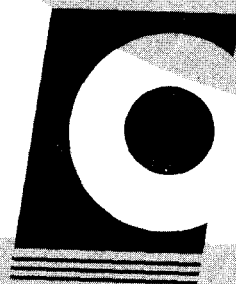


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# **COSMO FERRITES LIMITED**

## **Annual Report 2005-06**

**BOARD OF DIRECTORS**

Mr. Ashok Jaipuria  
 Mr. Shreekant Somany  
 Mr. Rakesh Nangia  
 Mr. B.D. Gupta  
 Mr. N.K. Gupta  
 Mr. S. K. Mittal  
 Mr. Ambrish Jaipuria

Chairman

**PRESIDENT & CEO**

Mr. Natarajan S. Iyer

**COMPANY SECRETARY**

Mr. Nitin Mittal

**REGISTERED OFFICE**

P.O. Jabli, Distt. Solan  
 H.P.-173 209  
 Ph.: 01792-277231-32/35/36  
 Fax: 01792-277234  
 E-mail : [plant@cosmoferrites.com](mailto:plant@cosmoferrites.com)

**AUDITORS**

B.K. Shroff &amp; Co.

**BANKERS**

State Bank of India  
 Export - Import Bank of India

**CORPORATE OFFICE**

30, Community Centre, Saket  
 New Delhi-110 017  
 Ph.: 011-26863968, 26863969  
 Fax: 011-26862969  
 Email : [sales@cosmoferrites.com](mailto:sales@cosmoferrites.com)

**SALES OFFICE**

30, Community Centre, Saket  
 New Delhi-110 017  
 Ph.: 011-26863968, 26863969  
 Fax: 011-26862969  
 Email : [sales@cosmoferrites.com](mailto:sales@cosmoferrites.com)

**MFG. PLANT**

P.O. Jabli, Distt. Solan, H.P.-173 209  
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## NOTICE

Notice is hereby given that the Twentieth Annual General Meeting of the members of Cosmo Ferrites Limited will be held at its registered office at Jabli, Dist., Solan (HP)-173209 on Monday, the 28<sup>th</sup> day of August, 2006 at 2.00 P.M. to transact the following business:

### Ordinary Business

1. To receive, consider and adopt the audited Profit & Loss Account for the year ended 31<sup>st</sup> March, 2006 and the Balance Sheet as at that date and the report of the Board of Directors and the Auditors of the Company thereon.
2. To appoint a Director in place of Mr. Rakesh Nangia who retires by rotation and is eligible for reappointment.
3. To appoint auditors and to fix their remuneration.

### SPECIAL BUSINESS:

#### ITEM NO. 4

4. To consider and if thought fit, to pass with or without modification(s), the following resolutions as an Ordinary Resolution:

"RESOLVED that pursuant to the provisions of sections 198, 269, 302, 309 read with Schedule XIII to the Companies Act, 1956 and all other applicable provisions, if any, of the said Act, including any statutory modification(s) or reenactment thereof for the time being in force, the Company hereby accords its approval for the appointment of Mr. Ambrish Jaipuria as Executive Director (Business Development) of the Company, for a period of five years commencing from January 16, 2006 as per the terms and conditions as stated in the explanatory statement and on remuneration set out below:

- (a) Basic Salary: Rs. 60,000/- (Rupees Sixty thousand only) per month with such annual Increment(s) as the Board may decide from time to time.

The Board of Directors may in its absolute discretion and from time to time, will fix the Salary payable to the Executive Director.

- (b) Perquisites & Allowances:

- House Rent Allowance @ 50% of basic salary per month
- Medical allowance / re-imbursement: One month's basic salary or such allowance / re-imbursement as decided by the Board from time to time.
- Leave travel concession / allowance: One month's basic salary or as decided by the Board from time to time.
- Club Fees: Fees payable subject to maximum of two clubs or as may be decided by the Board from time to time.
- Provision for driver / driver's salary allowance: As per rules of the Company

- (c) Other Benefits:

- Earned / Privilege leave: As per rules of the Company.
- Company's contribution to provident fund and superannuation fund: As per rules of the Company
- Gratuity: As per rules of the Company.
- Encashment of leave: As per rules of the Company.
- Company car and telephone: Use of company's car and telephone at the residence for official purposes, as per rules of the company.

