



KAR MOBILES LIMITED



69th Annual Report 2005 - 2006

DIRECTORS

L. Ganesh	-	Chairman
V.Ramachandran	-	Executive Vice-Chairman
K.P. Balasubramaniam		
A.S. Lakshmanan		
L. Lakshman		
T. M. Ramachandran		
V. Srikanth		
K. Vishnumurthy Yerkadithaya		

AUDITORS

M/s. Varma & Varma

BANKERS

State Bank of India

REGISTERED OFFICE

Sri Chitrapur Commercial Complex
IV Floor - E, No.68, 15th Cross, 8th Main
Malleswaram, Bangalore - 560 055

FACTORIES

Plot No.26, Peenya Industrial Area P.B. No.5835 Bangalore - 560 058

Plot No.36-B & 37 Hirehalli Industrial Area Tumkur - 572 101

KAR MOBILES LIMITED

REPORT OF THE DIRECTORS

Your directors are pleased to present their Sixty-Ninth annual report together with the accounts for the year ended March 31, 2006.

1. Financial Performance

Particulars	2005-2006 Rs. in million	2004-2005 Rs. in million
Sales and Operating Revenues	736.43	699.32
Profit before Tax	57.76	51.12
Provision for Tax	21.29	18.32
Profit after Tax	36.47	32.80
Surplus brought forward	10.89	8.30
Profit Available for Appropriation	47.36	41.10

Sales grew by 5% and profits by nearly 13% compared to last year, mainly due to better product mix and raw material yield.

2. Appropriation

Profit available for appropriation is Rs. 47.36 million. The directors have declared and paid interim dividend of 25%, on the equity capital for the year ended March 31, 2006 and are pleased to recommend a further 15% as final dividend, making for a total dividend for the year of 40%. The amount on this account inclusive of tax on distributed profits and surcharge thereon, works out to Rs. 1.26 million leaving the company with retained profits of Rs. 37.14 million. Out of this, Rs. 20 million is being transferred to the General Reserve and Rs. 17.14 million being retained as surplus in the Profit and Loss Account.

3. MANAGEMENT DISCUSSION AND ANALYSIS REPORT

a) Financial and operational performance

The sustained growth in the automotive industry and new business initiatives coupled with the benefits of cost management measures, resulted in improved Operating Margins, despite pricing pressures. The benefit of DEPB licenses has been further reduced resulting in the other income being lower than in the previous year.

b) Industry Structure and Developments

The year under review has seen continued growth rate, albeit at a slower pace. This was understandable, coming as it does after two successive years of steep growth. Sustained higher levels of crude prices together with hardening of interest rates were perhaps further dampeners. Sustained spending on infrastructure, growth in the agricultural sector, are beneficial factors that should aid business growth in the current year.

The table below highlights the segmental growth of the Indian Automotive Industry:

SEGMENTS	Growth	
	2005-2006	2004-2005
Passenger cars	9 %	23 %
Utility Vehicle	7 %	24 %
Light Commercial Vehicles	23 %	28 %
Medium and Heavy Commercial Vehicles	4 %	27 %
Farm Tractors	15 %	30 %
Three Wheelers	17 %	5 %
Two Wheelers	18 %	17 %

Source: Society of Indian Automobile Manufacturers & Tractors Manufacturers Association.

c) Outlook

With GDP growth being projected at 8% p.a., we expect a commensurate growth in the automotive industry. Exports, continues to be the focus area and your company would look at enhancing capacities to meet growing demand from overseas customers.

d) Opportunities, Threats and Risks

The continued attraction of the Indian auto component industry as an outsourcing hub presents immense opportunities for growth.

The main threats continue to arise out of:

- Limited growth rate in the aftermarket as a result of enhanced durability of engines valves.
- The presence of spurious products in the replacement market
- Volatility in Commodity prices - steel and other inputs
- Currency fluctuations

Our continued emphasis on the practice of TQM has resulted in continuous productivity gains and enables your company to exploit new opportunities despite these adverse factors.

e) Internal Control systems and Risk Management

Your Company engaged the services of an independent agency to carry out internal audit in all the Company locations. The Audit Committee of the Board approves the audit plan in the beginning of the financial year in consultation with the internal auditors, the statutory auditors and the operating management. The findings of the internal auditors are placed before the Audit Committee for review. The response of the operating management and counter measures proposed are discussed at the Audit Committee meetings. This process seeks not only to ensure

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the reliability of control systems and compliance with laws and regulations but also covers resources utilization and system efficiency.

