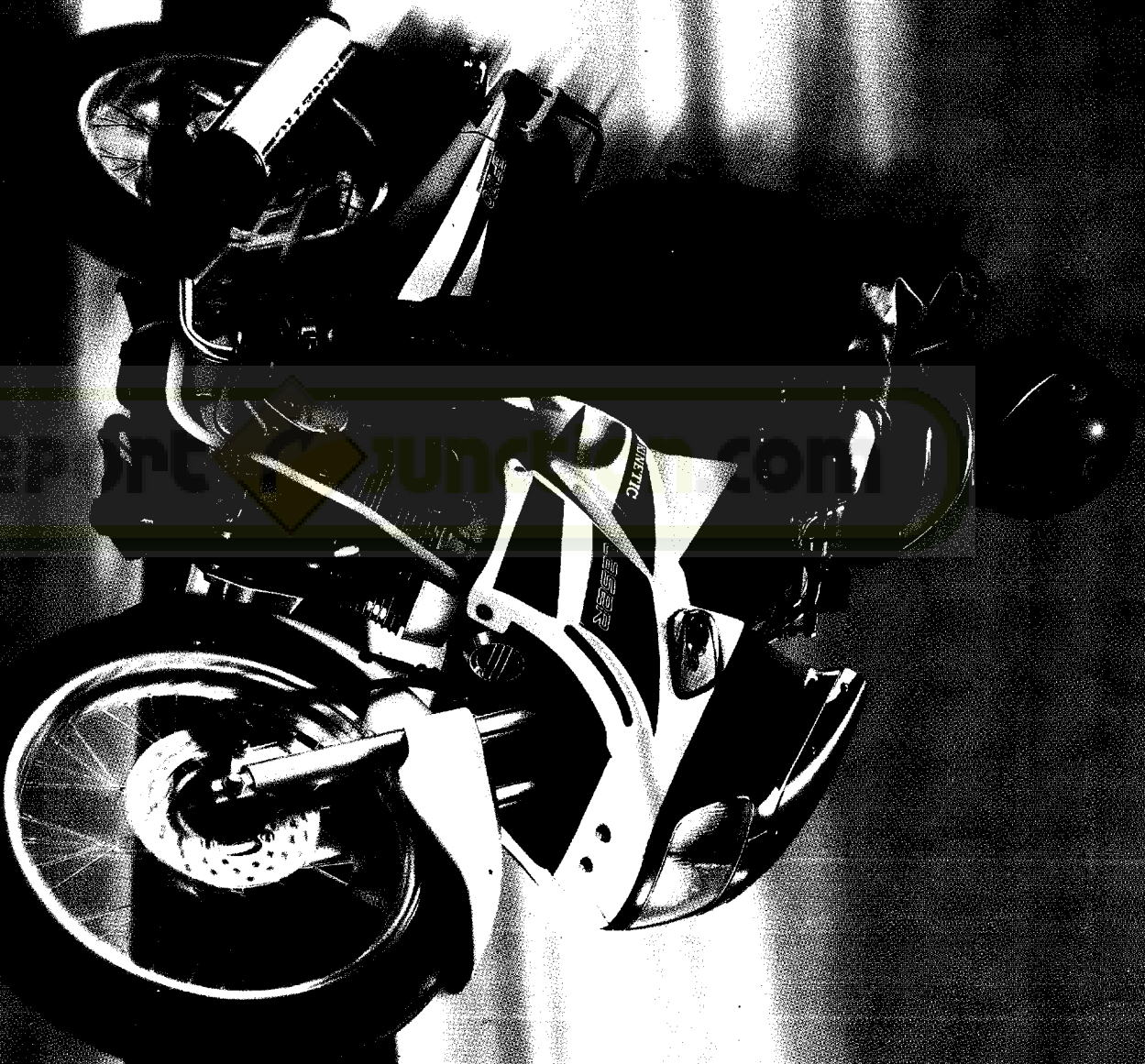


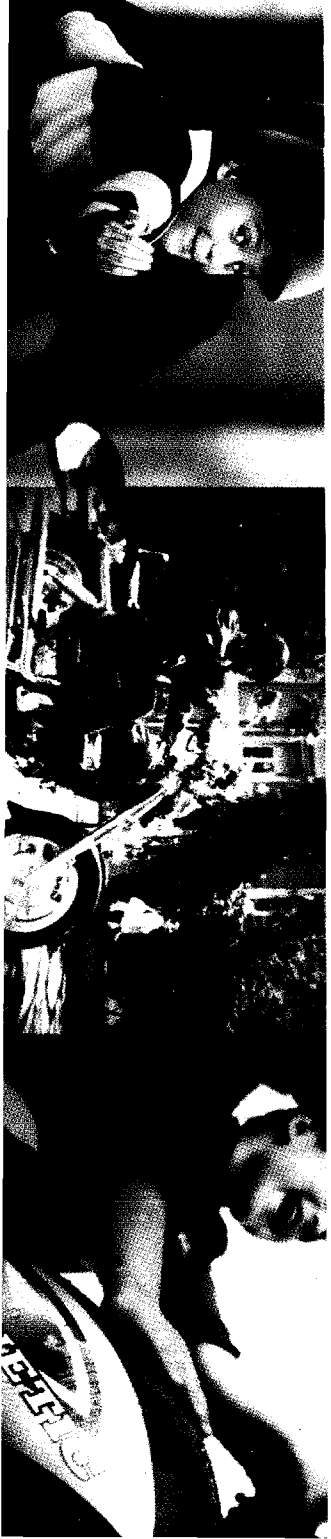


BECAUSE YOU DESERVE THE BEST

KINETIC ENGINEERING LIMITED
ANNUAL REPORT 2003 - 2004



REPORT KINETIC ENGINEERING LIMITED



Year 2003-04 Highlights

Kinetic hits a boundary - Launches four motorcycles to mark presence in every segment of the motorcycles segment

In a bold and dramatic move to strengthen its presence in the motorcycle segment, Kinetic Engineering launched **four new motorcycles**. With this, the Company marked its presence in every important category of motorcycles - from economy (Boss 115) to executive (Velocity) and performance (GF 170 city) to premium (GF Laser). Kinetic's new motorcycle offerings are differentiated from the competition in each segment by virtue of superior specifications and performance at attractive pricing.

In the performance and premium segment, the Company launched two motorcycles under "GF 170 Series" called the GF 170 City and the GF Laser. GF series is designed in collaboration with Hyosung Motors, Korea. The GF 170 City features incredible performance with a four valve engine, 15 bhp power and a top speed of 115 Kmph. The premium Laser features similar high performance and in addition, has an international sporty look with a stylish half-fairing, dual tone colors, twin headlamps and dashboard like instrument console.

Kinetic has now also entered the largest segment of executive bikes with a new offering Velocity. The Velocity aims to be the ultimate city commuter motorcycle. It betters every motorcycle in its class on every criterion - Including power, riding comfort, instrumentation and styling. The Velocity features a

115cc engine with 8.5 bhp power, 75 Kmpl mileage on road and tremendous riding comfort.

Kinetic also gave a boost of performance to the economy Segment for the first time with the launch of Boss 115 - A motorcycle featuring higher engine cubic capacity and power in bhp, without mileage compromise. Kinetic has tailor made Boss 115 for the customer who seeks to combine his need for affordability and economy with his desire for better performance.

Complete mileage testing of all two wheelers in India by leading auto magazine Overdrive shows that Kinetic motorcycles are the most fuel-efficient in the country.

To the two-wheeler buyer in India, mileage is a very important consideration. However, figuring out the exact mileage of any vehicle is not straightforward since a variety of factors such as riding habits, vehicle load etc do affect the mileage. Manufacturers do quote "Under Standard Test Conditions" mileage that their vehicle has proven to give as per the specifications set by the Automotive Research Association of India. However, the USTC mileage can differ from actual on-road mileage derived by the consumer as real world riding conditions are often different from the standard test conditions.