The Board of Directors in its absolute discretion may vary the perquisite & other benefits payable to the Executive Director.

- (d) Commission:

In addition to the salary, perquisites and allowances as above, the Executive Director shall also be entitled to receive commission, as may be determined by the Board of Directors.

RESOLVED further that the Company hereby approves the salary, perquisites, allowances and commission as per the terms and conditions as may be decided by the Board of Directors, within the overall limit specified under Section I of Part II of Schedule XIII to the Companies Act, 1956 or any statutory modification thereof and to alter and vary the terms and conditions as the Board of Directors may in their absolute discretion consider necessary.

RESOLVED further that the remuneration payable as aforesaid by way of salary, commission and perquisites etc. shall not exceed 5% of net profits of the Company in any financial year.

RESOLVED further that in the event of absence or inadequacy of net profit in any financial year, the Company do pay to Mr. Ambrish Jaipuria remuneration by way of salary, perquisites and allowances not exceeding the ceiling limit specified under Section II of Part II of Schedule XIII to the Companies Act, 1956 or any statutory modification thereof.

RESOLVED FURTHER THAT the Board of Directors be and is hereby authorized to take all such steps as may be necessary, proper or expedient to give effect to this resolution. @

### NOTES:

1. The relative explanatory statement, pursuant to Section 173(2) of the Companies Act, 1956 is attached hereto.
2. Shareholders are requested to bring their copy of Annual Report to the Meeting.
3. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT ANOTHER PERSON AS HIS PROXY TO ATTEND AND ON A POLL TO VOTE INSTEAD OF HIMSELF. THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. A BLANK FORM OF PROXY IS ENCLOSED AND IF INTENDED TO BE USED, IT SHOULD BE DULY COMPLETED AND DEPOSITED AT THE REGISTERED OFFICE OF THE COMPANY NOT LESS THAN FORTY-EIGHT HOURS BEFORE THE SCHEDULED TIME OF THE MEETING. UNDER THE COMPANIES ACT, 1956, VOTING IS BY SHOW OF HANDS UNLESS A POLL IS DEMANDED BY A MEMBER OR MEMBERS PRESENT IN PERSON, OR BY PROXY, HOLDING AT LEAST ONE-TENTH OF THE TOTAL SHARES ENTITLED TO VOTE ON THE RESOLUTION, OR BY THOSE HOLDING PAID-UP CAPITAL OF AT LEAST RS. 50,000. A PROXY MAY NOT VOTE EXCEPT ON A POLL.
4. In case of joint holders attending the meeting, only such joint holder who is higher in the order of names will be entitled to vote.
5. The Register of Members and share Transfer Books of the Company will be closed from Monday the 28<sup>th</sup> day of August, 2005 to Tuesday the 29<sup>th</sup> day of August, 2006.
6. Members, who are holding shares in identical order of names in more than one folio are requested to write to the Company





enclosing their share certificates to consolidate their holdings in one folio.

7. Members who hold shares in dematerialized form are requested to bring their Client ID and DPID numbers for easy identification of attendance at the meeting.
8. The Members are also requested to notify any change in their addresses immediately to the Company's Share Registrar and Transfer Agents M/s. Alankit Assignments Limited, 205-208, Anarkali Market, Jhandewalan Extension, New Delhi 110 055.
9. Members / Proxy holders are requested to produce at the entrance of the Auditorium the enclosed admission slip duly completed and signed.
10. Register of Directors' shareholding, maintained under Section 307 of the Companies Act, 1956 will be available for inspection by the members at the registered office of the company.
11. The Register of Contracts, maintained under Section 301 of the Companies Act, 1956, will be available for inspection by the members at the registered office of the Company.
12. Members wishing to claim dividends of the previous years, which remain unclaimed, are requested to correspond with Mr. Nitin Mittal, Company Secretary, at the Company's registered office. Members are requested to note that dividends not encashed or claimed within seven years from the date of transfer to the Company's Unpaid Dividend Account, will, as per Section 205A of the Companies Act, 1956, be transferred to the Investor Education and Protection Fund.

