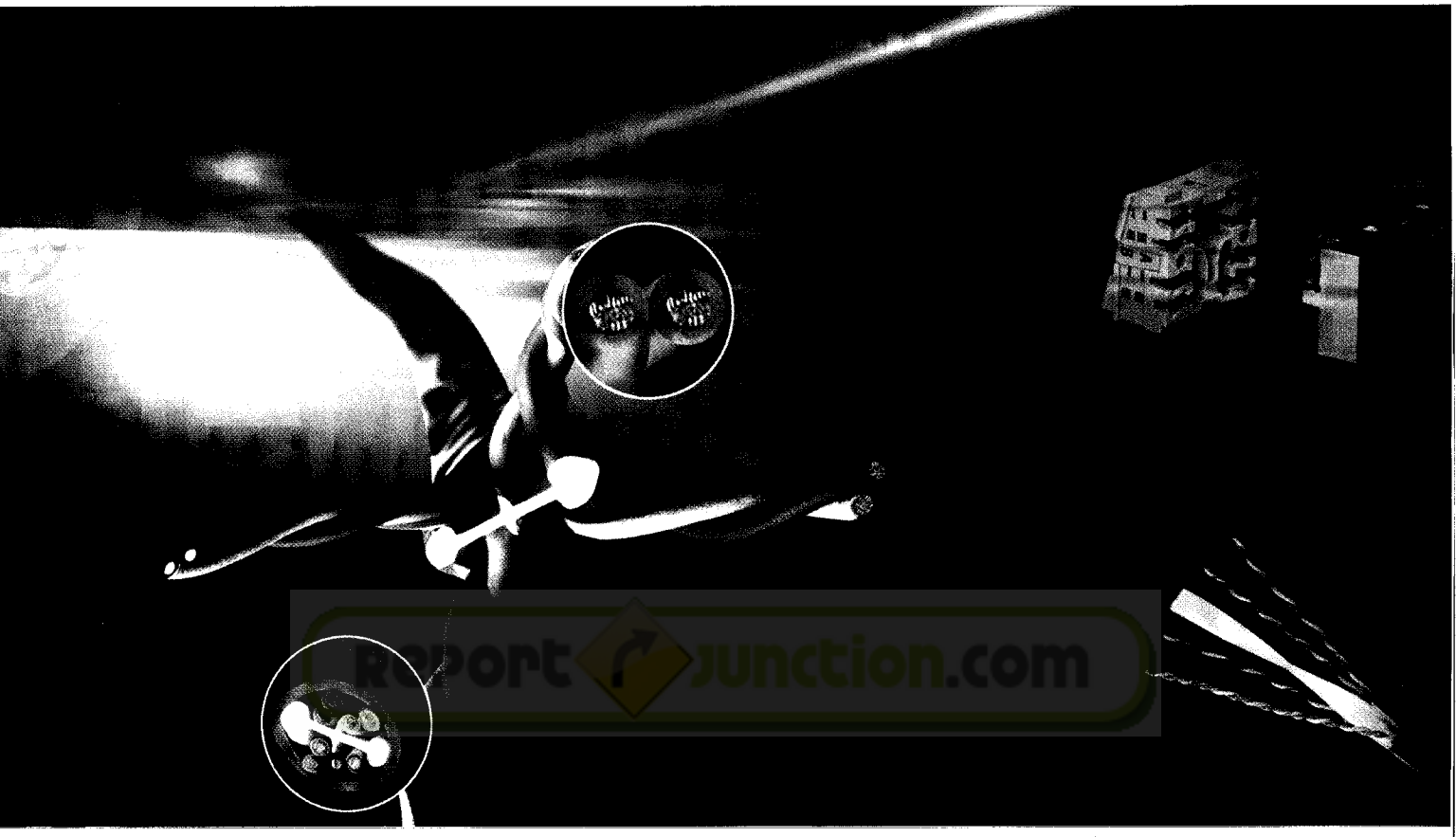
SANSCO SERVICES - Annual Reports Library Services - www.sansco.net

