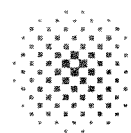


# Eighteenth Annual Report

06



KRONE

**KRONE Communications Limited**



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## BOARD OF DIRECTORS

Mr. Robert Fitzgerald	Chairman
Mr. K. Bala Chandran	Managing Director
Mr. Gokul Hemmady	Director
Mr. G. Subramaniam	Director
Mr. S. Rajagopalan	Director
Mr. Arun Thiagarajan	Director
Mr. T.R. Kulkarni	Director
Mr. Michael Day	Alternate Director to Mr. Gokul Hemmady

**Vice President - Finance & Company Secretary**  
Mr. R. Ganesh

**Registered Office and Factory**

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

**Auditors**

S. R. Battiboi & Associates  
Chartered Accountants

**Bankers**

Canara Bank  
Deutsche Bank

**Legal Advisors**

Dua Associates

**Registrar & Share Transfer Agents**

M/s. Karvy Computershare Private Limited  
Karvy House, 46 Avenue 4, Street No. 1  
Banjara Hills, Hyderabad 500 034  
Tel: 040-23312454/23320251  
Fax: 040-23311968  
E-mail: mailmanager@karvy.com



## Eighteenth Annual Report 2007

**NOTICE TO MEMBERS**

Notice is hereby given that the 18<sup>th</sup> Annual General Meeting of KRONE Communications Limited will be held on Wednesday, February 21, 2007 at 10.30 a.m at Hotel Atria, No.1, Palace Road, Bangalore 560001 to transact the following business:

**ORDINARY BUSINESS:**

1. To receive, consider and adopt the audited Profit and Loss Account for the year ended October 31, 2006, 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. S. Rajagopalan, 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 S.R. Batliboi & Associates, 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 subject to the approval of the company in the General Meeting, the non whole-time independent directors of the company be paid, commencing from May 1, 2006 an annual commission of an amount not exceeding 1% of the net profits of the company as provided under section 309 (4) of the Companies Act, 1956 ("The Act") and computed in a manner referred to in Section 198 (1) of the Act or any amendment thereof. This amount to be divided amongst the non whole-time independent directors in such manner as the board may from time to time determine and in default of such determination, equally and further subject to the amount of annual commission paid to each of the non whole-time independent directors, not exceeding Rs. 2,00,000/- (Rupees two lakh only) for any one financial year of the Company".

**By Order of the Board**

**R. Ganesh**

Vice President - Finance & Company Secretary

Place : Bangalore

Date : December 18, 2006

**NOTE :**

1. A Member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of himself/herself and the proxy need not be a Member of the Company.
2. Proxies in order to be effective must be received by the Company not less than 48 hours before the meeting.
3. An Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956, relating to the Special Business to be transacted at the meeting is annexed hereto.
4. The Register of Members and the Share Transfer Books of the Company will remain closed from February 10, 2007 to February 21, 2007 (both days inclusive).
5. Dividend if declared, will be paid on or before the specified time limit to those Members whose name appear in the Register of Members of the Company as at the end of business hours on February 9, 2007. In respect of shares held in electronic form, dividend will be payable on the basis of beneficial ownership as per the details furnished by NSDL and CDSL for this purpose.
6. Since SEBI has made it mandatory for distributing dividends through Electronic Clearing Services (ECS), the Company will use the bank account details furnished by the Depositories for distributing the dividends to the shareholders holding shares in the electronic form. Members are requested to notify any change in their Bank account details to their Depository Participant immediately.
7. Members are requested to notify immediately any change in their registered address and the bank mandate details to the Company's Share Transfer Agent (for shares held in physical form) and to Depository Participants (for shares held in electronic form).
8. Pursuant to the provisions of section 205C of the Companies Act, 1956 the amount, which was lying unclaimed for a period of seven years, on the dividend, declared for the year 1998 has been transferred to Investor education and Protection Fund (IEPF) on August 24, 2006.
9. Pursuant to the provisions of section 205 A (5) of the Companies Act, 1956, as amended, and with the



introduction of Section 205C by the Companies (Amendment) Act, 1999, the amount of dividends for the financial year ended 1999 and thereafter which remains unclaimed for a period of 7 years from the date of transfer to the Unpaid Dividend Account of the Company shall be transferred to the Investor education and Protection Fund established by the Central Government. Shareholders, who have not yet encashed, may make their claim to the Company/ Share Transfer Agent, without any delay. According to the provisions of the Companies Act, 1956 no claims can be made either against the said Fund or on the Company for the amounts of dividend so transferred to the said Fund.