Information in respect of such unclaimed dividend when due for transfer to the fund is given below:-

Financial Year	Type of dividend	Date of declaration	Due for transfer
2000-01	Final Dividend	24.07.01	30.08.08
2001-02	Final Dividend	30.08.02	06.10.09

Shareholders are requested to note that no claims shall lie against the Company or the said fund in respect of any amount which were unclaimed and unpaid for a period of seven years from the dates that they became due for payment and no payment shall be made in respect of any such claims.

13. Corporate Members intending to send their authorized representatives are requested to send a duly certified copy of the Board Resolution authorizing their representatives to attend and vote at the Annual General Meeting.
14. Consequent upon the introduction of Section 109A of the Companies Act, 1956, shareholders are entitled to make nomination in respect of shares held by them in physical form. Shareholders desirous of making nominations are requested to send their requests in Form 2B (which will be made available on request) to the Registrar and Transfer Agents, M/s Alankit Assignments Limited. The said Form 2B can also be downloaded from the Company's web site [www.cosmoferrites.com](http://www.cosmoferrites.com)
15. Pursuant to the requirements of the Listing agreement of Stock Exchanges, on Corporate Governance, the information about the Directors proposed to be appointed/ re-appointed is given in the Annexure to the Corporate Governance Report.

Registered Office:  
Jabli, Distt., Solan (HP) 173209

By order of the Board

Place: New Delhi  
Date: 20th July, 2006

Nitin Mittal  
Company Secretary

EXPLANATORY STATEMENT UNDER SECTION 173(2) OF THE COMPANIES ACT, 1956.

Item No. 4

Mr. Ambrish Jaipuria was appointed Director on January 29, 2004 on the resignation of Mr. R.M. Bhandari. He was subsequently appointed as Executive Director (Business Development) at the meeting of the Board of Directors held on 16<sup>th</sup> January, 2006 at the terms and conditions specified in the resolution.

Mr. Ambrish Jaipuria has a Degree in Business Administration from Ohio State University, USA. He is currently involved in a number of business activities of the Cosmo Group and has spearheaded the diversification of Cosmo Group in Bio-Diesel. Your directors are confident that the appointment of Mr. Ambrish Jaipuria as Executive Director (Business Development) will help in the growth & diversification of Cosmo Group and that his participation in the deliberations of the Board would be very beneficial for the Company's business.

The terms and conditions of his appointment which are as follows was agreed by the Board in addition to the unanimously passed resolution:

1. Period of appointment: Five years beginning January 16, 2006 and ending January 15, 2011.
2. Details of remuneration: As provided in the resolution.
3. The agreement executed between the Company and Mr. Ambrish Jaipuria may be terminated by either party by giving six months' notice in writing of such termination.
4. Mr. Ambrish Jaipuria shall perform such duties as shall from time to time be entrusted to him subject to the superintendence, guidance and control of the Board of Directors and he shall perform such other duties as shall from time to time entrusted to him by Board of Directors and / or the Chairman or the Chief Executive Officer.

Except Mr. Ambrish Jaipuria & Mr. Ashok Jaipuria, none of the Directors are concerned or interested in the resolution.

Mr. Ambrish Jaipuria is the son of Mr. Ashok Jaipuria.

As per the requirements of the Stock exchange listing agreement, details of Directors seeking re-appointment are set out in the Annexure to the Corporate Governance Report. Accordingly the respective resolution in the above item of the Notice is recommended for your acceptance.

The Board recommends the resolution set forth in Item No. 4 for approval of shareholders.

Copies of the resolution passed by the Board at the meeting held on 16<sup>th</sup> January, 2006 in respect of the above, may be inspected at the Registered office of the Company on any working day between 2.00 p.m. and 4.00 p.m.