Sixteenth Annual Report 2004



KRONE

KRONE Communications Limited

www.reportjunction.com

SANSCO SERVICES - Annual Reports Library Services - www.sansco.net

KRONE

CONTENTS

Notice 2

MD's Message 4

Directors' Report 5

Annexure to Directors' Report 7

Report on Corporate Governance 8

Auditors' Report 11

Financial Statements 14

Cash Flow Statement 16

Balance Sheet Abstract 35

Management Discussion and Analysis 36

Shareholders' Information 39

BOARD OF DIRECTORS

Mr. Robert Fitzgerald	Chairman
Mr. K. Bala Chandran	Managing Director
Mr. Gokul Hemmady	Director
Mr. G. Subramaniam	Director
Mr. S. Rajagopalan	Director
Mr. Arun Thiagarajan	Director
Mr. H.C. Kishore Chandra	Director
Mr. Michael Day	Alternate Director to Mr. Gokul Hemmady

Vice President - Finance & Company Secretary
Mr. R. Ganesh

Registered Office and Factory
10(C), II Phase, Peenya
Bangalore - 560 058

Corporate Office
43, Hosto Centre, III Floor
Millers Road, Bangalore - 560 052

Auditors
M/s. Deloitte Haskins & Sells
Chartered Accountants

Bankers
Canara Bank
Deutsche Bank

Legal Advisors
Dua Associates

Registrar & Share Transfer Agents
M/s. Karvy Computershare Pvt. Limited
TKN Complex No. 51/2 Vanivilas Road,
Opp. National College, Basavanagudi,
Bangalore - 560 004

www.reportjunction.com

SANSCO SERVICES - Annual Reports Library Services - www.sansco.net

NOTICE TO MEMBERS

Notice is hereby given that the 16th Annual General Meeting of KRONE Communications Limited will be held on Saturday, February 19, 2005 at 10.00 a.m at Hotel Atria, No. 1, Palace Road, Bangalore 560 001 to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the audited Profit and Loss Account for the year ended October 31, 2004 (period January 01, 2004 to October 31, 2004), the Balance Sheet as at that date and the Reports of the Directors and the Auditors thereon.
2. To declare a final dividend.
3. To appoint a Director in place of Mr. G. Subramaniam, who retires by rotation and, being eligible, offers himself for re-appointment.
4. To consider and, if thought fit, to pass with or without modification, the following resolution as an ordinary resolution, relating to the appointment of the Auditors of the Company. The retiring auditors, M/s. Deloitte Haskins & Sells, Chartered Accountants do not wish to offer themselves for re-appointment.

"RESOLVED that M/s S.R. Batliboi & Associates, Chartered Accountants be and are hereby appointed as the Auditors of the Company, to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting of the Company at such remuneration as may be decided by the Audit Committee of the Board of Directors of the Company in consultation with the Auditors".

SPECIAL BUSINESS

5. To consider and, if thought fit, to pass with or without modification, the following resolution as ordinary resolution:

"RESOLVED that Mr. Gokul Hemmady, who was appointed as an Additional Director and who holds office up to the date of this Annual General Meeting be and is hereby appointed as a Director of the Company."

By Order of the Board

R. Ganesh

Vice President - Finance
& Company Secretary

Place: Bangalore
Date : November 27, 2004

NOTES:

