

FAIRFIELD ATLAS LIMITED



14TH ANNUAL REPORT 2003-2004

FAIRFIELD ATLAS LIMITED

- BOARD OF DIRECTORS** : Mark D. Gustus
Chairman
Riad Fyzee
Managing Director
Gary J. Lehman
Richard A. Bush
Clement L. Strimel
J. M. Mapgaonkar
Jayant G. Herwadkar
Premnath Rai
Avinash P. Gandhi
- COMPANY SECRETARY** : Marcel Rebello
- BANKERS** : HDFC Bank Ltd.
UTI Bank Ltd.
The United Western Bank Ltd.
- AUDITORS** : Price Waterhouse
Chartered Accountants
Mumbai
- REGISTERED OFFICE AND DOMESTIC UNIT** : Survey No. 157,
Devarwadi,
Chandgad Taluka,
Post Shinoli, Dist.: Kolhapur
Maharashtra 416 507.
- EXPORT ORIENTED UNIT** : Survey No. 116 and 119,
Shinoli (Budruk),
Chandgad Taluka,
Dist.: Kolhapur
Maharashtra 416 507.
- CORPORATE OFFICE** : 202/3, Maruti Mansion
17, R. Dadaji Street,
Fort, Mumbai 400 001.
Tel.: 2266 6003.
- REGISTRARS AND SHARE TRANSFER AGENTS** : Sharex (India) Pvt. Ltd.
17-B, Dena Bank Building, 2nd Floor,
Horniman Circle, Fort,
Mumbai 400 001.
Tel. : 2264 1376, 2270 2485
Fax : 2264 1349

NOTICE

NOTICE is hereby given that the Fourteenth Annual General Meeting of shareholders of Fairfield Atlas Limited (the "Company") will be held on Thursday 9th September 2004 at 3 P.M. at the Registered Office of the Company at Survey No 157, Devarwadi, Chandgad Taluka, Dist Kolhapur, Maharashtra 416507 to transact the following business :-

1. To receive, consider and adopt the Profit and Loss Account for the year ended 31st March, 2004, the Balance Sheet as at that date and the Reports of the Directors and the Auditors thereon.
2. To appoint a Director in place of Mr. Richard A. Bush, who retires by rotation and, being eligible, offers himself for re-election.
3. To appoint a Director in place of Mr. Mark D. Gustus, who retires by rotation and being eligible, offers himself for re-election.
4. To appoint Auditors to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.
5. To appoint a Director in place of Mr. Avinash P. Gandhi who holds office only upto the date of this Annual General Meeting and in respect of whom a notice has been received by the Company from a member signifying his intention to propose Mr. Avinash P. Gandhi as a candidate for the office of a director.
6. To appoint a Director in place of Mr. Gary J. Lehman who holds office only upto the date of this Annual General Meeting and in respect of whom a notice has been received by the Company from a member signifying his intention to propose Mr. Gary J. Lehman as a candidate for the office of a director.
7. To consider and if thought fit to pass with or without modifications the following resolution as a Special Resolution:

"RESOLVED THAT subject to the provisions of Sections 198, 269, 309 and other applicable provisions if any, of the Companies Act, 1956 and limits laid down therein read with Schedule XIII thereof as amended and subject to such other approvals as may be necessary, the approval of the company be and is hereby accorded to the reappointment of Mr. Riad Fyzee as Managing Director of the Company for a period of one year from 1st April 2004 to 31st March 2005 and payment and provision of remuneration, perquisites and benefits to him upon terms and conditions set out in the Agreements dated 27th May, 2004 and 1st July, 2004 (the Employment Agreements) entered into between Mr. Riad Fyzee and the Company.

"FURTHER RESOLVED that, subject to the limits, if any, specified in the Act for payment and provision of remuneration, perquisites and benefits, the Board of Directors be and is hereby authorised to approve any changes or amendments to the Employment Agreements

and to review the remuneration, perquisites and benefits payable to Mr. Riad Fyzee from time to time."