Risk management is an integral part of the business processes. The Company is in the process of appointing consultants to carryout a holistic review of the risks identification process and to evolve a risk management framework. This would be periodically reviewed by the Board of directors.

f) Human Resources

As at the end of March 2006, the total number of employees stood at 668. Your Company attaches considerable importance to its human resource base and through continuous training encourages all employees to embrace world class business practices. Our goal is a lean highly motivated and nimble, customer driven organization and we see TQM as the launch pad for such a transformation.

g) Cautionary Statement

The information and opinion expressed in this Report may contain certain forward looking statements which the management believes are true to the best of its knowledge at the time of its preparation. Actual results may differ materially from those either expressed or implied in this report.

4. Deposits

Deposits outstanding as on March 31, 2006 amounted to Rs.3.78 million. All deposits that matured during the year were repaid/renewed except for a sum of Rs.0.45 millions for which claims were not lodged with the Company.

5. Board of Directors

Mr L Lakshman and Mr L Ganesh retire by rotation and being eligible offer themselves for re-election.

During the year Mr. V Ramachandran, Vice-Chairman and Managing Director was redesignated as Executive Vice Chairman. All other terms of his appointment and remuneration remain unchanged. An abstract of this variation in terms of his appointment was circulated to the shareholders during May, 2006.

6. Conservation of energy

During the year various initiatives taken in both the plants have resulted in reduced consumption of energy.

7. Research & Development Activities

R & D efforts to upgrade products/processes have continued to yield good results. The statement giving information as required under Companies (Disclosure

of Particulars in the Report of the Board of Directors) Rules 1988 is enclosed to this report as Annexure A.

8. Foreign Exchange Earnings and Outgo

Foreign exchange earned (FOB) during 2005-2006 is Rs. 353.27 million and foreign exchange outgo is Rs. 129.47 million.

9. Employees

The particulars of employees as per Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 are given in the annexed statement which forms part of this report as Annexure B.

10. Auditors

M/s Varma & Varma, Chartered Accountants, retire at the ensuing Annual General Meeting and are eligible for reappointment. The declaration under Section 224(1B) of the Companies Act, 1956 has been received from them.

11. Directors' Responsibility Statement

Pursuant to Section 217(2AA) of the Companies Act 1956, the directors hereby confirm that they have:

- i. Followed the applicable accounting standards in the preparation of the annual accounts;
- ii. Selected such accounting policies and applied them consistently and made judgements and estimates that were 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 profits of the company for the year under review;
- iii. 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 detecting fraud and other irregularities;
- iv. Prepared the accounts for the financial year on a 'going concern' basis.

12. Corporate Governance Report

A detailed report on Corporate Governance is attached as Annexure C.

For and on behalf of the Board

L Ganesh
Chairman

V Ramachandran
Executive Vice-Chairman

Bangalore
29th May, 2006

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ANNEXURE - A

FORM - B

Information as per section 217(1)(e) of the Companies Act, 1956 read with 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, 2006.

Research & Development Activities:

Significant improvement has been made in the weld strength of Bi-metal valves.

Technology Absorption, Adaptation and Innovation:

Fatigue (RBT) test facility has been developed in-house. Significant cost reduction has been achieved by establishing re-profiling of forging dies. Initiative has been made for establishing large valve line.

For and on behalf of the Board

Bangalore
29th May, 2006

L Ganesh
Chairman

V Ramachandran
Executive Vice-Chairman

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ANNEXURE - B**Annexure to Report of the Directors**

Particulars as per Section 217 (2A) of the Companies Act, 1956, attached to and forming part of the Directors' Report for the year ended March 31, 2006.

Sl No.	Name of the Employee	Age (Years)	Designation	Remuneration Rs.(000's)	Nature of Duties	Qualification	Experience (Years)	Date of Commencement of employment	Particulars of last Employment	
									Designation	Employer
EMPLOYED THROUGHOUT THE YEAR										
1.	V.Ramachandran	58	Vice-Chairman and Managing Director	3259	Chief Executive	B.E	36	01.05.1973	Management Trainee	Engine Valves Limited Chennai

- Notes :**
- Nature of employment and terms of service :**
Nature of employment of Mr.V.Ramachandran, Vice Chairman and Managing Director is on Contractual basis, approved by the share holders.
 - Remuneration as shown above includes salary, commission and other allowances, contribution to provident and other funds and perquisites evaluated as per Income Tax Rules.
 - Mr.V.Ramachandran is related to Mr.V.Srikanth, Director

For and on behalf of the Board

Bangalore
29th May, 2006

L Ganesh
Chairman

V Ramachandran
Executive Vice-Chairman

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ANNEXURE C

CORPORATE GOVERNANCE

1. The cornerstone of the Philosophy of Governance adopted by your Board has at all times been based on integrity, transparency and fairness in all its dealings. The company will continue to seek enhancement to shareholder value within the frame work of business ethics, regulatory compliances and contribution to society. The Company has a clearly defined policy documented "Ethical Standards of Behaviour" that defines obligations of each of its employees to the Company expectations of value driven behaviour.