1. A Member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of himself/herself and the proxy need not be a Member of the Company.
2. Proxies in order to be effective must be received by the Company not less than 48 hours before the meeting.
3. An Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956, relating to Special Business is annexed hereto.
4. The Register of Members and the Share Transfer Books of the Company will remain closed from February 10, 2005 to February 19, 2005 (both days inclusive).
5. Dividend if declared, will be paid on or before the specified time limit to those Members whose name appear in the Register of Members of the Company as at the end of business hours on Wednesday, February 09, 2005. In respect of shares held in electronic form, dividend will be payable on the basis of beneficial ownership as per the details furnished by NSDL and CDSL for this purpose.
6. Since SEBI has made it mandatory for distributing dividends through Electronic Clearing Services (ECS), the Company will use the bank account details furnished by the Depositories for distributing the dividends to the shareholders holding shares in the electronic form. Members are requested to notify any change in their Bank account details to their Depository Participant immediately.
7. Members are requested to notify immediately any change in their registered address and the bank details to the Company's Share Transfer Agent (for shares held in physical form) and to Depository Participants (for shares held in electronic form).
8. Shareholders are requested to note that pursuant to the approval granted by the Securities and Exchange board of India, the license of the Registrar and Share Transfer Agents of the Company has been changed from Karvy Consultants Limited to Karvy Computershare Private Limited. Accordingly, Karvy Computershare

www.reportjunction.com

SANSCO SERVICES - Annual Reports Library Services - www.sansco.net

Private Limited, having their address at: 51/2, T.K.N Complex, Vanivilas Road, Opp. National College, Basavanagudi, Bangalore 560 004 are the Registrar and Transfer Agents of the Company.

9. Pursuant to the provisions of Section 205C of the Companies Act, 1956 the amount, which was lying unclaimed for a period of seven years, on the dividend, declared for the year 1996 has been transferred to Investor education and Protection Fund (IEPF) on July 24, 2004.

10. Pursuant to the provisions of Section 205A(5) of the Companies Act, 1956, as amended, and with the introduction of Section 205C by the Companies (Amendment) Act, 1999, the amount of dividends for the financial year ended 1997 and thereafter which remains unclaimed for a period of 7 years from the date of transfer to the Unpaid Dividend Account of the Company shall be transferred to the Investor education and Protection Fund established by the Central Government. Shareholders, who have not yet encashed, may make their claim to the Company/ Share Transfer Agent, without any delay. According to the provisions of the Companies Act, 1956 no claims can be made either against the said Fund or on the Company for the amounts of dividend so transferred to the said Fund.

11. Reappointment of Director

At the ensuing Annual General Meeting, Mr. G. Subramaniam retires by rotation and being eligible, offers himself for reappointment.

Mr. G. Subramaniam aged 47 years is a Chartered Accountant. He has also completed the Cost and Management Accounting qualifications from the Institute of Cost and Works Accountants of India and the Chartered Institute of Management Accountants, London respectively. He has over 21 years of experience in various fields of financial management while working with companies such as Larsen & Toubro limited, the RPG Group, TIPCO Industries, BPL Mobile Communications Limited and Star India Limited.

He is Chairman of the Audit Committee constituted by the Company.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173 OF THE COMPANIES ACT 1956

Item No. 5

Mr. Gokul Hemmady was named Chief Financial Officer for ADC Telecommunications Inc. in August 2003. As CFO, he is responsible for all ADC financial functions including treasury, control, audit, tax, and investor relations. Mr. Hemmady brings a wealth of relevant experience to this critical role after serving ADC as Corporate Controller and Treasurer. He joined ADC in 1997 as Assistant Treasurer, and has contributed significantly to ADC's success during his tenure with the company. Since 1997, he has assisted in driving ADC's financial strategy, including ADC's cash management through the recent downturn affecting the entire telecommunications industry. Mr. Hemmady also founded ADC Ventures, in which more than $70 million was invested in 15 start-up companies.

Prior to joining ADC, Mr. Hemmady served in several financial leadership positions. At the former US West (now Qwest), he served as Director of International Finance for US West International. He also held oversight responsibility for financial risk management as US West's Capital Markets Manager. Mr. Hemmady has also served in financial leadership roles at Citibank, S.B. Billimoria & Company, Industrial and Allied Chemicals, and Mahindra and Mahindra Ltd.