Registered Office:  
Jabli, Distt., Solan (HP) 173209

By order of the Board

Place: New Delhi  
Date: 20<sup>th</sup> July, 2006

Nitin Mittal  
Company Secretary



## DIRECTORS' REPORT

To the Members,

Your directors present the Annual Report and the audited accounts for the year ended 31<sup>st</sup> March 2006.

(Rs. in Lacs)

### FINANCIAL RESULTS

	2005-06	2004-05
Sales	2966	2957
Profit before depreciation & tax	365	653
Depreciation	312	327
Profit before Tax	53	326
Provision for current Tax	12	22
Profit after current Tax	41	304

Provision for deferred tax	(38)	119
Profit after deferred tax	79	185

Add:

(a) Balance brought forward	4	41
(b) Dividend tax written back	Nil	Nil
(c) Transfer from Investment Allowance Reserve	Nil	Nil

(d) Less: Amortization of intangible assets for the period upto 31-3-2004	Nil	Nil	41
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Profit available for appropriation	83	226
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Add/less transfer to / from General Reserve	-	40
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Profit available for distribution	83	266
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### APPROPRIATIONS

Dividend-

Interim Dividend on Pref. Shares	-	82
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Provision for arrears of dividend on Cumulative Redeemable Preference Shares	-	150
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Equity shares	-	Nil
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Provision for dividend on Cumulative Preference shares	44	30
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Dividend Tax	8	4
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Balance carried to Balance Sheet	31	4
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	83	266
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### DIVIDEND

In view of the profits after appropriation being low during this year, the directors are regrettably unable to recommend dividend on the equity shares for the year ended March 31, 2006 (previous year Nil)

### DEPOSITORY SYSTEM

Your company shares have been notified for compulsory trading in demat form by SEBI w.e.f. September 25, 2000. Members have the option of holding their shares in Demat form through any of the depositories by opening account with the authorized depository participants.

### OPERATIONS

- Total Sales Revenue is Rs. 2966 lacs for the year ending 31<sup>st</sup> March 2006 ( Previous Year was Rs. 2957 Lacs). Powder sales volume decreased from 103 MT to 41 MT, while component sales increased from 1189 MT to 1211 MT.
- There was a decline in operational profits due to substantial increase in raw material prices especially Zinc Oxide, coupled with upward revision in Diesel prices and Electricity Tariffs.
- Net profit after current tax for the year is Rs. 40.61 lacs compared to Rs 304.57 lacs in the previous year.

### OUTLOOK

- Increase operational efficiencies by improving input-output ratio, reducing rejection rates and recycling waste materials.
- Introducing newer products with higher sales realization.
- Identification of customers and products, which have low contribution so that they can be subsequently substituted with high contribution customers, and products.

### DIRECTORS

Mr. Ambrish Jaipuria was appointed as Executive Director(Business Development) by the Board of Directors at their meeting held on 16<sup>th</sup> January, 2006 subject to the approval of the shareholders at the ensuing Annual General Meeting. His appointment and remuneration required shareholders approval at the coming Annual General Meeting.

Mr. Rakesh Nangia retires by rotation and is eligible for reappointment.

### STATUTORY STATEMENTS

Following information as per the requirements of the Companies Act, 1956 is given in separate statements annexed hereto, which form part of this report.

- Energy conservation, technology absorption and foreign exchange inflow/outgo pursuant to section 217(1)(e) of the Companies Act, 1956.
- Particulars of employees pursuant to section 217(2A) of the Companies Act, 1956.

### DIRECTORS' RESPONSIBILITY STATEMENT

In accordance with the provisions of section 217(2AA) of the Companies Act, 1956, your directors state that:

- In the preparation of the annual accounts, applicable accounting standards have been followed;
- Accounting policies selected were applied consistently. Reasonable and prudent judgements and estimates are made so as to give a true and fair view of the state of affairs of the Company as of 31<sup>st</sup> March, 2006 and of the profit of the Company for the year ended on that date.



(iii) Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

iv) The annual accounts of the company have been prepared on a going concern basis

#### CORPORATE GOVERNANCE

A report on compliance of Corporate Governance guidelines as per Clause 49 of the Listing Agreement is annexed to this report.

