

KINETIC

Annual Report
2004-2005



KINETIC MOTOR COMPANY LIMITED

www.reportjunction.com

Achievements 2004-2005

Major distribution network revamp achieved

With a view to enhance our distribution network and significantly improve the customer experience, we have achieved a major nationwide revamp over the last several months. Over 40 new dealerships called "Kinetic Automatics" have been inaugurated in all key cities including Mumbai, Pune, Bangalore, Chennai, Hyderabad, Ahmedabad, Chandigarh, Indore, Nashik, Goa, Jaipur, Nagpur etc. The new dealerships are all situated in the most desirable locations and boast of beautiful interiors, state of the art workshops, and fully trained manpower. They are managed by well-reputed local business families who have earned a reputation in their area for providing honest and efficient service to their customers. The new dealerships will play an important role in the upcoming launches of the Italiano series of scooters, which have the potential to create new market segments and revolutionise the scooter market.

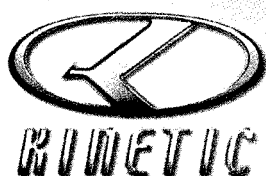
Bennett, Coleman & Co., Ltd. acquires a stake in Kinetic Motor Company

Kinetic Motor Company Ltd., issued 14,18,000 equity shares of the company to M/s Bennett, Coleman & Co., Ltd., Mumbai, the publishers of The Economic Times and The Times of India, among other publications, on a preferential basis as per the SEBI guidelines for preferential issues. The shares constitute around 8.6% of the company's post equity issue. Bennett, Coleman and Co., has identified Kinetic as a company with high growth potential and strong brand values and has chosen to invest in our company as we prepare to launch a slew of new two-wheelers, including the revolutionary range of Italian scooters, which would involve widespread brand building. The proceeds of the proposed issue would be utilised towards the brand building exercise.

A new premium brand logo adopted

A company's logo is a critical component of the branding exercise and a company's corporate identity. It signifies and conveys what the company stands for, in terms of its commitment to customers and brand values. With this in mind, Kinetic has adopted a new brand logo to align with its new identity and product strategy. The new logo is a metallic grey and silver unit that appears to be chiselled out carefully, indicating high precision engineering and a stately, elegant presence. The new logo will appear on all Kinetic two-wheelers, dealership insignia, advertising and other brand related initiatives.

Achievements 2004-2005



The new brand identity aims to capture the company's brand essence, which has been identified as "aspirational". "Aspirational" translates to products that a customer should be proud to own and aspire to be seen riding; an Indian company with an international presence and a company determined to set new benchmarks.

A new website has also been designed and launched to reflect the new brand identity. Visit us at www.kinetic2wheelers.com

New International frontiers reached

Our international business team has been busy, drawing up and implementing plans to make far-flung strides to strengthen our international presence and build Kinetic into a global brand.

- Kinetic vehicles now ride the streets of South Africa with a new distributor at Durban. In Bangladesh, we now have a new distributor. One of our oldest and strongest global markets, Argentina, is also being revived, as the country comes out of its economic crisis. Kinetic will once again be on the roads of Buenos Aires, once the homologation process which is already under way is completed.

- Kinetic participated in the prestigious Italian Auto expo, the "Milan Fair" in a big way. The Milan Fair was utilised as our platform for the global launch of Millenium and Euro, part of our seven Italian designed scooters for which Kinetic has complete global production and marketing rights. These are popular and established scooters with world-standard design and specifications; and at Indian manufacturing prices, they could very well turn the whole global two wheeler market on its head. The response to Kinetic's presence at the Milan Fair was tremendous.

- Kinetic also participated in "Made in India" show in Colombo, Sri Lanka and in Johannesburg, South Africa to further boost our brand and sales in these two important global destinations.

- Many more exciting initiatives are underway on the global markets front and we are putting serious efforts into making Kinetic a truly global brand.