8. To consider and if thought fit to pass with or without modifications the following resolution as a Special Resolution:

"RESOLVED THAT pursuant to Section 31(1) and other applicable provisions, if any, of the Companies Act, 1956, the Articles of Association of the company be and are hereby altered by substituting the word "four" appearing in the third line of Article 159(a) by the word "two"

NOTES:

- a) The relative Explanatory Statement as required by Section 173 of the Companies Act, 1956 in regard to item nos.5, 6, 7 and 8 is annexed hereto.
- b) A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER. PROXY FORMS MUST REACH THE COMPANY'S REGISTERED OFFICE NOT LESS THAN 48 HOURS BEFORE THE MEETING.
- c) The Register of Members and Share Transfer Books of the Company will be closed from Wednesday 1st September, 2004 to Thursday 9th September, 2004, both days inclusive.
- d) As per Section 205A unclaimed dividends for the years ended 31st March 1997, 1998 and 1999 would be transferred to the Investor Education and Protection Fund of the Central Government in the years 2004, 2005 and 2006 respectively. Shareholders who have not encashed their Dividend Warrants for the said years are requested to send the same for revalidation to the Corporate Office/ Share Transfer Agents. It may be noted that no claim will lie in respect of such unclaimed dividends transferred to the Central Government as above.
- e) Members are requested to:
 - i Intimate to the Company's Registrars and Share Transfer Agents change if any, in their registered address at an early date;
 - ii. Quote Folio Numbers in all their correspondence.
- f) Members who hold shares in dematerialised form are requested to bring their Client ID and DP ID numbers for easy identification of attendance at the meeting.

By Order of the Board of Directors

Place : Mumbai
Dated : 26th June, 2004

Marcel Rebello
Company Secretary

Registered office :
Survey No 157,
Devarwadi Village,
Post Shinoli, Chandgad Taluka,
Dist. Kolhapur,
Maharashtra - 416507

FAIRFIELD ATLAS LIMITED**EXPLANATORY STATEMENT**

As required by Section 173 of the Companies Act, 1956 the following Explanatory Statement sets out all the material facts relating to the above items of business

ITEM NO. 5

The Board of Directors appointed Mr. Avinash P. Gandhi as an Additional Director of the Company with effect from 31st October, 2003 and accordingly he would hold office till the ensuing Annual General Meeting. Mr. Gandhi holds a degree in B.E. Mechanical. He has held top leadership position for over two decades of his professional career. Mr. Gandhi has vast and extensive knowledge in the field of automobile manufacturing, sales and finance having completed a successful tenure as President, Hyundai Motor India Ltd. Earlier he was Vice President Escorts Ltd., Tractor Operations and also held senior positions in Telco now Tata Motors Ltd. Mr. Gandhi is one of the independent director inducted on the Board of Directors. Mr. Gandhi is a member of the Audit Committee and Remuneration Committee.

The Board of Directors considers that it would be in the interest of the Company to have the benefit of his experience and advice and accordingly commends his appointment to the members. Mr. Gandhi has filed his consent with the Company to act as a Director.

The Company has received notice from a shareholder pursuant to section 257 of the Companies Act, 1956 along with requisite deposit amount, proposing the candidature of Mr. Avinash P. Gandhi for appointment as director of the Company.

Mr. Avinash P. Gandhi may be deemed to be concerned or interested in the resolution relating to his appointment. None of the other directors is concerned or interested in this item of business.

ITEM NO. 6

Pursuant to the nomination made by Fairfield Manufacturing Co. Inc. USA (Fairfield) the Board of Directors in their meeting held on 26th June 2004, appointed Mr. Gary J. Lehman as Additional Director of the company with effect from the said date. Accordingly Mr. Lehman holds office till the ensuing Annual General Meeting. Mr. Gary J. Lehman is the President and Chief Executive Officer of Fairfield U.S.A. In this position he has had vast and varied experience specially in International Business operations and the Board of Directors feels that it would be in the interest of the Company to have the benefit of his experience and advice and accordingly commends his appointment to the members. He has filed with the Company his consent to act as Director.

The Company has received notice from a shareholder pursuant to section 257 of the Companies Act, 1956 along with requisite deposit amount, proposing the candidature of Mr. Gary J. Lehman for appointment as director of the Company.

Mr. Gary J. Lehman may be deemed to be concerned or interested in the resolution relating to his appointment. None of the other Directors is concerned or interested in this item of business.

