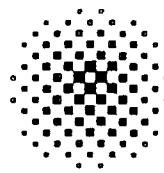
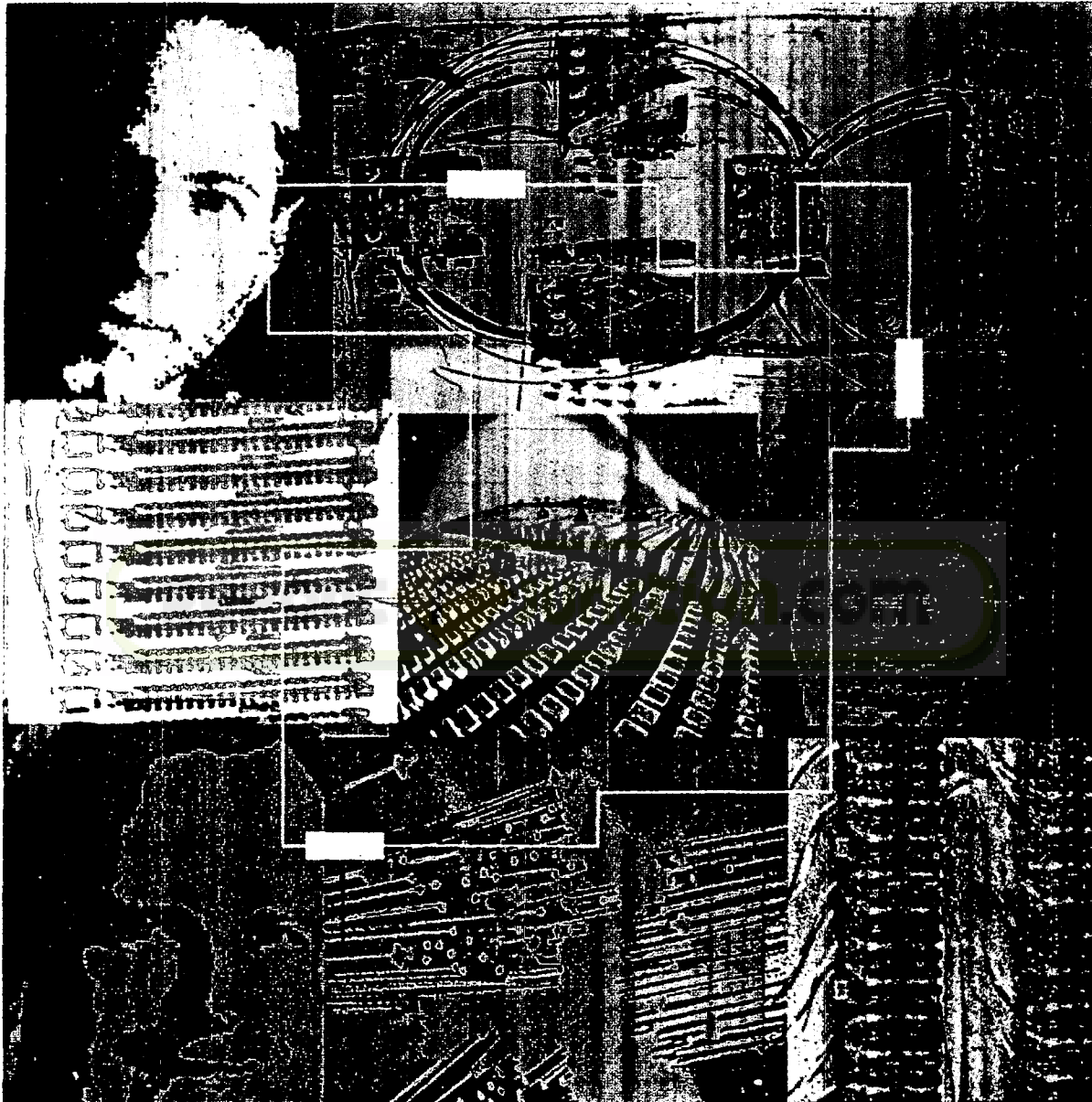


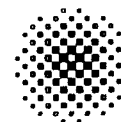
Ninth Annual Report 1997

MD			BKC	
CS	/		DPY	/
RO	/	/	DIV	/
TRA	/		AC	/
AGM	/	/	SHI	/
YE	/	/		



KRONE
COMMUNICATIONS LIMITED

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KRONE

BOARD OF DIRECTORS

Mr. Klaus Krone - Chairman
 Mr. John Heugle
 Mr. Herbert F Kroll
 Mr. C.R Dua
 Mr. Abhijit Das Gupta
 Mr. Manfred Schneider
 (Alternate to Mr. Klaus Krone)
 Mr. Michael E Edwards
 (Alternate to Mr. John Heugle)
 Mr. S. Padmanabhan
 (Alternate to Mr. C.R. Dua)