#### 10. Reappointment of Director

At the ensuing Annual General Meeting, Mr. S. Rajagopalan retires by rotation and being eligible, offers himself for reappointment.

Mr. S. Rajagopalan completed a Bachelors degree in Science from St Josephs College, Trichy in 1959 and a Bachelors degree in Electrical Engineering from the Indian Institute of Science in 1962. He has more than 37 years of experience in the telecommunication sector and has been a part of many technical committees appointed by the Government of India responsible for the development of the telecommunications sector in India. He has held the positions of Chief Executive Officer and the Chairman of the Board of Directors of Mahangar Telephone Nigam Limited, the Head of Telecommunication Services in the state of Tamil Nadu and the Chief Establishment Officer of the Department of Telecommunications in India.

**By Order of the Board**

**R. GANESH**

Vice President - Finance & Company Secretary

Place : Bangalore

Date : December 18, 2006

## EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT 1956

### Item No. 5

At the 14<sup>th</sup> Annual General Meeting of the Company held on April 28, 2003, the shareholders of the Company had approved payment of commission to non-whole time independent directors of the Company of an amount not exceeding 1% of the net profits of the Company computed as per the provisions of the Companies Act, 1956. The commission to be paid to a director shall in no event exceed Rs. 1,50,000/- in respect of any one financial year of the Company.

With the continued expansion in the activities of the Company and the consequent increase in the company's business, the responsibility of the Non-Whole time Directors have increased. It is therefore considered appropriate that the limit of Rs. 1,50,000/- to any one Director for any financial year of the Company be increased to Rs. 2,00,000/- effective from May 01, 2006.

None of the Directors except Mr. G. Subramaniam, Mr. S. Rajagopalan and Mr. Arun Thiagarajan are concerned or interested in the resolution.

**By Order of the Board**

**R. Ganesh**

Vice President - Finance & Company Secretary

Place : Bangalore

Date : December 18, 2006



## Eighteenth Annual Report 2007

**DIRECTORS' REPORT**

To the Members,

The Board of Directors of your Company has pleasure in presenting the Eighteenth Annual Report on the business and operations, including the financial statements for the year-ended October 2006.

**Financial Results**

(Rs. in lakhs)

	For the Year ended 31 <sup>st</sup> October 2006	For the Year ended 31 <sup>st</sup> October 2005
Gross Revenue (including Excise Duty)	9154.62	8315.53
Profit before depreciation	1210.98	1222.65
Less: Depreciation	124.08	116.85
Net Profit for the year before Taxation	1086.90	1105.80
Provision for Taxation	383.32	468.20
Profit after tax	703.58	637.60
Add: Profit brought forward from previous year	2582.93	2192.67
Profit available for Appropriation	3286.51	2830.27
Appropriations		
Dividend Proposed	138.00	161.00
Tax on Dividends	19.35	22.58
Transfer to General Reserve	70.36	63.76
Profit retained in Profit & Loss Account	3058.80	2582.93

The Company increased the cable connectivity business considerably. This was on account of steady roll outs from customers like Bharti, Reliance, Tata's and OEM opportunities with Ericsson.

On the Enterprise segment, the structured cabling sales grew by 30% which is well above the market growth rate of 20%. This was largely because of successful wins with large projects of TCS and opportunities in the IT segments.

**Dividend**

Your Directors recommend a dividend of 30% for the year ended October 2006 subject to the approval by the shareholders at the forthcoming Annual General Meeting.

**Directors Responsibility Statement**

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

- in the preparation of annual accounts the applicable accounting standards have been followed along with proper explanation relating to material departures;
- accounting policies have been selected and applied consistently and made judgments 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 ;
- 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 ;
- the annual accounts have been prepared on a going concern basis.