Sonia Gandhi delivers modified Nova 135 to the disabled through Rajiv Gandhi Foundation

It is definitely a matter of pride and prestige for us that the Rajiv Gandhi Foundation has once again chosen Kinetic vehicles for donating to the disabled after modification. This year, the vehicle of choice is the smart Kinetic Nova 135, christened as "Bingo" in its disabled-friendly form. The scooter design was commissioned by the Rajiv Gandhi Foundation with a noble view that people with lower body impairment can travel smartly in step with every other vehicle on road. The scooter is completely hand controlled, with two extra wheels for total stability, a canopy to shield user from the sun, a windscreen, underseat luggage compartment and space to store support devices such as crutches. The automatic start, gearless transmission, underseat storage space, good power, good fuel efficiency and contemporary looks of the Nova 135 were the reasons for its selection.

Important marketing alliances

Last year, we partnered with leading players such as Tata indicom and HSBC for making joint promotional offers to all our customers. The offers were designed to strongly benefit the end consumer and received good response.

Achievements 2004-2005

Exciting Kinetic 4-s and Kine' launched

This year saw two important product launches from Kinetic Motor Company – the Kinetic 4s and Kine'. Conceptualised as "the small Kinetic", Kine' brings together cool looks, high comfort and convenience and power-packed performance in a light weight and easy to handle package, along with an attractive price tag. It is the ideal two-wheeler for students, executives and others looking for a value-for-money two-wheeler that offers performance, style and convenience in one easy package.

The cute Kine' offers a host of customer benefits:

- **Style:** The essential intelligent Kine' design is further enhanced by India's first three-tone colors and attractive new headlamp
- **Performance:** Kine's 72cc, 4.2 bhp engine provides quick acceleration as well as easy double seat riding and load carrying
- **Easy riding:** Kine' scores high on convenience by way of electric start and gearless transmission and being light-weight, it is easy to ride and handle
- **Utility:** Special features like mobile charge-point, puncture resistant tyres, cola-can holder, large under-seat storage area and spacious foot board enhance the Kine's utility
- **Affordability:** The Kine' is well-priced compared to other gearless scooters and gives high mileage of 55-60 kmpl

Kinetic 4s

Kinetic 4s is essentially an important upgrade to the well-known revolutionary Kinetic Zoom scooter, often referred to as simply "Kinetic", with many credits to its name including three Guinness world records for incredible adventure and endurance feats. Kinetic 4s, a true family vehicle that appeals to all people irrespective of age, gender or profession, now offers extra benefits with the highest mileage of all gearless scooters, a strong metal body and an extra stepney tyre at a great value price of Rs. 36,515* (ex- showroom).

Previews of Kinetic's Italiano series of scooters stir up the market, receive big thumbs up from experts

This year, we previewed the Italiano series of scooters to the market at our new dealerships and important automotive media to gauge response and collect expert opinions. Over the last few months, we have been showing and demonstrating our Italiano series of scooters to the auto experts of India, and also displaying them for short whiles at our dealerships. The scooters created quite a stir and all leading industry publications such as Overdrive, Autocar India, Business Standard Motoring, Auto India, Bike India, NDTV car & bike, NDTV Raftaar, CNBC Auto show, DNA newspaper, Mumbai Mirror, Hindustan Times, www.xbhp.com etc. have all written very enthusiastic reviews of the series. The experts seem unanimous in their verdict that this range is likely to totally alter how India views scooters, and could become the coolest and most exciting two-wheelers to own. The diversity in the range, which offers a dazzling variety of designs with something to appeal to everyone, has also been appreciated. Leading auto publication, Overdrive, has referred to the range as "a veritable gold mine".

Following the news reports, we have also been receiving a flood of enquiries about the scooter range at our head office and our dealerships.

Board of Directors**Mr. A.H. Firodia, *Chairman*****Air Chief Marshal H. Moolgavkar (Retd.)****Mrs. Sulajja Firodia Motwani****Mr. S. S. Marathe****Mr. Dinesh Munot****Mr. M. Venkataiah****Mr. R. J. Kabra****Mr. A. M. Shirolkar, *Director (Technical)*****AGM (Legal) &
Company Secretary****Mr. V. M. Achwal****Auditors****M/s. A.F. Ferguson & Co.*****Chartered Accountants*****Mumbai****Cost Auditors****M/s. Dhananjay V. Joshi & Co.*****Cost Accountants*****Pune****Bankers****Canara Bank****State Bank of Indore****HDFC Bank Limited****Registered Office****Plot No. 2, Industrial Area No. 1,****Pithampur, Dist. Dhar (M.P.) 454 775.****Head Office****D1 Block, Plot No. 18/2, Chinchwad,****Pune-411 019.**