2. **Board of Directors:**

The composition of the Board is as follows :

Promoter Group:

Mr. L Ganesh	-	Chairman - Non-Executive Director
Mr. L Lakshman	-	Non Executive Director
Mr. V Ramachandran	-	Executive Vice Chairman
Mr. V Srikanth	-	Non-Executive Director.

Independent & Non- Executive Directors:

Mr. K P Balasubramaniam
Mr. A S Lakshmanan
Mr. T M Ramachandran
Mr. K Vishnumurthy Yerkadithaya

3. **Details of attendance at Board Meetings, last AGM, EGM and details of memberships in other Boards and Board Committees:**

The Board met 5 times during the year on 4th June 2005, 15th July 2005, 31st Oct 2005, 19th Jan 2006 and 25th March 2006.

Name of the Director	No. of Board Meetings attended	Whether attended last AGM on 15.07.2005	Membership in other Boards	Committees	
				Membership	Chairmanship
L Ganesh	5	Yes	11	10	4
V Ramachandran	5	Yes	3	2	-
K P Balasubramaniam	5	Yes	2	2	1
L Lakshman	5	Yes	10	9	5
A S Lakshmanan	5	Yes	6	8	3
T M Ramachandran	2	Yes	-	-	-
V Srikanth	5	Yes	4	1	-
K Vishnumurthy Yerkadithaya	4	Yes	-	2	-

4. **Audit Committee :**

The company is not required to constitute an Audit Committee under the provisions of the Companies Act, 1956 or under Clause 49 of the Listing Agreement. However, the company has on its own volition constituted an audit committee in July, 2002 consisting of the following directors :

Mr. L Lakshman	-	Chairman
Mr. L Ganesh	-	Member
Mr. K Vishnumurthy Yerkadithaya	-	Member

The committee met on 04.06.2005, 15.07.2005, 31.10.2005 and 19.01.2006. All the members (except Mr. K Vishnumurthy Yerkadithaya for the meeting on 31.10.2005) attended these meetings.

Mr. M K Khaitan, Company Secretary is the Secretary to the Committee.

The statutory auditors were present as invitees in all the meetings except on 31.10.2005. The internal auditors were present as invitees in all the meetings except on 15.07.2005. The Executive Vice-Chairman attended the meetings by invitation. No personnel have been denied access to the audit committee.

The scope of reference to the committee includes :

- i) Review of scope of audit and discuss post-audit area of concern, if any, with Statutory Auditors and Internal Auditors.
- ii) Review of quarterly/annual financial statements with auditors and management before submission to the Board.
- iii) Review of internal control systems by Internal Auditors.
- iv) Reviewing the adequacy of internal audit function.
- v) Review financial and risk management policies of the Company.
- vi) Management discussion and analysis of financial condition and results of operation.

5. Remuneration to Directors:

A Remuneration Committee constituted under the provisions of the Schedule XIII of the Companies Act, 1956 comprises the following directors as its members:

Mr. L Lakshman	-	Chairman
Mr. K P Balasubramaniam	-	Member
Mr. A S Lakshmanan	-	Member

The elements of remuneration payable to Executive Vice Chairman includes Basic salary, Allowances, perquisites, retirement benefit and commission per annum not exceeding 12 months salary. No sitting fee is paid to Executive Vice Chairman. The details of remuneration paid to Executive Vice Chairman for the year 2005-06 are given in Note 4 - Notes on Accounts. The employment of the Executive Vice Chairman is contractual. There is no severance fee payable to him. The Company does not have any Stock option scheme. His terms of appointment and remuneration are approved by the shareholders at the Annual General Meeting held on July 15, 2005.

Sitting fee is paid to non-executive directors for attending Board Meetings, Audit committee meetings and other committee meetings. The sitting fee of Rs.10,000/- has been paid for attending Board / Audit Committee meetings apart from reimbursement of actual travel & out of pocket expenses incurred by them for attending the meetings. Sitting Fees was increased from Rs.5,000/- to Rs.10,000/- with effect from 31.10.2005. Sitting fees of Rs.1,250/- is paid for meetings of other committees. No other remuneration is paid to Non-executive directors except commission to Mr L Ganesh, Chairman, if eligible.

The details of sitting fees paid to the directors during the year are as follows:

Name of Director	Amount (Rs.)
L Ganesh	70,000
K P Balasubramaniam	53,750
A S Lakshmanan	42,500
L Lakshman	70,000
T M Ramachandran	15,000
V Srikanth	40,000
K V Yerkadithaya	50,000

Details of Shares held by the Directors is as follows as on 31.03.2006

Name of Director	No. of Shares
L Ganesh	Nil
V Ramachandran	25232
K P Balasubramaniam	650
A S Lakshmanan	1600
L Lakshman	Nil
T M Ramachandran	1600
V Srikanth	3352
K V Yerkadithaya	Nil

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6. Code of Conduct :

The Board of Directors has laid down a code of conduct for all Board Members and Senior Management of the Company. The same has also been posted on the website of the Company. All Board Members and Senior Management Personnel have affirmed their compliance to the code of conduct. Declaration to this effect signed by Mr V Ramachandran, Executive Vice Chairman is annexed to this report as Annexure D.