#### AUDITORS

M/s. B.K. Shroff and Company, Auditors of the Company retire and are eligible for reappointment.

#### TRADE RELATIONS

The Board desires to place on record its appreciation of the support and co-operation that your Company received from suppliers/processors/distributors/dealers/bankers and all others associated with your Company. Your Company regards them as partners in its journey of growth and progress.

#### PERSONNEL

The Board wishes to place on record its appreciation of the contribution made by all employees.

#### APPRECIATION

Your directors wish to place on record their appreciation of the whole-hearted and continued support extended by the investors, bankers and financial institutions.

On behalf of the Board

Ashok Jaipuria  
Chairman

12<sup>th</sup> April, 2006  
New Delhi

#### ANNEXURE TO THE DIRECTORS' REPORT

Information as per Section 217 (I) (e) read with Companies (Disclosure of particulars in the report of Board of Directors) Rules, 1988:

#### CONSERVATION OF ENERGY

(a) Energy conservation measures taken

- 795KVA load sanctioned from HPSEB from 15-12-2005 to 31-03-2007, since captive generation is costlier.
- Installed VFD to three Rotary Press & One spray drier mainfan (15HP).

(b) Additional investments and proposals, if any, being implemented for reduction of consumption of energy

- 100HP Attriator motors and Ball mill conventional motors 40HP are planned for replacement with VFD.
  - Replacement of HSD with LPG under consideration.
- (c) Impact of the measures at (a) and (b) for reduction of energy consumption and consequent impact of the cost of production of goods.
- HPSEB Vs captive consumption (Peak load running) saves Appox. Rs. 350 K per year.
  - Other savings of Rs. 200 K per year are expected.

(d) Total energy consumption and energy consumption per unit of production as per prescribed Form 'A' - Not applicable.

#### TECHNOLOGY ABSORPTION

i) Research & Development

a) Specific areas in which R & D carried out by the Company

- Developed high permeability material with improved performance over wide frequency Range upto 400kHz, for filter applications and entry in powder sale business with this new material.
- Developed medium permeability material with high Q, low relative loss factor material for high-end EMI application.
- Developed low power loss material for higher frequency (> 300 KHZ) power applications Product (geometry) range enhanced.

b) Benefits derived as a result of above R&D

- Entry into new products, new powder business & telecom applications.
- Opportunity of getting business from major OEM's in EMI market segment.

c) Future plan of action

- Material development for Low power loss for wide temperature application (high end low power loss applications)
- Development of high permeability (>10K) with improved performance over high frequency ranges. (For small to medium size torroids EMI, filter applications)
- Development of Temperature stable high permeability (~ 10K) material for high end Telecom applications.

d) R & D Expenditure

- Capital	Nil
- Recurring	Rs. 42.15 Lacs
- Percentage of Turnover	1.42 %

ii) Technology absorption, adaptation & innovation

Technical Losses reduced by adopting innovative process methodologies  
The company has not imported any technology during the year



## C) FOREIGN EXCHANGE EARNINGS AND OUTGO

b) Foreign Exchange Earned- Rs. 1617.30 Lacs

c) Foreign Exchange Outgo- Rs. 426.79 Lacs

## a) Activities

- New customers added in Europe and Asia with emphasis on increasing foreign exchange earnings.

On behalf of the Board

- Exports during the year aggregated to 57.05 % of total sales.