KINETIC MOTOR COMPANY LTD.**NOTICE**

Notice is hereby given that the 21 st Annual General Meeting of the Members of Kinetic Motor Company Limited will be held on Saturday, 21st January, 2006 at 11 a.m. at the Registered Office of the Company at Plot No. 2, Industrial Area No.1, Pithampur, Dist. Dhar 454 775 (M.P.) to transact the following business :

ORDINARY BUSINESS

1. To consider and adopt the Directors' Report, the Audited Balance Sheet as at 30 th September, 2005 and Profit and Loss Account for the 18 month period ended on that date together with Auditors' Report thereon.
2. To appoint a Director in place of Air Chief Marshal H. Moolgavkar (Retd.), who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Mr. M. Venkataiah, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. A. M. Shirolkar, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint Auditors and fix their remuneration.

NOTES :

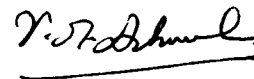
1. **A MEMBER ENTITLED TO ATTEND AND VOTE AT THE SAID MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER.**
2. The information in respect of the Directors seeking re-appointment at the Annual General Meeting (Item Nos. 2, 3 & 4 of the Notice) as per clause 49 of the Listing Agreement, are annexed hereto.

3. The Register of Members and Share Transfer Books of the Company will be closed from Monday, 16th January, 2006 to Saturday, 21st January, 2006 (both days inclusive) for the purpose of Annual General Meeting .
4. In view of amended Section 205 C of the Companies Act, 1956 followed by the issue of Investor Education & Protection Fund (awareness and protection of the investors) Rules, 2001, any money transferred by the Company to the unpaid dividend account and remaining unclaimed for a period of seven years from the date of such transfer shall be transferred by the Company to Investor Education & Protection Fund (IEPF) set up by the Central Government. Accordingly, the Company has transferred to IEPF the unclaimed dividend for the year ended 31 st March, 1997 on 1 /12 / 2004. The Unclaimed Dividend for the year ended 31 st March, 1998 shall become transferable to IEPF on 11 th December, 2005.

The amount of dividend remaining unclaimed for a period of 7 years from the date of transfer to unpaid dividend account for every subsequent years upto 2001-2002, will also be transferred to IEPF every year. No claims shall lie thereafter against IEPF or the Company in respect of the amounts transferred as aforesaid.

5. Members desirous of obtaining any information concerning the accounts or operations of the Company are requested to address their questions to General Manager (Finance) at the Head Office address of the Company so as to reach at least 10 days before the date of the meeting so that the information required may be made available at the meeting.

By Order of the Board of Directors
For **KINETIC MOTOR COMPANY LIMITED**



V. M. ACHWAL
AGM (Legal) and
Company Secretary

Pune
1 st December, 2005

**INFORMATION IN RESPECT OF DIRECTORS
RETIRING BY ROTATION AND SEEKING RE-
APPOINTMENT AT THIS ANNUAL GENERAL
MEETING AS PER CLAUSE 49 OF THE LISTING
AGREEMENT**

ITEM NO. 2

Air Chief Marshal H. Moolgavkar (Retd.), 85 is a graduate of the Defence Services Staff and Wellington. He joined the then Royal Indian Air Force as a pilot in 1940 and achieved highest rank in Indian Air Force in the year 1976 as Chief of the Air Staff. During his distinguished career with Indian Air Force, he was awarded 'Mahavir Chakra', India's second highest gallantry award and many other medals viz. 'Param Vishishta Seva Medal' and thereafter on visit to USA, the highest Congressional medal the LEGION of MERIT. He has been associated with the Company as a Director for a long period, since the year 1984. He does not hold any other directorship or membership of committee of Board of Directors of any other Company.

ITEM NO. 3

Mr. M. Venkataiah, 63 is a MIE Graduate and has started his career as Planning Engineer and has wide experience of 40 years in Automobile Design, Manufacturing Process, Tool Designing, Capital Goods procurements etc. Presently he is on the Board of Directors of Force Motors Limited. He is also Executive Director of Jaya Hind Industries Limited, one of the largest Die Casting Foundaries in the country.