**Strategy & Operations**

Cost leadership and revenue growth was the focus during the year. Although we did not introduce any new product that delivered sustainable revenues, we strengthened our marketing and brand perceptions in the Enterprise segment through new promotional strategies.

Going forward, the Company's focus will be on balanced growth, competitive costs and execution excellence. This will be achieved through additional head counts in both Carrier and Enterprise Sales with dedicated staff to address key accounts, large projects and channel sales.

**Directors**

Mr. S. Rajagopalan retires by rotation and being eligible offers himself for re-appointment.



## Corporate Governance

As required under clause 49 of the Listing Agreement, a report on Corporate Governance and Auditor's Certificate confirming compliance thereof are made a part of this Annual Report.

## Particulars of Employees

Information as per Section 217(2A) of the Companies Act, 1956 read with the Rules framed there under 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@adckrone.com

## Auditors

The Auditors - M/s. S.R. Batliboi & Associates, 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 ADC and KEONICS for the support given to the Company during the year.

The Directors convey their appreciation for the continued commitment and support of all the staff for the good performance of the Company.

**For and on behalf of the Board of Directors**

**Robert Fitzgerald**  
Chairman

Bangalore  
December 18, 2006

## ANNEXURE TO DIRECTORS' REPORT

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

### A. Conservation of Energy

The Company periodically evaluates its energy efficiencies in different processes and implements improvements to its overall machine efficiency. The Company also reviews strongly its 'make or buy' decisions with a view to optimize its in-house and its out-sourced vendors.

### B. Technology

The Company received continuous support from its parent in assisting and redesigning some of its existing products. We also introduced an intelligent

physical layer management solution through the support of its parent into domestic market.

### 1. Research & Development

Several product re-engineering initiatives were embarked upon which involved alternative material and processes to achieve better costs. Improvements to some of the cabling products like patch cords and patch panels were also achieved.

### 2. Foreign exchange earnings and outflow on cash basis:

(i) Foreign Exchange Earnings (FOB)	- Rs. 86,270,445/-
(ii) Foreign Exchange outflow	- Rs 13,677,041/-

## MANAGEMENT DISCUSSION AND ANALYSIS

### INDUSTRY STRUCTURE AND DEVELOPMENTS

#### Carrier:

The country has seen a steady growth in communications and on an average over 5 million subscribers are being added every month. This has put India in the global map for the highest growth rate. Despite this, the divide between urban tele-density (which is at 31%) and rural tele-density (less than 2%) is wide. This therefore, is clearly indicative of continued growth of wireless communications, if the country's objective of 250 million subscribers by 2007 has to be met. While the wire line segment (PSTN) has more or less remained stagnant, the new found opportunities would be in the area of broadband and wireless.

#### Enterprise:

The structured cabling market is growing at approximately 20% while the Company has recorded a growth of 30%. The software, IT / ITES and BPO segments continue to witness impressive growths. The growth of the enterprise business is clearly moving into B and C grade cities. Contributions of new technologies like 10 Gigabit Ethernet is finding a strong relevance in the data centre segments. A strong technology base for sales that can guarantee performance and reliability will be a primary influencer for decision making within this segment.

The market is also witnessing increases in size of individual enterprise which will add the dimension of network management at the physical layer. The Company has launched the high end 'Truenet PLM' which is a physical layer management solution that helps the IT manager to maintain and manage the physical infrastructure in large enterprises.

### REVIEW OF OPERATING PERFORMANCE

The financial statements have been prepared in compliance with the requirement of the Companies Act, 1956 and Generally Accepted Accounting Principles (GAAP) in India. The management of the Company accepts responsibility for the integrity and objectivity of these financial statements and the basis for the various estimates and judgments used in preparing the financial statements.

The financial results for the year ended October 31, 2006 and some of the key performance indicators are given below:

(Rs. In Lakhs)

Particulars	2006	2005
Gross Revenue	9154.62	8315.53
Profit before Depreciation and Tax	1210.98	1222.65
Depreciation	124.08	116.85
Profit before Tax	1086.90	1105.80
Ratio of Profit before Tax to Revenue in percentage	11.87	13.29
Profit after Tax	703.58	637.60
Total Assets	5682.80	5504.96
Earning per share	Rs. 15.30	Rs. 13.86
Inventory Turnover ratio	6.83 times	8.70 times
Debtors turnover ratio	3.88 times	4.41 times

The overall product sale inclusive of excise duty was Rs. 8791 lakhs for the year 2006. Profit before taxation in percentage term is less this year – 11.87% compared to 13.29 as material costs have increased during the year.