CHIEF EXECUTIVE OFFICER

Mr. K. Balachandran

GENERAL MANAGER - FINANCE AND COMPANY SECRETARY

Mr. R. Ganesh

REGISTERED OFFICE AND FACTORY

30 (C), II Phase, Peenya
 Bangalore 560 058

CORPORATE OFFICE

Hosto Centre, II floor
 No. 43, Millers Road
 Bangalore 560 052

AUDITORS

M/s. Bharat S Raut & Co..
 (A Full Member of KPMG)
 Chartered Accountants

BANKERS

Canara Bank
 Deutsche Bank

LEGAL ADVISERS

C. R. Dua & Associates
 Mulla & Mulla & Craigie Blunt & Caroe

REGISTRAR & SHARE TRANSFER AGENTS

M/s. Karvy Consultants Limited
 TKN Complex, No. 51/2
 Vanivilas Road
 Opp. National College
 Basavanagudi
 Bangalore 560 004

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NOTICE TO MEMBERS

Notice is hereby given that the Ninth Annual General Meeting of KRONE Communications Limited will be held on Thursday, the 28th May 1998 at Hotel Cauvery Continental, 11/37, Cunningham Road, Bangalore - 560 052 to transact the following business :

ORDINARY BUSINESS :

1. To receive, consider and adopt the audited Profit and Loss Account for the year ended 31st December 1997, the Balance Sheet as at that date and the Reports of the Directors and the Auditors thereon.
2. To declare dividend.
3. To appoint a Director in place of Mr. C.R. Dua who retires by rotation and, being eligible, offers himself for re-appointment.
4. To appoint Auditors and to fix their remuneration. The retiring auditors, M/s. Eharat S Raut & Co., Chartered Accountants (A Full Member of KPMG) being eligible offer themselves for reappointment.

SPECIAL BUSINESS

5. To consider and, if thought fit, to pass with or without modification, the following Resolutions as Ordinary Resolution :

"RESOLVED that Mr. John Heugle be and is hereby appointed as a Director of the Company"

"RESOLVED that Mr. Herbert F Kroll be and is hereby appointed as a Director of the Company".

BY ORDER OF THE BOARD

R. GANESH

Place : Bangalore General Manager - Finance
Date : February-26, 1998 and Company Secretary

NOTE :

1. The relative Explanatory Statements pursuant to Section 173 of the Companies Act, 1956 in respect of the Special Business under Sl. No. 5 is annexed hereto.
2. A member entitled to attend and vote at this Annual General Meeting is entitled to appoint a Proxy to attend and vote instead of himself and a Proxy need not be a Member of the Company.
3. The instrument appointing a Proxy should however, be deposited at the Registered Office of the Company duly completed, not less than Forty Eight hours before the commencement of the meeting.
4. The Register of members and the Share Transfer Books of the Company will be closed from 22.05.1998 to 28.05.1998 (both days inclusive).
5. The Members are requested to notify immediately any change in their addresses exclusively on a separate letter without clubbing it with any other request for quicker attention directly to Company's Registrar.
6. All communications including transfer documents relating to shares may be addressed directly to the Company's Registrar.
7. The members are requested to bring their copy of Annual Report while attending the Ninth Annual General Meeting of the Company.

8. Pursuant to Rule 4A of the Companies Unpaid Dividend (Transfer to General Revenue Account of the Central Government) Rules 1978 members are informed that the particulars of the unpaid/

unclaimed dividend which will be/ are transferred to the General Revenue Account of the Central Government are as under.

	Dividend for the year	Date of Declaration / Transfer	Proposed / Date of Transfer to General Revenue Account	Amount Transferred
1.	1993-Final	June 3, 1994	July 24, 1997	41,828.00
2.	1994-Interim	August 30, 1994	December 19, 1997	26,590.00
3.	1994-Final	June 15, 1995	July 26, 1998	-

BY ORDER OF THE BOARD

R. GANESH

General Manager - Finance
and Company Secretary

Place : Bangalore
Date : February 26, 1998

EXPLANATORY STATEMENT PURSUANT TO SECTION 173 OF THE COMPANIES ACT, 1956

SL.NO. 5

Mr. John Heugle was appointed as Additional Director with effect from 1st January 1998 and vacates his office at this Annual General Meeting pursuant to Section 260 of the Companies Act, 1956 and Articles of Association of the Company. A notice under Section 257 of the said act has been received from a Member signifying his intention to propose the name of Mr. John Heugle for appointment as a Director of the Company. Mr. John Heugle has filed with the Company his consent to act as a Director.