ITEM NO. 4

Mr. A. M. Shirolkar, 53 is a Mechanical Engineer and has gained over 30 years experience in R&D, Projects, Design and Testing and Purchase Departments. He joined KINETIC group in the year 1985 and has made important contribution for indigenisation of components, development of vehicles conforming to stringent emission standards, improvement in fuel economy of vehicles and development of new two-wheeler models. Presently he is working as Director (Technical) of the Company.

DIRECTORS' REPORT

To

The Members,

Your Directors present the 21st Annual Report and Audited Statement of Accounts of the Company for the 18 month period ended 30th September, 2005.

Change in Financial Year

The closing of financial year of the Company was changed from 31st March to 30th September. Accordingly, the Statement of Accounts for the Company has been prepared for the corresponding 18 month period i.e. from 1st April, 2004 to 30th September, 2005.

FINANCIAL RESULTS

	2004-05 (18 months)	2003-04 (12 months) (Rs. in lakhs)
Gross Sales and Other Income	24718	23311
Loss for the period/year (4601)		(2134)
Profit / (Loss) carried forward		
Last year	(1120)	1014
This year	(5721)	(1120)

MANAGEMENT DISCUSSION & ANALYSIS REPORT

Indian Two-Wheeler Industry

During the year 2004-05, 6.6 million Two-wheelers were sold in India. Motorcycles, Scooters and Mopeds accounted for 80%, 15% and 5% of total Two-Wheeler sales respectively. Motorcycle, Scooter and Moped segments recorded growth of 20.2%, 4.7% and 5.5% respectively.

Company's Performance

Last year, the Company decided to take a long-term view and undertake numerous initiatives which would strengthen the company's offerings and position for the next several years, rather than focusing on short-term

objectives which would distract resources. These initiatives include

- carrying out key technological and cosmetic upgrades to several important current brands – launch of Kinetic 4S (i.e. upgradation of company's popular scooter Zoom with a new 4 stroke technology which would offer very high mileage), introduction of Kine' (an important upgrade to the Scooterette Zing80 that would strengthen our presence in the growing small capacity scooters segment) and launch of Nova 135.
- Important revamp of the company's distribution network which has involved setting up over 40 new dealerships in every important market across the country at attractive locations with beautiful interiors, sound management and state of the art workshop facilities. This is critical with a view to improve overall customer experience at Kinetic dealerships.
- Significant re-branding exercise involving creation of a new brand identity comprising a new logo that appears on all products, dealerships and other insignia and the launch of an exciting new corporate website to signal a new Kinetic to the market.
- Expansion of international network with new distributors appointed in several emerging markets, with a view to increase global presence in view of higher global acceptance of Indian two wheelers.
- Preparation for launch of the Italiano series of scooters in terms of design and productionizing.
- Reduction of excess inventory.

While these initiatives were being carried out, it was considered prudent to defer huge investments in marketing and promotional expenses. Absence from mainstream advertising, combined with two months of

reduced sale due to activity of phasing out of previous models and replacing them with new upgrades while ensuring that excess inventory did not accumulate has led to a drop in sales and correspondingly, in income. During the 18 month period ended 30th September, 2005 ('period under review'), the Company produced 72,237 nos. Two-wheelers as against 75,726 nos. in the previous year ending 31st March, 2004 ('previous year'). During the period under review, Company sold 79,972 nos. as against sale of 81,189 nos. in the previous year. In order to maintain brand presence, the Company has absorbed the increase in cost of inputs and applied aggressive pricing strategies. Such short term factors have resulted in loss for the year under review. However, the new products, new branding and revamped distribution network are expected to be valuable to the Company in the coming years.

Restructuring

The Company had accumulated losses of Rs. 2037 lakhs at the end of the financial year ended 30th September, 2005. The Company has already initiated steps for restructuring including entering into negotiations with financial investors for infusion of fresh funds for improving net worth, dialogues for debt restructuring and increased moratorium etc. Subsequent to the Balance Sheet date, your Company issued on 21st November, 2005 on Preferential basis 14,18,000 Equity shares of Rs.10/- each at price of Rs. 70.52 per share to Bennett Coleman and Company Limited.