20th July, 2006  
New DelhiAshok Jaipuria  
Chairman

## PARTICULARS OF EMPLOYEES IN TERMS OF SECTION 217(2A) OF THE COMPANIES ACT, 1956 AND FORMING PART OF THE DIRECTORS REPORT FOR THE YEAR ENDED MARCH 31, 2006

Name	Designation / Nature of Duties	Gross Annual Remuneration	Qualification	Experience (Years)	Date of Commencement of Employment	Age- (Years)	Last Employment (Name of the Company)	Designation
Mr. Natarajan S Iyer	President & CEO	7,97,270	B. Tech, PGDM	29	22.11.2005	52	Motherson Sumi Systems Ltd	Sr. Vice President
Mr. Ambrish Jaipuria	Executive Director ( Business Development)	2,76,775	Degree in Business Administration Ohio State University, USA	2	16.01.2006	28	-	-
Mr. Kushal Saha	COO	17,59,733	B. Tech, PGDBM	23	28.02.2005	46	Minda Group	Vice President

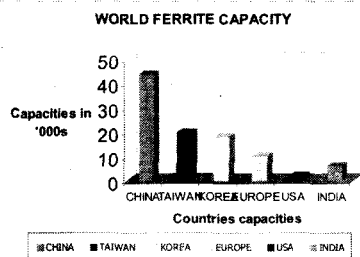
## Notes:

- Remuneration is as defined under Section 198 of the Companies Act, 1956.
- None of the employees mentioned above is related to any director or manager of the Company, except Mr. Ambrish Jaipuria who is the son of Mr. Ashok Jaipuria, Chairman of the company.
- The conditions of employment to all employees are contractual and terminable as per their conditions of employment.
- The designations represent the nature of duties performed by the employees.
- There is no employee in respect of whom details are required to be given under sub-clause a(iii) of Section 217(2A) of the Companies Act, 1956.



## MANAGEMENT DISCUSSION AND ANALYSIS

### (A) Industry Structure & Developments



Cosmo Ferrites is in the business of manufacture and sale of soft ferrite components.

World ferrite capacity last year was approx. 150 K Tons. The total demand in comparison is around 100 K Tons, which is expected to grow at around 4% p.a.

The previous year witnessed transfer of manufacturing facilities from Europe to Asian countries. This will further increase capacity in Asia and will also augment demand in these low cost countries.

Cosmo, EPCOS, DGP and MMG lead Indian domestic market with capacity of 1.5 K Tons, 5 K Tons, 9 K Tons and 0.5 K Tons respectively. The domestic demand for soft ferrites is around 2 K Tons.

Domestic market has seen an increase in demand for smaller ferrite cores due to the increase in lighting market in India. Lighting market in India is growing at 30% per annum. Prices of Chinese Imports have stabilized now. Exports have been growing and we expect to leverage our position in exports by exploring new markets, offering niche products to existing customers and focusing on new product development. Quality, Cost and Timely delivery is the key to sustainability and growth.

### (B) SWOT Analysis

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> <li>Customized Cores</li> <li>Short Response Time</li> <li>Wide Distribution network</li> <li>In house R&amp;D range</li> </ul>	<ul style="list-style-type: none"> <li>Order to warehouse lead time</li> <li>Smaller Cores</li> <li>Limited material</li> </ul>
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> <li>Manufacturing facilities being shutdown in Europe.</li> <li>Opening up markets (East Europe/ CIS)</li> <li>Lighting and Telecom cores</li> <li>Jumbo Cores</li> </ul>	<ul style="list-style-type: none"> <li>Chinese competition</li> <li>Longer Delivery time</li> <li>Short product life cycle</li> <li>Locational disadvantage</li> </ul>

### (C) Segment wise / product wise performance

The company sells two products- soft ferrite components & pre-calcined soft ferrite powder. The sale of soft ferrite components were Rs. 2932.51 Lacs ( Previous Year Rs. 2867.70 Lacs ). The sale of pre-calcined soft ferrite powder were Rs. 33.84 Lacs ( Previous Year Rs. 88.92 Lacs )

### (D) Outlook

- Our strategies for the current year include:
- Increase operational efficiencies by improving input-output ratio, reducing rejection rates and recycling waste materials.
- Improving sales realizations of existing products.
- Introducing newer products with higher sales realization.

We expect the above strategies to pay this year and are positive of a good performance.

