the Act. Any shareholder interested in obtaining a copy of this statement may write to the Company Secretary at the Corporate Office or e-mail to:

ganesh.r@krone.com

AUDITORS

The Auditors - M/s Deloitte Haskins & Sells, retire at the conclusion of the ensuing Annual General Meeting and offer themselves for re-appointment.

ACKNOWLEDGEMENTS

The Directors thank the Company's Customers, Vendors, Bankers, Shareholders, Channel Partners and Distributors for their continued support to the Company. The Directors also express their gratitude to M/s. GenTek Inc., and KEONICS for the support given to the Company.

The Directors also sincerely acknowledge the significant contribution made by all the employees of the Company in these trying times.

For and on behalf of the Board of Directors

Manfred Schneider
Chairman

Place : Bangalore

Date : February 28, 2002

ANNEXURE TO DIRECTORS' REPORT

Particulars pursuant to Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1998:

A. CONSERVATION OF ENERGY

We have achieved higher reliability on the self-generated power and with the introduction of TPM activities we have also enhanced the machine utilization and down time on equipments. Our machine utilization was 91% for the year 2001.

B. TECHNOLOGY

1. RESEARCH & DEVELOPMENT

- (i) Re-engineering some key products using less expensive alternate material were begun.

- (ii) The QC teams actively participated in many improvement programmes contributing to various process improvements within vendor premises.

2. FOREIGN EXCHANGE EARNINGS AND OUTFLOW:

- | | |
|-------------------------------------|------------------|
| (i) Foreign Exchange Earnings (FOB) | - Rs. 34,222,092 |
| (ii) Foreign Exchange outflow | - Rs. 319,639 |



AUDITORS' REPORT

To the Members of Krone Communications Limited

We have audited the attached Balance Sheet of KRONE Communications Limited as at December 31, 2001 and the Profit and Loss Account of the Company for the year ended on that date, annexed thereto, and have to report thereon as follows:

1. As required by the Manufacturing and other Companies (Auditor's Report) Order, 1988, issued by the Company Law Board in terms of Section 227 (4A) of the Companies Act, 1956, we give in the Annexure, a statement on the matters specified in paragraphs 4 and 5 of the said Order, to the extent applicable to the Company.
2. Further to our comments in the Annexure referred to in paragraph 1 above:
 - (a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - (b) in our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of the books;
 - (c) the Balance Sheet and the Profit and Loss Account dealt with by this report are in agreement with the books of account;
 - (d) in our opinion, the Balance Sheet and Profit and Loss Account dealt with by this report are in compliance with the Accounting Standards

referred to in Section 211(3C) of the Companies Act, 1956;

- (e) according to the information and explanations given to us, in relation to the affairs of the Company, none of the directors are disqualified from being appointed as director under Section 274(1)(g) of the Companies Act, 1956.
- (f) in our opinion, and to the best of our information and according to the explanations given to us, the said accounts read together with the notes thereon, give the information required by the Companies Act, 1956 in the manner so required and, give a true and fair view;
 - (i) in the case of the Balance Sheet, of the state of affairs of the Company as at December 31, 2001; and
 - (ii) in the case of the Profit and Loss Account, of the profit of the Company for the year ended on that date.

For DELOITTE HASKINS & SELLS
Chartered Accountants

Udayan Sen
Partner

Place : Bangalore
Date : March 01, 2002