The Directors recommend his appointment as a member of the Board in the interest of the Company. None of the Directors except Mr. John Heugle is concerned or interested in the resolution.

Mr. Herbert F Kroll was appointed as Additional Director with effect from 1st January 1998 and vacates his office at this Annual General Meeting pursuant to Section 260 of the Companies Act, 1956 and Articles of Association of the Company. A notice under Section 257 of the said act has been received from a Member signifying his intention to propose the name of Mr. Herbert F Kroll for appointment as a Director of the Company. Mr. Herbert F Kroll has filed with the Company his consent to act as a Director.

The Directors recommend his appointment as a member of the Board in the interest of the Company. None of the Directors except Mr. Herbert F Kroll is concerned or interested in the resolution.



DIRECTORS' REPORT

To the Members

Directors have pleasure in presenting this Annual Report on the Business and Operations of the Company and the financial statements for the year ended December 31, 1997.

FINANCIAL RESULTS

	(Rs. In lakhs)	
	Year Ended 1997	Year Ended 1996
Gross Revenue	1754.15	2005.77
Profit before Depreciation	175.27	314.46
Less : Depreciation	58.24	125.87
Net Profit for the year before Taxation	117.03	188.58
Provision for Taxation	21.66	127.12
Profit after Tax	95.37	61.46
Add : Profit brought forward from Previous Year	787.97	772.51
Profit available for Appropriation	883.34	833.97
Appropriation		
Dividend (Proposed)	36.80	46.00
Income Tax on Proposed Dividend	3.68	-
Balance carried to Balance Sheet	842.86	787.97
	883.34	833.97

The Telecom Sector remained largely inactive during the Year 1997. The quick rise and fall of two Governments, the Telecom scam and the resulting instability disturbed the decision making process on New Technology Public Switching by the DoT. However, as a result of concerted and focused all-round business efforts, your Company successfully configured and positioned a new MDF (512 Ports for C-DoT), which enabled it to muster most of the market share in this segment. As is apparent, though the Company's performance for the first half was lack-lustre, the second

half improved, as it notched up close to 50% of its product sales in the last three months.

DIVIDEND

Your Directors recommend a Dividend of 8% for the year ended 31st December 1997, if approved by the Shareholders, at the forthcoming Annual General Meeting.

COPY CATS

In the last Report, we had reported the legal moves of your Company against a company which had copied a KRONE Product. The Directors are pleased to inform you that after almost 8 months of proceedings in the Honourable City Court, Bangalore, a temporary injunction has been granted preventing this 'copy-cat' Company from manufacturing this product.

STRATEGY & OPERATIONS

As a result of Regionalisation of the Group's Global operations, your Company now is actively involved in the Operations within the Asia Pacific Zone. It is envisaged that this re-grouping will offer better and bigger opportunities for manufacture and export to a larger market base, not to mention the possibilities of introducing new products as well.

Your Company also realises that the key to success locally in India is to understand and manage diversity, which is best done by empowering local managers who have been imbued with the culture of the Organisation. In pursuance of this "think globally, act locally" strategy, the Directors are pleased to inform the appointment of Mr. K. Balachandran, who was heading the Sales & Marketing operations for the last 7 years as Chief Executive Officer of your Company effective 01.12.1997.

CURRENT YEAR PROSPECTS

Following the trend of deregulation and privatisation of telecom operations worldwide, India had long initiated reforms process. Though in some sectors this has met with relative success, the privatisation of Basic

Telephone Services has still not taken off. The decision on the 1.3 million telephone lines for New Technology Switching was decided late in 1997 and therefore the Orders to your Company for the MDF's have just started trickling in. The DoT pressure on very low prices is affecting almost all telecommunication equipment manufacturers including your Company. This is being compounded by very stiff competition on the pricing front from other manufacturers.

To face and overcome this scenario, your Company successfully embarked on cost-effective purchasing and manufacturing which enabled it to perform well despite these adverse conditions.

On the Premises Network, the last report mentioned the commencement of assembly for some Structured Cabling Products. This now stands established and over the last year, we have stepped up regional distribution and also improved the product-mix. Your Company will continue to increase its aggression in this market segment.

ISO CERTIFICATION

The Company received the ISO 9002 Certification from TUV CERT Certification Body of Rheinisch - Westfalischer TUV e.V during the year.

DIRECTORS

Mr. Roger Empson and Mr. Michael E Edwards relinquished their Directorship from the Company with effect from January 1, 1998. The Board places on record its appreciation for their excellent support and contribution during their association with the Company.