Opportunities, threats, risks and concerns

The market for automatic scooters has been showing continued growth and we believe that currently, good opportunity exists for creating new segments within the automatic scooters market by introducing differentiated products. Along with growth in segment size, competition is also increasing. Kinetic's long presence in modern scooter market, expertise in designing and production and strong brand equity would help in quicker acceptance of our new

launches. Kinetic would also be aiming to play a stronger role in global markets, especially with the new Italiano series scooters in our fold.

Outlook

We have received encouraging market feedback for our new four stroke scooter Kinetic 4S and Scooterett Kine'. Both have been well received in the market. The Company is preparing to begin launch of the Italiano series of scooters during the current year and these scooters have the potential to completely change the gearless scooters segment. As explained earlier, several new world-class dealerships were opened in important cities such as Pune, Bangalore, Nagpur, Goa, Rajkot, Chennai, Nasik, Chandigarh to provide better service to customers. Various restructuring initiatives have been undertaken. All these efforts, barring unforeseen circumstances, would help increase in sales volumes and improvement in financial position in the years to come.

Financial performance vis-à-vis Operational performance

Sales and Other Income

Sales and other income in the period under review were Rs. 247 crores as against Rs. 233 crores in the previous year.

Margin

The Company reported a loss of Rs. 46 crores in the period under review as against loss of Rs. 21 crores in the previous year.

Interest Cost

Interest cost in the period under review was Rs. 6.67 crores as against Rs. 6.06 crores in the previous year.

Inventory

Inventory as on 30/9/2005 was Rs. 25 crores as against Rs. 41 crores as on 31/3/2004.

KINETIC MOTOR COMPANY LTD.**Debtors**

Debtors as on 30/9/2005 were Rs.36 crores as against Rs. 33 crores as on 31/3/2004.

Internal Control System

The Company has adequate internal control system commensurate with its size and nature of business for ensuring efficiency of operations and protection of Company's assets. The Company's Audit Committee periodically reviews compliance with Company's policies, procedures and laws.

Human Resource Development

The Company strives to provide continuous learning and improvement atmosphere by arranging training and development programmes. HR Department has formulated performance appraisal system, roll and competency mapping which provides inputs to decide about job enrichment, job rotation, transfer, re-deployment, training, promotion and compensation revision. Company also takes care of health and safety of employees. To strengthen R&D base and other functions, Company has absorbed 43 employees from group companies. The number of employees as on 30th September, 2005 were 1113.

Cautionary Statement

This 'Management & Discussion Analysis Report' is a forward looking statement, based on Company's projections, estimates and perceptions about socio-economic conditions, government policies etc. The Company does not guarantee its accuracy and cautions that circumstance beyond control of the Management may affect the actual working.

RESEARCH & DEVELOPMENT AND TECHNOLOGY ABSORPTION

During the period under review, the Kinetic Research and Development team has worked on and introduced several new products and variants:

- Kinetic 4S
- Kine'
- Nova 135

The team has also been preparing, including customization of two of the Italiano series of scooters for launch in the domestic as well as global market.

The benefits from R&D activities include availability of wider range of products to customers, improvement in product performance, customer satisfaction etc.

Total expenditure incurred by the company on Research & Development (R&D) during period under review was Rs.1685.45 lakhs which represents 7% of the Company's turnover.

FOREIGN EXCHANGE EARNINGS AND OUTGO

The information on foreign exchange earnings and outgo is contained in Schedule 12, Notes to the Accounts (Point Nos.11,12 and 13)

CONSERVATION OF ENERGY

The Company continued implementation of various energy conservation measures such as monitoring of plant power factor and power consumption of various shops including air compressors. This has helped the Company to derive maximum power factor incentive from State Electricity Board. For promoting energy conservation among employees boards, pictures, banners and slogans have been displayed in effective manner at factory / office premises. The Bureau of Energy Efficiency, Ministry of Power, Government of India, New Delhi has selected a photograph as best photograph of the year 2004 and displayed it on their website.

During the period under review, the Company also organized an awareness program on energy conservation methods and techniques for school children. During a factory visit, students were appraised of energy efficient