To help the consumer understand the real world mileage figures from every motorcycle in the country, India's leading automobile magazine Overdrive has conducted a detailed never-before test of each and

every motorcycle available in India. In this study that tested 54 two wheelers, motorcycles from Kinetic Engineering have all clearly come out as the most fuel efficient motorcycles in the country, without any doubt.

Kinetic's entry level motorcycle Boss has been judged as the "Mileage Champion" of India, beating all other two wheelers on mileage, and leading the category of upto 100cc motorcycles - winning over motorcycles like Hero Honda Splendor, TVS Centra, Bajaj Boxer, LML Freedom etc. In the category of motorcycles between 100-125cc, Kinetic Boss 115 tops the mileage chart, with Kinetic Velocity coming in second, beating other motorcycles like TVS Victor, Bajaj Caliber 115, Bajaj Wind 125, etc. And to complete the hat trick, in the category of motorcycles of 150cc and above, Kinetic GF 170 city and Laser have again come on top over competition like Bajaj Pulsar 180 dtsi, Hero Honda Karizma, etc.

and rehabilitation of leprosy patients. FICCI has acknowledged that this has brought about a tremendous change towards the patients in the attitude of the community at large, as well as the family members of such individuals. FICCI has recognized it as a "Noble job done well".

Kinetic Engineering receives FICCI award for empowerment of physically challenged.

The award was given at the hands of Hon'ble President of India, Dr. A. P. J. Abdul Kalam.

The award was given in recognition of the help Kinetic has extended to leprosy-afflicted patients. Kinetic has been offering service by way of curing, caring, training and providing gainful rehabilitation to leprosy afflicted persons. It has sustained this program for over 15 years, which is indicative of the company's commitment and focused approach to the cause of empowerment



Kinetic presents Judd's collection

set.



V-Twin 250 cc, liquid-cooled engine 26 bhp 130 kmph

KINETIC

Aquila

Flamboyant

Board of Directors

Mr. A. H. FIRODIA	Chairman
Dr. N. A. KALYANI	
Mr. S. C. SHAH	
Dr. K. H. SANCHETI	
Mr. P. P. CHHABRIA	
Mr. S. R. SANGHI	
Mr. S. R. KOTTECHA	
Mr. M. K. KHERA	Joint Managing Director
Mrs. SULAJJA FIRODIA MOTWANI	Joint Managing Director

DGM (Commercial) & Company Secretary

Mr. R. RAMKUMAR

Auditors

M/s. P. G. BHAGWAT
Chartered Accountants, Pune

Cost Auditors

M/s. DHANANJAY V. JOSHI & CO.
Cost Accountants, Pune

Bankers

STATE BANK OF INDIA
CANARA BANK
PUNJAB NATIONAL BANK
IDBI BANK LTD.
BANK OF BARODA
STATE BANK OF INDORE
ICICI BANK LTD.

Registered Office

D1 BLOCK, PLOT NO. 18/2,
CHINCHWAD, PUNE-411 019.

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NOTICE

NOTICE is hereby given that the 34th Annual General Meeting of the Members of KINETIC ENGINEERING LIMITED will be held on Saturday, 25th September, 2004, at 2.30 p.m. at the Registered Office of the Company at D1 Block, Plot No. 18/2, Chinchwad Pune 411 019, to transact the following business :

ORDINARY BUSINESS

1. To consider and adopt Directors' Report, Audited Balance Sheet as at 31st March, 2004, and Profit & Loss Account for the year ended on that date and the Auditors' Report thereon.
2. To appoint a Director in place of Dr.N A Kalyani, who retires by rotation, and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Mr Sudhir Sanghi, who retires by rotation, and being eligible, offers himself for re-appointment.
4. To appoint Auditors and fix their remuneration.

NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE SAID MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND PROXY NEED NOT BE A MEMBER. THE PROXY SHOULD BE LODGED WITH THE COMPANY AT ITS REGISTERED OFFICE AT LEAST 48 HOURS BEFORE THE TIME OF THE MEETING.
2. Register of Members and Share Transfer Books of the Company, will remain closed from 16/09/2004 to 25/09/2004 (both days inclusive), for ascertaining :
 - a) As per the Register of Members, the Members of the Company after giving effect to all valid share transfers in physical form lodged with Company/R&T agent on or before 15/09/2004, and
 - b) As per the Statement of Beneficial Owners, beneficial owners in respect of shares held in electronic form, with NSDL / CDSL, as on 15/09/2004.
3. Those members/beneficial owners of shares who have so far not encashed dividend warrants for the Financial Year 1996-97 and thereafter, and those depositors who have so far not encashed their refund orders/interest warrants may immediately approach the Company for replacement thereof, as the amount of dividend, refund and interest remaining unclaimed for a period of 7 years shall be transferred to the Investor Education and Protection Fund as per provisions of Section 205C of the Companies Act, 1956.
4. Members desirous of obtaining any information concerning the accounts or operation of the Company are requested to write to the Company at least 10 days before the date of Annual General Meeting so that the information may be made available at the meeting.
5. Members are requested to advise immediately any change in their address to the Company's Registered Office, Pune or M/s Intime Spectrum Registry Ltd., Mumbai, quoting their registered folio number. Shareholders holding shares in dematerialized form shall address their communication to their respective depository participant only.

By Order of the Board of Directors,
for **Kinetic Engineering Limited**

R. Ramkumar
DGM (Commercial) &
Company Secretary

Pune
29th May, 2004

34th Annual Report 2003 - 2004**INFORMATION REQUIRED TO BE FURNISHED UNDER THE LISTING AGREEMENT****Item No.2**

Dr Neelkanth Kalyani hails from a family of renowned agriculturists and traders of Karad. He came in the merit list at matriculation examination. He is one of the pioneers of co-operative movement in South Maharashtra and was Chairman of Maharashtra State Co-operative Land Development Bank for 12 years, when he did unparalleled work in advancing funds for farmers for modernisation, use of advanced agricultural practices and methods. He also promoted a Sugar Factory. He served with distinction on Board of several government financial institutions and bodies. While being Chairman of State Industrial and Investment Corporation of Maharashtra from 1977 to 1980, he was instrumental in formulating and implementing a novel package scheme of incentives which resulted in planned dispersal of industries to remotest and most backward regions of the State. He was also President of Mahratta Chamber of Commerce and Industries. The Directorships held by him in other Public Limited Companies are Kalyani Forge Limited (Executive Chairman), Hindustan Construction Company Limited, Kirloskar Oil Engines Limited, Finolex Cables Limited, Finolex Industries Limited, Sudarshan Chemical Industries Limited and Lahoti Overseas Limited. He is Chairman of Audit Committee of Finolex Industries Limited and Lahoti Overseas Limited. He is Member of Audit Committee of Finolex Cables Limited and Sudarshan Chemical Industries Limited. He is Chairman of Remuneration Committee of Hindustan Construction Company Limited and also Chairman of Shareholders and Investors Grievance Committee of Lahoti Overseas Limited.

Dr Neelkanth Kalyani is a Director of the Company since 1978.

Item No.3

Mr Sudhir Sanghi is Managing Director of Sanghi Spinners India Limited, an 100% EOU. He is also on Board of other Sanghi Group Public Limited Companies viz. Sanghi Polyesters Limited, Sanghi Industries Limited and AGA Publications Limited. He was instrumental in conceiving, promoting and launching all Sanghi Group companies with diversified product range, such as Polyester Filament, Cotton and Blended Yarns, Textile Processing, Zip Fasteners, Heat Resistant Rubber Thread, BOPP self adhesive insulation tapes, Publishing, Cement, etc. Most of the companies are accredited with ISO 9002 and other quality/standards certifications. He received many awards, notable among them being receipt by Sanghi Spinners of Highest Export Turnover awards.

He is Member of Investor Grievances Committee of Sanghi Spinners India Limited, Sanghi Polyesters Limited and Sanghi Industries Limited. He is also Member of Audit Committee of Sanghi Polyesters Limited.

Mr Sudhir Sanghi is a Director of the Company since 1995.