ITEM NO. 7

The tenure of office of Mr. Riad Fyzee as Managing Director terminated on 31st March 2004. In order to ensure continuity in the business operations of the Company, the Board at their meetings held on 25th March, 2004 and 26th June, 2004 resolved to reappoint him as a Managing Director for a further period of one year from 1st April, 2004 to 31st March 2005 on the same terms and conditions of remuneration as payable immediately before his reappointment.

Mr. Riad Fyzee has been a Director of the Company since inception and has ably handled the various aspects of the Company's business. The Board of Directors of the Company feels that it would be in the interest of the Company to continue to have the benefit of his experience and advice and accordingly recommends his reappointment for approval of the members.

Apart from Mr. Riad Fyzee no other director of the company is concerned or interested in the above matter.

The following additional information as required by Schedule XIII to the Companies Act 1956 is given below.

I. General Information :**i. Nature of industry**

The business of the Company is manufacture and sale of transmission, engine, and industrial gears, and fully assembled transmission gears required in utility vehicles, tractors and off-road equipment

ii. Date or expected date of commencement of commercial production.

The company was incorporated on 1st February 1990 as a private company and commenced commercial production in the year 1993. The export oriented unit of the company commenced operations in the year 2003.

iii. In case of new companies, expected date of commencement of activities as per project approved by financial institution appearing in the prospectus.

NOT APPLICABLE

iv. Financial performance based on given indicators – as per audited financial results for the year ended 31st March 2004.

Particulars	Rs. in lakhs
Turnover and other income	5296.56
Profit before Depreciation and Finance Charges	359.57
Depreciation	664.07
Finance Charges	701.75
Profit / (-Loss) after Depreciation Finance Charges and tax provision	(1055.52)

v. Export performance and net foreign exchange collaborations.

The Company has entered into an agreement with Fairfield for export of the Company's products to Fairfield and its customers. The Company's earnings

in foreign exchange were Rs. 2149.16 lakhs for the financial year ended 31st March 2004.

vi. Foreign investments of collaborators, if any.

TH Licensing Inc., USA, a wholly owned subsidiary of Fairfield Manufacturing Co.Inc. USA, has invested in 2,07,00,000 equity shares of Rs.10/- each constituting 76% of the paid up share capital of the Company.

II. Information about the appointee.

i. Background details

Mr. Riad Fyzee is the founder and Chief Promoter of the Company incorporated in 1990. He has been the Managing Director since inception of the Company. Mr. Fyzee is a graduate in economics and holds a business degree from Montclair State College USA. Prior to his appointment in the Company Mr. Fyzee was Dy.Managing Director of MSAS Blue Skies Pvt. Ltd. an International Freight Forwarding Company.

ii. Past remuneration during financial year ended 31st March 2004.

The total remuneration drawn by Mr. Riad Fyzee for the year ended 31st March 2004 was Rs. 19.33 lakhs including perquisites.

iii. Recognition or Awards

Not applicable

iv. Job Profile and his suitability.

Mr. Riad Fyzee is the Managing Director of the Company since inception. The Board has delegated substantial powers of management of the Company to Mr. Riad Fyzee, in his capacity as Managing Director of the company. Mr. Fyzee is responsible inter alia for development of the business of the Company.

Mr. Fyzee has in-depth knowledge of the working of the company having founded the company and being at the helm of its affairs for the past 14 years. Under his stewardship the company was able to successfully implement its expansion plans. Moreover the company does not have any other Executive Director at present and hence Mr. Fyzee is required to shoulder substantial responsibility of management of the Company. Mr. Fyzee a therefore best suited for the position he occupies.

v. Remuneration proposed.

Salary of Rs. 90,000 per month and perquisites, allowances and amenities mentioned at IV below, together with perquisites, allowances and amenities as set out in item No.7 of the Notice.

vi. Comparative remuneration profile with respect to industry, size of the company profile of the position and person (in case of expatriates the relevant details would be with respect of the country of his origin).

Considering the size of the company and volume of its operations particularly on establishment of the EOU and the background experience and profile of Mr. Riad Fyzee and the responsibility shouldered by him, the remuneration proposed to be paid is commensurate with remuneration packages given to similar Senior level executives in other companies.

vii. Pecuniary relationship directly or indirectly with the company or relationship with any managerial personnel.