### OPPORTUNITIES AND THREATS

#### Carrier:

Since the thrust in telecom is dominant in the wireless segment, the scope for cable connectivity products stands limited. The challenge however, will be to achieve a winning combination of the right product at an affordable price. Currently, the Company does not possess any technology in the wireless space.

#### Enterprise:

Since India is one of the few markets experiencing rapid growth, the numbers of entrants have increased with the market showing a strong divide between top end players and players at the bottom of the pyramid. The Company will require implementing strategies to succeed in the large key accounts as well as deepen its channel to overcome these challenges.

### RISKS AND CONCERNS

#### Carrier

On account of pricing pressure there is a likelihood of decline in our market share with some of our major carriers as competition steps up activity. To sustain our leadership it is important to penetrate into the broadband and wireless segments.



## Enterprise

Though the market is showing excellent growth, the number of players has also increased. Fierce competition is leading to drop in margins with some of the large clients. Channel loyalty and churn could be high.

## LACK OF OWNED TECHNOLOGY

The Company primarily makes and sells technology developed and owned by companies affiliated to it. The right of the Company to continue to make and sell products is therefore contingent upon these affiliated companies electing to utilize the company as a manufacturing or sales channel.

## INTERNAL CONTROL SYSTEM AND THEIR ADEQUACY

The Company has adequate internal control systems for various business processes, financial reporting and compliance with applicable laws and regulations.

The internal audit function is looked after by an independent firm of Chartered Accountants who conducts regular reviews and checks on various areas of operations of the Company. The summary of the Internal Audit observations is presented to the Audit Committee and corrective actions are taken to ensure effective operation of all departments in the company.

## MANUFACTURING OPERATIONS

The Company has achieved consistency in some of the products that it commenced localization last year viz., Cat6 Patch Cords and Cat6 Patch Panels. This has certainly contributed towards strengthening our margins in the competitive enterprise segment.

However, in the Carrier space peak demands with short delivery times coupled by increases in the copper and plastic prices impacted the contribution margins.

## HUMAN RESOURCE DEVELOPMENT

As at October 31, 2006 the Company had 113 employees. The Company provides a congenial working environment for the employees enabling high levels of productivity. During the year the company introduced a concept of monthly Round Table Meeting between the employees and the Managing Director to discuss various Company related issues from the participating employee's perspective.

## IT

During the year the company IT network was integrated with ADC network with a dedicated Point to Point link, to facilitate the mobile users to have access to the information required, from anywhere, anytime and respond to the customers'. The existing Disaster Recovery and Business Continuity Plan has been strengthened by adding a new high end scalable Server in the network.

## Cautionary Statement:

Statements in this Management Discussion and Analysis describing the Company's objectives, projections, estimates and expectations may constitute "forward looking statements" within the meaning of applicable laws and regulations and which the management believes are true to the best of its knowledge at the time of preparation. Actual results might differ materially from those either expressed or implied and hence the Company and the management shall not be held liable for any loss, which may arise as a result of any action taken on the basis of the information contained herein.





## REPORT ON CORPORATE GOVERNANCE

### 1. COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE

The Company is committed to a system of good corporate governance, as it firmly believes that good corporate governance signifies good corporate practices aimed at increasing value for its shareholders, customers, employees, the government and all other stakeholders. Corporate governance of the company accords high importance for compliance with laws, rules and regulations at all times. The Company's internal control measures ensure the reliability of financial statements.

### 2. BOARD OF DIRECTORS

The Board of Directors consists of seven directors comprising:

- One Executive Director (Managing Director)
- Six Non-Executive Directors including three independent directors.