### (E) Risk and Concerns

The company is exposed to various business risk from time to time. Some of the anticipated risks & strategies are outlined below:

- Competition Risk:** The ferrite industry in capital intensive industry. New Capacities are created depending upon demand supply situation and return on investment. The industry is also cyclical in nature and at times there is over supply situation leading to decline in operating margins.
- We are mitigating the above risk by increasing our export presence, developing niche products, exploring new markets and new customers. The domestic market caters to the lower end segment of the ferrite market and poses no threat to the company. The company has a good image with local customers.
- Customer Attrition Risk:** All customers are sensitive to quality, delivery and price.
- The above risk is mitigated by developing value added niche products, customer schedule adherence and improved quality standards. This enables us to build long term relationship with various customers by providing them good value proposition.
- Raw Material Price Risk:** Raw material prices have a significant impact on operating margins since scope for increase in selling prices has reduced.
- Since, raw materials prices are increasing continuously, especially Zinc Oxide, the company is in the process of removing lower realization products & customers, increasing sales realization and exploring new markets where realizations are high.
- People Risk Management:** High quality human resources are vital to the success of our business.





- The company follows good HR practices, which include various schemes for employee welfare and motivation. The company has strong appraisal system and offers good compensation policy. By our sound HR policies and satisfactory track record we are able to attract and retain people for growth of our business.
- Security Risk Management: The company's operations could be disrupted due to natural, political and economic disturbances.
- The company has taken adequate insurance cover on its insurable interests. There include Fire Risk, Marine Risk, Burglary Risk, Group Personal Accident Policy, Other Miscellaneous Policies.
- Foreign Exchange Risk: The company is exposed to foreign exchange risk on account of export of products, imports of raw materials, foreign currency loans and interest thereof. However, the company continues to be net foreign exchange earner. There is a risk of Indian rupee appreciating against other foreign currencies.

(F) Internal control systems and their adequacy

The Statutory Auditors assess the adequacy of Internal control every quarter and report to the Board of Directors accordingly. The company has adequate internal control procedures commensurate with the size of the company and nature of its business.

(G) Operations and Financial Performance

Preparation of Accounts

The financial Statements have been prepared in compliance with the requirements of provisions of Companies Act, 1956 and the Generally Accepted Accounting principles (GAAP) of India.

Sales

Net Sales was Rs. 2786 lacs as on 31<sup>st</sup> March, 2006 (Previous Year Rs. 2781 lacs). Components production increased from 1172 MT to 1189 MT.

Exports during the year aggregated to 57.05 % of total sales.

R & D

- Developed High permeability with improved performance upto 400kHz for high end EMI applications & new customer added with this powder material.
- Low power loss material upto (<300kHz) applications Product range enhanced.
- Product basket in 10K permeability ferrites enhanced
- Future directions in Power ferrites & High permeability ferrites (with improved performance)
- Factors over Temperature, Frequencies etc is clearly identified and taken up for the year 2006-07 development plans.

Finance Costs

Finance costs are up by 22 % as compared with the previous year. This was mainly on account of term loan from Export Import Bank of India of Rs. 6 crores. However, finance costs are expected to decrease in the next year since ICICI Term loans have been completely repaid during the current year.

Provision of Tax

The company has made a provision of Rs2.80 lacs towards income tax under the MAT provisions. Deferred Tax to the tune of Rs. 38.55 Lacs has been written back as on 31.03.2006. The Total Deferred tax liability as on 31.03.2006 is Rs. 601.14 Lacs as against Rs. 639.69 Lacs as on 31.03.2006.

Reserves & Surplus

The reserves & surplus of the Company were Rs. 414.31 Lacs as on 31<sup>st</sup> March, 2006 (Previous Year Rs 386.92 Lacs)

Debt Profile

Total secured debts has gone up from Rs 539.80 lacs as on March 2005 to Rs. 940.55 lacs as on March 2006.

Receivables

Percentage of Receivable to turnover improved to 12.14% in the current year from 10.3% the previous year on account of enhanced credit time demanded by our domestic & export customers.

Manufacturing costs

Percentage of Manufacturing costs to turnover have increased by 8% in comparison to the previous year on account of increase in prices of raw materials like Zinc Oxide & Ferric Oxide. Moreover, power & fuel cost have also increased by 23% to the previous year. This is on account of increase in tariffs of HPSEB and diesel prices.