Mr. John Heugle, President of KRONE - Far East Pte Ltd., and Mr. Herbert F Kroll, Dy. Chairman of Roland Berger were appointed as Additional Directors with effect from January 1, 1998 and they will hold office till the conclusion of the next Annual General Meeting. Resolutions for appointing them as Directors are placed for your approval.

Mr. Michael E Edwards has been re-appointed as an Alternate Director to Mr. John Heugle.

Mr. C. R. Dua retires by rotation and being eligible offers himself for re-appointment.

PERSONNEL

Despite a difficult year, the actual volume of some of the key products increased, notable being the virtual doubling of the volumes of a protection system. This is a direct tribute to the hard work, commitment and co-ordination of the employees of the Company, for which we wish to record our sincere appreciation.

PARTICULARS OF EMPLOYEES

Information as per Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules 1975 forms part of this Report.

AUDITORS

M/s. Bharat S Raut & Co., Chartered Accountants retire as Auditors of the Company at the conclusion of the ensuing Annual General Meeting and are eligible for re-appointment.

ACKNOWLEDGMENTS

Your Directors wish to place on record their sincere thanks for the co-operation and support received from KRONE AG and KEONICS. Your Directors also wish to place on record their gratitude to Government of Karnataka, Department of Telecommunications and other Government Departments and their Bankers for their co-operation and continued support extended from time to time to the Company.

ON BEHALF OF THE BOARD

Place : Bangalore
Date : February 26, 1998

KLAUS KRONE
Chairman



ANNEXURE TO DIRECTORS' REPORT

Particulars pursuant to Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988.

A. CONSERVATION OF ENERGY

The Company continues to face non-availability of KEB power. However, no effort is being spared to achieve conservation.

B. TECHNOLOGY ABSORPTION

1. RESEARCH & DEVELOPMENT (R & D)

- (i) During the year 1997, your Company successfully upgraded one of the Products (Protection Plug) and has been able to commence commercial production of this version.
- (ii) The Company has also secured ISO 9002 Certification from TUV during the year.

2. TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

- (i) Your Company continues to utilise the technology base available with KRONE AG and other subsidiaries.

- (ii) The Company constantly endeavours to introduce new products developed by other KRONE Companies, in the domestic markets at the most cost effective basis.

- (iii) The Company assists the sub-contractors of critical components to develop new tools to improve the components quality and reduce rejection rates.

- (iv) Test Equipments for testing of two major products was made inhouse. This has reduced testing time considerably.

- (v) Quality circles set up during the year have suggested and implemented several improvements in the production process resulting in reduced rejection rates.

3. FOREIGN EXCHANGE EARNINGS AND OUTGO

- | | | |
|-------------------------------------|---|-----------|
| (i) Foreign Exchange Earnings (FOB) | - | 5,906,636 |
| (ii) Foreign Exchange Outgo | - | 867,566 |

STATEMENT PURSUANT TO SECTION 217(2A) OF THE COMPANIES ACT, 1956 READ WITH THE COMPANIES (PARTICULAR OF EMPLOYEES 1975) AND FORMING PART OF THE DIRECTORS' REPORT FOR THE YEAR ENDED 31ST DECEMBER 1997

Sl No.	Name	Age (Years)	Designation / Nature of Duties	Gross Remuneration (Rs.)	Qualifications	Total Experience (Years)	Date of Commencement of employment	Details of previous Employment Name of the Company	Designation
1	K. Balachandran	42	Chief Executive Officer	719,057.00	B.Sc. P.G.D.B.M	21	21.01.1991	S & J Marketing Pvt. Limited	Regional Manager
2	N.V.P. Tendulkar	40	Executive Vice President (Fin. & Admin.) and Company Secretary	353,700.00	B.Com A.C.A A.C.S	20	07.05.1991	H & R Johnson (India) Limited	Finance Controller and Company Secretary
3	M.N. Sampath Kumar	46	General Manager - Manufacturing	534,545.00	B.E (Mech) P.Dip in Tool Design M.B.A	23	31.07.1995	Indian Telephones Industries Limited	Chief Marketing Manager - Switching Business Group
4	R. Ganesh	44	General Manager-Finance and Company Secretary	293,394.00	B.Sc. L.L.B A.C.S, A.C.A	18	14.07.1997	Webb (India) Limited	Vice President - Finance and Company Secretary

NOTES :

- Gross remuneration comprises Salary, Allowances, Monetary value of perquisites and Company's contribution to Provident and Superannuation Funds but excludes Company's contribution to Gratuity Fund.
- All appointments are contractual
- None of the above employees are related to any Director of the Company.
- Employees mentioned against Sl. Nos. 2 & 4 were employed only for part of the year.