Four Board Meetings were held during the period November 2005 to October 2006: December 02, 2005, February 25, 2006, May 26, 2006, August 28, 2006

The details of the Directors on the Board of your Company for the year 2006 are given below:

Name	Category	Month & year of appointment	Designation	No. of meetings held during the last year	No. of meetings attended	No. of memberships in Board of other Companies	Membership of Board Committees	Chairman of Board Committees	Whether attended last AGM
Robert Fitzgerald	Nominee Director	July 1999	Chairman	4	3	NIL	NIL	NIL	Yes
K. Bala Chandran	Executive Director	June 2000	Managing Director	4	4	1	2	1	Yes
G. Subramaniam	Independent Director	February 2002	Director	4	3	NIL	NIL	NIL	Yes
S. Rajagopalan	Independent Director	July 2002	Director	4	4	NIL	NIL	NIL	Yes
Arun Thiagarajan	Independent Director	October 2003	Director	4	4	11	6	1	Yes
T.R. Kulkarni	Nominee Director	February 2005	Director	4	4	1	NIL	NIL	Yes
Gokul Hemmady	Nominee Director	July 2004	Additional Director	4	NIL	NIL	NIL	NIL	No
Michael Day	Alternate Director	July 2004	Alternate Director	4	NIL	NIL	NIL	NIL	No

### 3. AUDIT COMMITTEE

The role of the Audit Committee includes the following:

- Oversight of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statements are fairly stated.
- Recommending the appointment and removal of external auditor, fixation of audit fee and also approval for payment for any other services.
- Reviewing with management the annual financial statements before submission to the Board.
- Reviewing the internal audit system and scope of internal audit.

The Audit committee consists of the following Directors:

Mr. G. Subramaniam	: Chairman
Mr. S. Rajagopalan	: Member
Mr. Robert Fitzgerald	: Member
Mr. K Bala Chandran	: Member
Mr. Arun Thiagarajan	: Member

Mr. R. Ganesh, Vice President – Finance & Company Secretary acts as the Secretary to the Committee

During the year 2006 four-audit committee meetings were held. Except Mr. G. Subramaniam, all the other members attended all the four meetings. Mr. G. Subramaniam attended three meetings. The requirements on periodicity and time gap between two meetings were in accordance with the requirements of clause 49 of the listing agreement.

### 4. COMPENSATION COMMITTEE

The committee reviews and decides the overall remuneration of the key employees of the Company and the Managing Director.

The Compensation Committee consists of the following Directors:

Mr. Robert Fitzgerald	: Chairman
Mr. G. Subramaniam	: Member
Mr. K. Bala Chandran	: Member

During the year 2006 three Compensation committee meetings were held. Mr. Robert Fitzgerald and Mr. G. Subramaniam attended two meetings and Mr. K. Bala Chandran attended all the three meetings.

The compensation committee has been reconstituted with effect from August 28, 2006, consisting of the following directors:

Mr. Robert Fitzgerald	: Chairman
Mr. G Subramaniam	: Member
Mr. S. Rajagopalan	: Member
Mr. Arun Thiagarajan	: Member

#### Remuneration of whole-time Director:

Name	: K Bala Chandran
Designation	: Managing Director
Salary	: Rs. 4,143,425
Bonus	: Rs. 1,432,580
Value of perquisite	: Rs. 11,390
Total	: Rs. 5,587,395

#### Remuneration of Non-whole-time Directors for the year ended 31 October 2006

G Subramaniam	: Rs. 175,000
S Rajagopalan	: Rs. 175,000
Arun Thiagarajan	: Rs. 175,000

The commission payable to non-wholetime Independent Directors has been increased from Rs. 450,000 per annum to Rs. 600,000 per annum with effect from May 01, 2006. The increase is subject to the approval of the shareholders in the ensuing Annual General Meeting.

### 5. SHAREHOLDERS / INVESTORS GRIEVANCE COMMITTEE

The committee monitors and redresses Shareholder and investors complaints.

The Shareholders/Investors Grievance Committee consists of the following Directors:

Mr. S. Rajagopalan	: Chairman
Mr. Robert Fitzgerald	: Member
Mr. K Bala Chandran	: Member

During the year, four Shareholders/Investors Grievance Committee meetings were held. The Chairman and Mr. K Bala Chandran attended all the four meetings and Mr. Robert Fitzgerald attended three meetings.

#### COMPLIANCE OFFICER

Name and designation of compliance officer is Mr. R. Ganesh – Vice President - Finance and Company Secretary.