Apart from the proposed remuneration, Mr. Fyzee does not have any other pecuniary relationship with any managerial personnel. Being founder and promoter of the Company, Mr. Fyzee holds 1052063 fully paid up equity shares in the Company, representing 3.85% of paid up share capital of the Company.

III. Other information

1. Reason of loss or inadequate profits.

In view of the recession prevailing earlier in the US economy, there were insufficient export orders thereby resulting in under utilization of the EOU facilities for the previous financial years. Besides a significant amount of the income was being utilised for paying the interest on the loans taken for setting up the EOU and commencing commercial production. On the domestic front curtailment of orders coupled with price reductions of certain components had taken their toll on the profitability.

2. Steps taken or proposed to be taken for improvement.

On the domestic front the company has widened its customer base by adding new customers to its stable. With existing domestic customers the company is adopting a strategy of gradually easing out components with unremunerative prices and concentrating on components having higher value addition. These measures are expected to make a positive impact on the profits. With the upturn in the US economy there has been a quantum leap in export realization which is expected to grow further with substantial orders being received from the parent company. Apart from orders from the parent company a major hike in export business is also expected. Hence the steps taken by the company is expected to improve its performance and consequently its profitability.

3. Expected increase in productivity and profits in measurable terms.

As per the projections made for the three years ended 31.3.2005, 31.3.2006 and 31.3.2007 the Company proposes to post a turnover of Rs. 7202.14 lakhs for the first year going upto Rs. 12500 lakhs in the third year. Profit after tax for the first year is expected to be Rs.24.33 lakhs going up to Rs.2028.44 lakhs in the third year.

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IV. Disclosures

Remuneration package of Mr. Riad Fyzee Managing Director as approved by the Remuneration Committee and the Board of Directors is as follows:

Salary: Rs.90,000 per month including all allowance.

1. Commission: One per cent of the net profits of the Company, but not exceeding 50% of the salary payable in any one fiscal year.
2. Perquisites:

Provision of perquisites and benefits classified into three Categories A, B, C as appearing hereinafter.

Category A

a. Housing I:

The expenditure by the Company on hiring furnished accommodation shall be subject to a ceiling of 60% of the salary.

Housing II:

In case the accommodation is owned by the Company, 60% of his salary shall be deducted by the company.

Housing III:

In case no accommodation is provided by the Company, he shall be entitled to house rent allowance subject to ceiling laid down in Housing I above.

Utilities:

The expenditure incurred by the company on gas, electricity, water and furnishings shall be valued as per the Income Tax Rules, 1962.

- b. Medical Reimbursements and Hospitalisation: Expenses incurred for self and the family.
- c. Leave Travel Allowance: For self and the family, once in a year, incurred in accordance with the Company Policy.
- d. Club Fees: Fees of clubs subject to a maximum of two clubs. This will not include admission and life membership fees.
- e. Personal Accident Insurance: Payment of premium for personal accident insurance cover, in accordance with the Rules of the Company.
- f. Reimbursement of any other expenses properly incurred by him in accordance with the Rules and Policies of the Company.

Explanation:

For the purpose of Category A, "family" shall mean and include his spouse, dependent children and dependent parents.

Category B

During the term of his employment, Mr. Fyzee shall be entitled to the following perquisites, which shall not be included in the computation of the ceiling on the remuneration specified in the preceding paragraph:

- a. Contribution by the Company to Provident Fund and Superannuation Fund or Annuity Fund to the extent these either singly or put together are not taxable under the Income Tax Act, 1961.
- b. Gratuity payable at a rate not exceeding one month's salary for each completed year of service (including for previous years) and
- c. Encashment of leave at the end of the tenure of service with the Company.

Category C

Provision of chauffeur driven car for use on Company's business and telephone at residence. These will not be considered as perquisites. Personal long distance calls on telephone and use of car for private purpose shall be billed by the Company to him.

In the event of absence or inadequate profit in any financial year, the remuneration aforesaid be paid to Mr. Riad Fyzee, as minimum remuneration to him; subject to the limits prescribed under the Companies Act 1956 and the Rules made thereunder.