Mr. Hemmady is a member of the Institute of Chartered Accountants of India. He earned a Bachelor of Commerce degree from the University of Bombay and a Master's degree in Business Administration from the Yale School of Organization and Management.

Your Directors recommend his appointment as a Member of the board in the interest of the Company.

None of the Directors except Mr. Gokul Hemmady are concerned or interested in the resolution.

By Order of the Board

R. Ganesh

Vice President - Finance
& Company Secretary

Place: Bangalore
Date : November 27, 2004

www.reportjunction.com

SANSCO SERVICES - Annual Reports Library Services - www.sansco.net

MESSAGE FROM THE MANAGING DIRECTOR

Dear Shareholders,

The ten-month period from January to October 2004, witnessed a change in ownership with KRONE being acquired by ADC. This was formally announced on May 18th, 2004. Despite the dynamic and demanding market situation, our company was also able to declare an impressive 260% dividend during the last year.

From a business perspective, as you can see, the company has earned a profit (before tax) of Rs. 5.55 crores in 10 months (13.23% of gross revenue) compared to Rs. 5.62 crores (9.06% of gross revenue) for the preceding 12 month period. This improved profit-run rate was a result of change in product mixes in our Access*NET* business that we were able to strategically leverage. The other major reason that contributed to this improved profitability rate was the selective silver-plating outsourced process that we successfully established. We were also able to maintain a 50.3% market share in the switching MDF market despite a lower wire-line rollout by BSNL.

Last year I had mentioned the growing wireless segment and our efforts to position our limited range of products. We were able to realize wins in this area with some global OEM's exhibiting our ability to design and deliver Digital Distribution Frames. In terms of new geography, we added other SAARC countries to our sales jurisdiction, which contributed to more than Rs. 1 Crore in revenues.

The growth in various verticals viz, IT, ITeS, BPO and the BFSI led to continued growth in the Premis*NET* business despite intense price competition. Our company also successfully launched the 10 Gigabit UTP cabling solution called the 'CopperTen', which puts KRONE in a leadership position. Though the large scale adoption of a high-end cabling system like this is a year or two away in India, the launch of this product has secured the technology leadership position of our company. During the course of the year, we were successful in adding several large accounts and system integrators. As a reflection of our efforts to garner market share, in a User's Choice survey conducted by PC Quest in October 2004, the KRONE brand was rated as the 2nd best in the industry.

With the acquisition of KRONE by ADC - which has a strong base in Wireless, Wireline, and Connectivity technologies, clients are expecting that the combined organization is a trusted advisor and a strategic partner in these businesses. Pursuant to the global corporate objective, to be the leading infrastructure company providing comprehensive product and service solutions for service providers and enterprise networks, we will embark on the following initiatives locally:

Be aggressive in our outlook relating to all our go-to-market endeavors

Recast and strengthen our Distribution Network

Gain a competitive advantage by introducing the combined product lines as a total solution.

We recognize that people are our valuable assets in realizing the above objectives. The engagement of several regional and global experts in a matrix with our local staff, we believe will help us in our efforts to create a transnational work ethic and gradually transition into a role-based structure.

Our quest to recognize social responsibility was not left behind despite business pressures. The company employees conducted a 'vastradhaan' under the auspices of the company club 'Chethna' to an orphanage & old age home called "Belaku Shishu Nivasa".

I wish to acknowledge the support, dedication and hard work put in by all the employees, in helping us reach our performance goals for the past year. I am sure that we are all excited to participate in the challenges of the next year.

I would like to also record my appreciation for the contribution by all the Board Members in directing the management of this company.

In closing I would like to thank all our customers, business partners and stakeholders for their ongoing support and understanding.

As always I am sure that we will be able and willing to rise and make a success of the coming year.

Thank you!!

www.reportjunction.com

SANSCO SERVICES - Annual Reports Library Services - www.sansco.net

DIRECTORS' REPORT

To the Members,

The Board of Directors of your Company has pleasure in presenting the Sixteenth Annual Report on the business and operations, including the financial statements for the year-ended October 2004.