DIRECTORS' REPORT 2003-2004

To
The Members,
Kinetic Engineering Limited

Your Directors present the 34th Annual Report and audited accounts of your Company for the year ended 31st March, 2004.

FINANCIAL HIGHLIGHTS

	2003-2004	2002-2003
	(Rs. in lakhs)	
Sales and other Income	20852	26350
Gross Profit / (Loss)	(4719)	1327
Net Loss	(5166)	(42)
Profit carried Forward		
Last year	7831	7873
This year	2665	7831

YEAR IN RETROSPECT

During the year your Company has incurred net loss of Rs.51.66 crores, as compared to Rs.0.42 crores in the previous year. As the members are aware that the moped market has been declining continuously and therefore your Company decided to enter into motorcycle market. In the process of converting a moped manufacturing Company into motorcycle manufacturing Company, your Company has incurred substantial expenditure on setting up motorcycle manufacturing facility, absorbing four-stroke technology and development of new models. Thus, the Company has finally entered into motorcycle market and during the second half of the year 2003-04, your Company has launched four new models viz. Boss 115, Velocity, GF-170 City and GF-Laser. Since there is very high competition in the motorcycle market your Company has to spend higher amount on advertisement and sale promotion expenses. All the above factors during the transition period have resulted in loss of Rs.51.66 crores. It is expected that the efforts taken in past will yield result in future.

With a view to improve profitability, your Company has identified auto component exports as key area. The concentrated efforts taken by your Company has in fact resulted in receiving good response for auto component exports and presently your Company has substantial export orders for auto components received from USA and other countries. Your Directors are confident to substantially increase sale of auto components both in domestic and export market in future. This will significantly contribute to bottom line of the Company.

Due to losses incurred, your Directors do not recommend any dividend.

AWARDS

Overdrive, India's leading automobile magazine, conducted mega fuel efficiency study of Motorcycles on Indian roads. Kinetic motorcycles have been rated number 1 in fuel efficiency. Kinetic BOSS was declared as "Mileage Champion" of Indian motorcycles.

In the test conducted by another India's leading magazine **Auto India**, Kinetic VELOCITY has been adjudged to be the best bike in India in terms of mileage and performance figures.

EXPORTS AND FOREIGN EXCHANGE EARNINGS AND OUTGO

Your Company exported 7812 vehicles during the year under review for a turnover of Rs. 17.62 crores against 7005 vehicles for a turnover of Rs. 12.97 crores during the previous year. Your Company opened new markets in Europe, East and West Africa, Central American Islands.

The foreign exchange earnings and outgo during the year under review were as follows :

Earnings : Rs.1380.00 lakhs

Outgo : Rs. 802.02 lakhs

34th Annual Report 2003 - 2004**RESEARCH & DEVELOPMENT AND TECHNOLOGY ABSORPTION :**

During the year under review the R & D Department

- carried out research on variants on Kinetic Boss-115, GF-170, Velocity and King.
- Kinetic Boss-115 Special Edition, Velocity and GF-170 City, GF-170 Sport, King and King Delux are already in production
- upgraded TFR and Safari, both meant for specific requirements and in production for export markets.

Your Company incurred expenditure on R & D during the year as follows :

Revenue	: Rs. 285.68 lakhs
Capital	: Rs. 0.06 lakhs
Total	: Rs. 285.74 lakhs
% of total turnover	: 1.38

CONSERVATION OF ENERGY :

Some of the measures for energy conservation undertaken during the year under review were :

- a) Control of Maximum demand by staggering of Machine shop and Chassis shop in shifts and rearrangement of all shops shift timings;
- b) Installation of Electronic Ballast for tube fittings in Engine Assembly / Spare parts;
- c) Reduction of transformer core losses by switching off one no.1000 KVA throughout the year;
- d) Auto on-off lighting system introduced for HPMV lamps in Tool Room;
- e) Reduction of air leakage by replacing Hose Pipes to PU tube fittings in Engine Assembly;
- f) Installation of low HP motor to LB-17 m/c single operation on-off gear box machine;
- g) Auto on-off lighting and fans system in new Engine Assembly Area during lunch time; and
- h) Use of natural sunlight, by installing transparent sheets in vehicle assembly and in Paint shop.