Inspection of Documents:

The documents referred to in this Explanatory Statement will be available for inspection by shareholders at the Registered Office of the Company between 10.00 AM and 12.00 Noon, on all working days prior to the date of the meeting.

ITEM NO. 8

Article 159(a) is being amended to keep the quorum requirements for a meeting of Board of Directors in consonance with the provisions of the Companies Act, 1956.

No Director of the Company may be deemed to be interested or concerned in this item of business.

By Order of the Board of Directors

Place : Mumbai
Dated : 26th June, 2004

Marcel Rebello
Company Secretary

Registered office :
Survey No 157,
Devarwadi Village,
Post Shinoli, Chandgad Taluka,
Dist. Kolhapur,
Maharashtra - 416507

DIRECTORS' REPORT

The Directors are pleased to present their 14th Annual Report together with the audited accounts of Fairfield Atlas Limited (the "Company") for the year ended 31st March 2004.

I. Financial Results

	(Rs. in lakhs)	
	2003-2004	2002-2003
Gross Income	5296.56	3157.92
Profit/(Loss) before depreciation, Interest and tax	359.57	323.13
Interest	701.75	450.89
Depreciation	664.07	444.62
Preoperative Expenses Written Off	48.98	—
Profit/(loss) before tax	(1055.23)	(572.38)
Provision for tax	0.29	0.19
Profit/(loss) after tax	(1055.52)	(572.57)
Balance of Profit/(loss) brought from earlier year	(2855.21)	(2282.63)
Balance of Profit/(Loss) carried to Balance Sheet	(3910.73)	(2855.20)

II. Dividend

Due to loss suffered by the company for the financial year ended 31st March 2004 the Directors did not recommend dividend for the said year.

III. Current Year

The Company continues to be a preferred supplier of components to Mahindra & Mahindra Ltd., automotive, farm sector and three wheeler units. In keeping with its preferred supplier status the Company has been offered new business opportunity by Mahindra & Mahindra Ltd., Automotive Unit in respect of their NGT Gear Box project and the Planetary and Hydrostatic Drive Assemblies Project of their Tractor Unit. Sales for the first two months of the current fiscal amounted to around Rs.1276.23 lakhs including export earnings. In view of the encouraging order schedules given by Mahindra & Mahindra Ltd., and the substantial increase in export orders from the parent company, turnover for the current financial year is expected to record a substantial growth.

IV. Management Discussion And Analysis

The Management Discussion and Analysis is included in the Director's Report so as to avoid overlapping between the Director's Report and a separate Management Discussion and Analysis.

(a) Industry Structure And Developments

Gear requirements of Indian automobile and tractor manufacturers are met either through inhouse facilities or by outsourcing them from approved vendors where there is a cost advantage. Some manufacturers meet their gear requirements through imports. The auto components (gears) industry manufacturers are categorized on the basis of being an original

equipment supplier, replacement market supplier or a combination of both. Fairfield Atlas manufactures gears required as original equipment and as spares marketed by original equipment manufacturers. A favourable development for the Company is the Government thrust on infrastructure projects, declining vehicle finance regime and strong replacement demand the combined effect of which could spur the demand for the Company's products.

(b) Performance

The financial year under review showed a significant improvement in sales and other income which accounted for Rs. 5296.56 lakhs against Rs.3157.92 lakhs for the previous year giving a growth of 67% including export sales. The thrust on exports has been a conscious decision taken by the Company to optimise capacity of the Export Oriented Unit.

Aggressive marketing efforts coupled with a renewed emphasis on exports helped in ensuring strong volume growth. Focus on operational efficiency has resulted in reducing rejections both inhouse and at the customers end to a significant extent.

With greater coordination and team effort between Operation Department and Sales there was a closer adherence to schedules for deliveries of components given by the domestic customers. The Company works on the ingrained principle of timely and effective reaction to customer needs and demands which are at the forefront of its business models. The challenge before the Company is to evolve a strategy where rejections are reduced if not totally eliminated coupled with strict adherence to delivery schedules of customers.