Inventories

Percentage of inventories to turnover increased to 12.60 % from the previous year of 10%. This was due to increased raw material stocks, which were maintained due to increase in prices of key raw materials. There was also increase in inventory of critical spares required for equipments.

(H) Human Resources Development

The number of regular workers employed were 249 (Previous Year 247). The number of staff employed was 81 (Previous Year 74). The company maintains cordial relations with its employees and industrial relations was peaceful during the year.



## CORPORATE GOVERNANCE REPORT

Corporate governance is the system by which corporate entities are directed and controlled. It encompasses the entire mechanism of the functioning of a company and attempts to put in place a system of checks and balances between the shareholders, directors, auditors and the management. Your Company is committed to adopting the best global practices of Corporate Governance. The philosophy of Corporate Governance as manifested in the Company's functioning is to achieve business excellence by enhancing long-term shareholders' value and interest of its entire shareholders. Efficient conduct of the business of the Company through commitment to transparency and business ethics in discharging its corporate responsibilities are hallmarks of the best practices already followed by the company.

The Board of Directors of the company have developed and adopted Corporate Governance guidelines in addition to the

compliance imposed by the Listing agreement. The Board ensures that the company has necessary regulatory mechanism so that timely and accurate disclosure of information regarding the financial situation, performance, ownership and governance of the company is disclosed.

The Company's compliance of Corporate Governance guidelines of the listing agreement is as follows:

### A. COMPOSITION OF THE BOARD AND RECORD OF OTHER DIRECTORSHIPS HELD

The board of directors of the company comprises of an optimum combination of Executive and Non-executive directors headed by a Non-executive Chairman and more than fifty percent independent directors. The independent directors do not have any pecuniary relationship or transactions with the company, promoters, and management, which may affect their judgement in any manner.

Name	Executive / Non-executive / Independent	No. of other Directorships Held	No. of Chairmanships / Memberships of other Board Committees	
			Committee membership	Committee Chairmanship
Mr. Ashok Jaipuria	Non-executive Chairman (Promoter)	3	-	2
Mr. S. K. Mittal	Non-executive- Non independent	2	3	-
Mr. Shreekant Somany	Non-executive, Independent	9	1	-
Mr. Rakesh Nangia	Non-executive, Independent	2	-	-
Mr. B. D. Gupta	Non-executive, Independent	2	2	2
Mr. N. K. Gupta	Non-executive, Independent	1	-	-
Mr. Ambrish Jaipuria	Executive Director- Business Development ( Non-independent)	2	-	-

Note:

(i) Mr. Ambrish Jaipuria was appointed as Executive Director w.e.f. 16<sup>th</sup> January, 2006

None of the Directors is a member of more than 10 Board-level committees of public companies in which they are Directors, nor is a Chairman of more than 5 such committees.

### B. BOARD MEETINGS:

#### 1. Scheduling and selection of agenda items for board meetings

Months for the board meetings in the ensuing year are decided in advance and most board meetings are held at the company's corporate office at 30, Community Center, Saket, New Delhi. The company secretary drafts the agenda for each meeting, along with explanatory notes, and distributes these in advance to the directors. The board meets at least once in a quarter to review the quarterly results and other items on the agenda.

#### 2. Number of board meetings

The Cosmo Ferrites Board met four times on April 15, July 18, October 27, January 16 during the year. The maximum time gap between two meetings was not more than four months.

#### 3. Record of the director's attendance at board meetings and AGM

Name of the Director	No. of Board Meetings attended	Attended last AGM
Mr. Ashok Jaipuria	4	Yes
Mr. S. K. Mittal	3	No
Mr. Shreekant Somany	3	No
Mr. Rakesh Nangia	2	No
Mr. N. K. Gupta	4	Yes
Mr. B. D. Gupta	4	No
Mr. Ambrish Jaipuria	4	No

#### 4. Disclosure regarding appointment or re-appointment of directors

a) Mr. Ambrish Jaipuria has now been appointed as Executive Director ( Business Development) by the Board of Directors