7. Share Transfer / Investor Services Committee:

The Share Transfer / Investor Services Committee consisting of Mr. L Ganesh, Mr. V Ramachandran, Mr. K P Balasubramaniam, Mr. A S Lakshmanan & Mr. K Vishnumurthy Yerkadithaya is authorised to approve transfers / transmissions and to look into the grievances of investors. During the year there was no complaint received from stock exchanges / SEBI / Department of Company Affairs.

8. General Body Meeting :

The last four General Body Meetings were held as under :

Date of AGM/EGM	Time	Venue	Special Resolution Passed
18th July, 2003	10.00 am	Rotary House of Friendship No.20, Lavelle Road, Bangalore - 1	1. To keep and maintain Register of Members with M/S Alpha, Share Transfer Agents
26th Feb, 2004 (EGM)	10.00 am	Bharatiya Vidya Bhavan ESV Hall, No.43, Race Course Road, Bangalore-1	1. Alteration of clause 5 of MOA u/s 16 regarding increase in Authorised Capital. 2. Alteration of Article 3 & 4 (A) of AOA u/s 31 regarding Authorised Capital.
19th July, 2004	10.00 am	Rotary House of Friendship No.20, Lavelle Road, Bangalore - 1	1. Amendment of Article 106 u/s 31 regarding sitting fees payable to Directors. 2. Remuneration to Chairman u/s 309 (4)(b), 310 and other applicable provisions of the Companies Act, 1956
15th July, 2005	10.00 a.m	Rotary House of Friendship No.20, Lavelle Road, Bangalore - 1	1. Remuneration to VC & MD as per Sec 198, 269, 309, 310 and 311 of the companies Act, 1956

No special resolution was passed through postal ballot during the financial year 2005-06. The Board of Directors has not considered any resolution for passing through postal ballot.

9. Disclosures:

During the year the Company had not entered into any transaction of material nature with any of the promoters, directors, management, subsidiary company or relative etc., which were in conflict with the interest of the Company. The details of the related party transactions, as stated in Note 16 – Notes on Accounts, have been reviewed by the Audit Committee.

There was no instance of non-compliance by the Company on any matters relating to the capital markets; nor was there any penalty / strictures imposed by the stock exchanges or SEBI or any other statutory authority on such matters.

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The Company has complied with all the mandatory requirements prescribed under revised Clause 49 of the Listing Agreement. The Company has complied with the non-mandatory requirements of (i) maintaining an office for the Chairman at "Maithri", 132, Cathedral Road, Chennai – 600 086, on an expense sharing basis with other companies in the Group, and (ii) constituting a Remuneration Committee to approve payment of remuneration to Executive Vice Chairman.

10. Means of Communication :

The quarterly results are published in "Financial Express" (all India editions) & "Samyukta Karnataka" (Kannada). During the year, there were no presentations made to Financial Analysts / Institutional Investors. Quarterly results are updated every quarter on the website of the company www.karmobiles.com, www.rane.co.in / <http://rane.in>.

11. General Share Holder Information :

Annual General Meeting	: Thursday, 20th July, 2006 at 10.00 a.m. Rotary House of Friendship No. 20, Lavelle Road, Bangalore – 560 001.
Financial Calender of Board Meetings (Tentative) for approval of	:
i. Annual Accounts 2006	: 29 May, 2006
ii. Unaudited Results - I Qtr	: 20th July, 2006
iii. Unaudited Results - II Qtr	: 27th Oct, 2006
iv. Unaudited Results - III Qtr	: 25th Jan, 2007
v. Annual Accounts 2007	: Last week of May, 2007.
Book Closure	: 1st July, 2006 to 7th July, 2006.
Dividend Payment	: On and from 24th July, 2006
Listing on Stock Exchanges	: 1. Bangalore Stock Exchange Ltd. Stock Exchange Towers, 51, 1st Cross, JC Road, Bangalore - 560 027. 2. Madras Stock Exchange Ltd. Second Line Beach, Chennai - 600 001.
Stock Code	: KARMOBILES
Listing Fee	: Annual Listing fee for 2006-07 has been paid to all the stock exchanges where the shares are listed.
BSE Indo Next	
Trading of Equity Shares on BSE IndoNext	: Bombay Stock Exchange Ltd has permitted the Equity Shares of the Company to be traded on BSE IndoNext platform with effect from 31.01.2006.
Scrip Code	: 590053
Scrip ID	: KARMOB

Share Price Data :

There has been no active trading both in Bangalore Stock Exchange and Madras Stock Exchange.