(c) Opportunities and Threats

The setting up of manufacturing facilities by global automajors offers several opportunities to the company and could prove invigorating to the Company's business as India offers a low cost market for global automajors. It also creates an opportunity to enhance technology and improve access to supply lines of foreign vehicle manufacturers. The Company has received offers from Carraro, L&T John Deere & Same Deutz for supply of additional components. The company has also received permission from the Development Commissioner SEEPZ to utilise to a certain extent the capacity of the Export Oriented Unit for Domestic Sales. With this permission the Company is offered the opportunity of using state of art EOU facilities for catering to the present and potential domestic customers in future and proposes to capitalize on this opportunity. Use of the EOU facilities will keep rejections under control. Also by using a better and selective product mix and effecting cost efficiencies at the EOU unit it will result in improvement of operating margins. If the

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current growth in the domestic market buoyed by strong volumes in its automobile and farm sectors and the current upswing in exports is sustained, margin pressure on sales may ease.

In the domestic market the Company faces threat from its present competitors and new players entering the field. On the export front the company faces the prospect of improved export prices being countered by the consistent appreciating of the Rupee.

(d) Segment-Wise Performance

The company has determined its business segment as automotive transmission gears. Since 100% of the company's business is from automotive transmission gears there are no other primary reportable segments.

(e) Outlook

Outlook for the current financial year appear to be promising. With an expected timely onset of the monsoon the domestic economy is gathering pace. The buoyancy in the Indian economy with encouraging and improved performance across various sectors has instilled a new sense of optimism. Manufacturing sector would then be a major growth driver and backbone of the Indian economy.

The ongoing upturn in the US economy is expected to drive a global recovery. The recovery process has touched the Company in the form of substantial export orders from the parent company. Revenues from the EOU will play a stellar role and full impact of the same will be visualised in the performance of the company for the current financial year. The Company has developed 3 components of Transaxle Manufacturing of America for export business. Delivery of the first batch of components has already been made and total business for current financial year could be in the region of US\$ 60,000 per month which could peak to US\$ 2.5 million annually in future. The Company looks at international business opportunities as the future growth engine. Renewed focus on improvement in business processes coupled with greater customer focus is projected to result in boosting export sales significantly. Apart from the thrust on exports the buoyancy in the Indian economy is creating heartening developments on the domestic business front of the Company. There has been a spurt of business with the main customer viz. Mahindra & Mahindra Ltd., with the Company being nominated as single source supplier of engine gears for their new economic utility vehicle being developed by them and the other customer Kerala Agro Machinery. There is a growth in volume of components being supplied currently and potential business in the form of development of new components.

(f) Internal Control System

The company maintains an adequate Internal Control system with inbuilt monitoring procedures. The company has appointed a reputed firm of Chartered Accountants to conduct the Internal Audit function which includes assessing the financial and operational controls in the Company. Internal Audit Reports are discussed at management levels and also at Audit Committee meetings. The operations of the company are also subjected to Cost Audit and the Report of the Cost Auditor will be discussed by the Management before the same is forwarded to the Government. The Statutory Auditors, the Internal Auditors and the Cost Auditors are invited to attend the Audit Committee meetings so that they are able to draw the attention of the Audit Committee to any significant issue noticed during the course of their audits thus facilitating timely remedial measures.

(g) Human Resources / Industrial Relations

Employees constitute an active vital asset and integral part of the vision of the Company. A friendly, harmonious and supportive work culture is maintained by the Company which helps in instilling a sense of cooperation among its workforce. The workers and managers attended various seminars and training programmes to build new competencies for them and to create an environment for nurturing their talents so as to be able to realize organizational and personal goals. Employees and workers relations continue to be cordial and harmonious. The Company had a strength of 416 permanent employees as on 31st March, 2004.

(h) Risks and Concerns

Rising raw material costs may reduce operating margins while export revenues may suffer due to depreciating dollar. The monsoon plays a vital role in the demand for tractors. Pressure from customers for price reduction and intensified competition from competitors may be a matter of concern. The Company is countering these moves by resorting to every marketing strategy to stimulate volumes. The other dampener seems to be the continuous rise in the price of steel.