The above measures taken by your Company have resulted in substantial savings in the energy cost.

Our future energy conservation plans are as follows :

- a) efficient running/energy audit of compressed air ;
- b) use of low HP motors in shops for various single operation machines;
- c) use of fix-max(Dipole magnets) on fuel line for LPG on SQF furnace and for LDO on Thermopac / Burner;
- d) installation of electronic ballast repaired in house and use in offices/shops etc.;
- e) Zircon Rich refractory powder coating for SQF furnace in HT; and
- f) Control of maximum demand upto 1750 KVA and to maintain unity throughout the year of KEL Nagar and Supa plants.

LABOUR SITUATION

Labour relations at all the Plants of the Company are cordial.

DIRECTORS' RESPONSIBILITY STATEMENT :

Your Directors confirm that :

- i. in the preparation of Annual Accounts, the applicable Accounting Standards have been followed;
- ii. in selecting and applying Accounting Policies, consistency has been followed and that in judgements and estimates, due care has been taken that the same are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the loss of the Company for that period;
- 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; and
- iv. the annual accounts have been prepared on the principle of a "going concern" basis.



MANAGEMENT DISCUSSION AND ANALYSIS REPORT :

Management Discussion and Analysis Report, pursuant to Clause 49 of the Listing Agreement, forms a part of this report and the same is Annexed as Annexure - 1.

REPORT ON CORPORATE GOVERNANCE :

A separate report on Corporate Governance alongwith certificate from Auditors on its compliance is annexed as Annexure - 2.

SUBSIDIARY COMPANIES AND CONSOLIDATED ACCOUNTS

The Report and Accounts of the subsidiary companies "Kinetic Motor Company Ltd." and "Kinetic Financial Services Pvt. Ltd." are annexed to this report alongwith the statement under Section 212 of the Companies Act, 1956. However, taking into consideration the mandatory requirement under Clause 32 of the Listing Agreement to present consolidated accounts which provides members with a consolidated position of the Company including its subsidiaries, members are provided with the report and accounts of the Company treating these as abridged accounts as contemplated by Section 219 of the Companies Act, 1956. Members desirous of receiving the audited annual accounts of Kinetic Motor Company Ltd. and Kinetic Financial Services Pvt. Ltd. may write to the Company Secretary at the Registered Office of the Company for a copy of the same. This will help in saving considerable cost with printing and mailing of the Annual Report.

FIXED DEPOSITS :

118 Deposits amounting to Rs. 13.51 lakhs were matured and unclaimed as on 31st March, 2004, out of which 42 deposits amounting to Rs 4.55 lakhs have since been refunded.

COST AUDITORS :

The Board of Directors appointed M/s.Dhananjay V Joshi & Co., as Cost Auditors of the Company under Section 233 B of the Companies Act, 1956, for the year 2004-05. The approval of the Central Government is yet to be received.

DIRECTORS :

Dr N A Kalyani and Mr Sudhir Sanghi, Directors, retire by rotation at the ensuing Annual General Meeting, and being eligible, offer themselves for re-appointment.

AUDITORS :

Your Auditors M/s. P G Bhagwat, Chartered Accountants, retire at the forthcoming Annual General Meeting and, being eligible, have given their consent for re-appointment.

PARTICULARS OF EMPLOYEES :

Particulars of employees as required under Section 217 (2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975, form a part of this report. However, as per the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956, the report and the accounts are being sent to the shareholders of the Company, excluding the statement of particulars of employees under section 217(2A) of the Companies Act. Any shareholder interested in obtaining a copy of the said statement may write to the Company Secretary at the Registered Office of the Company.

ACKNOWLEDGEMENT :

Your Directors express their sincere thanks to the Financial Institutions, Banks, Dealers, Suppliers and Stakeholders for the support extended to the Company and also wish to place on record their appreciation of the dedicated services rendered by the employees of the Company.

For and on behalf of the Board of Directors

A H Firodia
Chairman

Pune
29th May, 2004