DISCUSSION ON FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE.**FINANCIAL INFORMATION****FIXED ASSETS**

During the year the Gross block of Fixed Assets increased from Rs. 4904.25 lakhs to Rs. 8735.16 lakhs. During the year major items of capital expenditure were incurred on Plant, Machinery, factory building and office equipments mainly computers.

INVENTORIES

The inventory level as on 31st March 2004 was Rs. 821.48 lakhs as compared to Rs. 818.92 lakhs

as on 31st March 2003. Marginal increase in inventory level was due to close monitoring and control.

SUNDRY DEBTORS

Sundry Debtors amounted to Rs. 587.12 lakhs as at 31st March 2004 as compared to Rs. 549.95 lakhs as at 31st March 2003 commensurate with level of activity.

RESULTS OF OPERATIONS

Sales/Income from operations for the year increased to Rs.4982.54 lakhs as compared to Rs.3068.34 lakhs for the year ended 31st March 2003. Other income increased to Rs. 314.01 lakhs from Rs. 89.57 lakhs for the previous year ending 31st March 2003. Other income comprises mainly of net foreign exchange gain.

Expenditure	Rs. in lakhs	
	F-2004	F-2003
Raw Materials Finished & semi finished products	2515.24	1204.28
Employee costs	671.43	471.30
Manufacturing and other Expenses	1750.31	1159.19
Interest & other financial charges	701.75	450.89
Depreciation	664.07	444.62

Increase in material costs is commensurate with order position and level of activity. Increase in Employee costs is due to annual increment as per wage settlement with workers union and new recruitments. Increase in Manufacturing expenses is due to increase in production and other expenses have increased due to provision for advances and doubtful debts. Interest expense has increased due to interest provision for ECB loans and capitalization of a smaller portion. Increased depreciation charge is due to additions to capital assets during current year.

Certain statements in the Management Discussion and Analysis describing the Company's objectives, projections, estimates, expectations or predictions may be "forward - looking statements" within the meaning of applicable securities laws and regulations. Actual results could differ from those expressed or implied. Important factors that could make a difference to the Company's operations include raw material availability and prices. Cyclical demand and pricing in the Company's principal markets, changes in Government regulations, tax regimes, economic developments within India and the countries in which the Company conducts business and other incidental factors.

V. Quality Standards

The Company has made steady progress in creating a quality culture and improving customer experience as well as satisfying customer requirements. The Company has installed a quality management system set forth by the TS 16949-2002 quality standards and customers will benefit from improvement in quality management due to monitoring of defined objectives at company and functional levels so as to bring about continual improvement in all our operations. The TS 16949 Quality Management System Certificate is likely to be issued to the Company shortly.

VI. Director's Responsibility Statement

Pursuant to the provisions of sub-section (2AA) of Section 217 of the Companies Act, 1956, the Board of Directors confirm:

- (i) that in the preparation of the Annual Accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- (ii) that the Directors had selected such accounting policies and applied them 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 as on 31st March, 2004 and of the loss of the Company for that period;
- (iii) that the Directors had taken proper and sufficient care 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; and
- (iv) that the Directors had prepared the annual accounts on a going concern basis.

VII. New Customers

In keeping with its policy of widening its customer base and extending breadth of components being supplied the company has added new customers to its stable.

The Company has also successfully bagged a development order for 2 components from Tata Motors for supply for Indica passenger cars. Total business from this avenue is expected to be around Rs.4 crores annually with potential to reach Rs. 8 crores as a single source supplier.

VIII. Finance

The Company has regularly paid interest on the ECB Loan of US Dollars 5 million obtained from TH Licensing Inc USA, the holding Company.

Fairfield Manufacturing Co.Inc. (FMC), USA has paid GE Capital Services India USD 11,967,023 in fulfillment of its obligation under the Corporate Guarantee executed to secure the loans availed by the Company from GECSI. FMC has agreed to treat the said sum as External Commercial Borrowing for the Company subject to the terms and conditions set forth in their letter of Intent. The Company is in the process of seeking approval from the Reserve Bank of India for the said loan.

IX. Status of the company

Pursuant to the reference made by the Company to BIFR, the Company has been informed that its reference has been registered with BIFR as Case 412/2003. The Company is in the process of preparing a draft Rehabilitation Plan for submission to BIFR for its consideration. The Company has initiated steps for rehabilitating the operations of the Company.

X. Corporate Governance

Pursuant to Clause 49 of the Listing Agreement with

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the Stock Exchange a section titled "Corporate Governance" has been included in this Annual Report along with management discussion and analysis report and shareholder information report. Certificate of auditors of the company regarding compliance of conditions of Corporate Governance is annexed to the report. Reasons for non compliance of certain sub clauses of clause 49 have been given below.

XI. Reasons for non-compliance with conditions of Corporate Governance as per Listing Agreement with the Stock Exchange.

In response to observations made by the Auditors on non compliance of following sub-clauses of clause 49 of the Listing Agreement stipulating conditions of Corporate Governance the Board of Directors offer the following clarification:

- a) Sub-clause 1(A): With effect from 31st October 2003 the number of independent directors were atleast one third of the total strength of the Board of Directors.
- b) Sub-clause IV(A): Annual operating plans and capital budgets were conveyed to the Directors individually but care would be taken to place the same at Board Meetings.

XII. Particulars of Employees

The Company does not have any employee of the category specified in Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975.

XIII. Conservation of energy technology absorption and foreign exchange earnings and outgo

The information required in terms of Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988, is given in the annexure forming part of this Report.

XIV. Directors

It has been decided by Mr. Richard A. Bush, Mr. Mark D. Gustus and Mr. Clement L. Strimel who were appointed Directors on the same day i.e. 30th September, 2002 that Mr. Richard A. Bush and Mr. Mark D. Gustus will retire at this Annual General Meeting. Mr. Richard A. Bush and Mr. Mark D. Gustus being eligible offer themselves for reappointment as Directors.

Mr. Avinash P. Gandhi was appointed Additional Director of the Company with effect from 31st October, 2003. He ceases to hold office on the date of this Annual General Meeting and being eligible offers himself for reappointment as Director.

Mr. Gary J. Lehman was appointed Additional Director of the Company with effect from 26th June, 2004. He ceases to hold office on the date of this Annual General Meeting and being eligible offers himself for reappointment as Director.

Mr. W.B. Lechman and Mr. Donald Roberts ceased to be the directors of the company consequent upon the withdrawal of their nomination by Fairfield Manufacturing Co. Inc. USA with effect from 26th June, 2004. The Board placed on record its appreciation of the guidance and advice received from these two gentlemen during the tenure of the office.

XV. Cost Audit

Pursuant to the directions from the Department of Company Affairs for appointment of Cost Auditors, the Company has appointed M/s. M.P. Turakhia & Associates, Cost Accountants as the Cost Auditor for the financial year 2003-2004 subject to the approval of the Central Government.

XVI. Auditors

Price Waterhouse Chartered Accountants, retire as Auditors at this Annual General Meeting and being eligible offer themselves for reappointment.

XVII. Auditors' Report

The notes on Accounts, referred to in the Auditors' Report are self-explanatory.

XVIII. Acknowledgement

The Directors express their sincere thanks for the continued support and co-operation given by the Holding Company and Employees of the Company.

For and on behalf of the Board of Directors

MARK GUSTUS
Chairman

Place : Mumbai

Date : 26th June, 2004

ANNEXURE

STATEMENT UNDER SECTION 217 (1) (e) OF THE COMPANIES ACT 1956, READ WITH THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF THE BOARD OF DIRECTORS), RULES 1988 AND FORMING PART OF THE DIRECTORS' REPORT FOR THE YEAR ENDED 31ST MARCH 2004.

A. CONSERVATION OF ENERGY.

Various measures on Conservation of Energy were planned but could not be implemented this financial year due to funds constraint.

B. TECHNOLOGY ABSORPTION.

1. The Company does not have a Research and Development Department at present.

2. Technology for Torque Hub planetary gear assembly has been obtained and is under absorption.

C. FOREIGN EXCHANGE EARNINGS AND OUTGO.

The information on foreign exchange earnings and outgo is furnished in Note No. 14 of Schedule 21 to the Accounts.

For and on behalf of the Board of Directors

MARK GUSTUS
Chairman

Place : Mumbai

Date : 26th June, 2004