Financial Results

(Rs. in lakhs)

	For the period ended 31st Oct. 2004 (10 months)	For the Year ended 31st Dec. 2003 (12 months)
Gross Revenue (including Excise Duty)	**4197.53**	6205.17
Profit before depreciation	**647.40**	662.84
Less : Depreciation	**92.11**	100.70
Net Profit for the year before Taxation	**555.29**	562.14
Provision for Taxation	**196.70**	195.84
Profit after tax	**358.59**	366.30
Add : Profit brought forward from previous year	**3274.63**	3039.62
Profit available for Appropriation	**3633.22**	3405.92
Appropriations		
Interim Dividend	**1196.00**	-
Final Dividend (Proposed)	**46.00**	92.00
Aggregate Dividend	**1242.00**	92.00
Tax on Dividends	**162.55**	11.79
Transfer to General Reserve	**36.00**	27.50
Profit retained in Profit & Loss Account	**2192.67**	3274.63

A key event for the year was the acquisition of KRONE Group by ADC (www.adc.com). ADC was founded in 1935 and has served the communications industry for more than half a century. The company holds hundreds of patents and developed the original bantam jack technology still used in networks. Today, ADC is a world leader in providing global network infrastructure products and services that enable the profitable delivery of high-speed Internet, data, video, and voice services to consumers and businesses worldwide. With the addition of KRONE, ADC now provides global scale and broader products and services to better serve public network and enterprise customers anywhere in the world. With the addition of KRONE Group, ADC employs more than 7,700 professionals worldwide.

It was decided this year to change the financial year of the company from January-December to November-October. Hence, this years' result is for the period January-October to fall in line with the accounting period of ADC, who have acquired our parent - KRONE GmbH. Despite the shortened period of reporting, the profit before depreciation and profit after tax have been at a higher run rate as a result of improved margins in the product mix.

The Company continued to maintain its market share in the BSNL Switching MDF Segment. However, progress on the Reliance Infocomm front was sluggish as a result of timing shift in the progress in their wireline / broadband rollouts. We continue our growth in the Premis*NET* business largely contributed by several customer additions.

Dividend

The Board of Directors at its meeting held on April 23, 2004 declared and paid to the shareholders an interim dividend of Rs. 26 per share (260%) for the period ended October 31, 2004.

Your Directors recommend a final dividend of Rs. 1/- per share (10%) for the period ended October 31, 2004 subject to the approval by the shareholders at the forthcoming Annual General Meeting. The total dividend for the period ended October 31, 2004 amounts to Rs. 27 /- per share (270%).

Directors Responsibility Statement

Pursuant to Section 217 (2AA) of the Companies Act 1956, your Directors confirm that:

a. in the preparation of annual accounts the applicable accounting standards have been followed along with proper explanation relating to material departures;

b. accounting policies have been selected and applied 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 and of the profit or loss of the Company for that period;

c. proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

www.reportjunction.com

SANSCO SERVICES - Annual Reports Library Services - www.sansco.net

d. the annual accounts have been prepared on a going concern basis.

Strategy & Operations

Cost management and maximizing sales opportunities continue to be our strategy goals. Technology leadership with recently launched CopperTEN cabling products will be a key marketing strategy.

The acquisition of KRONE by ADC will provide opportunities to position some new sales in the wireline and wireless space. Acquiring the ability to extend the product range to existing customers will be our other strategy.

On the operations front, some improvements in process by way of semi automation and cost reduction have been achieved and these will be improved / made parameters to continue our manufacturing leadership.

Directors

We are glad to invite Mr. Gokul Hemmady to the Board, who became an Additional Director with effect from July 24, 2004.

We also welcome Mr. Michael Day, Alternate Director to Mr. Hemmady to the Board.

During the year, Mr. Philip Hewes ceased to be a Director with effect from July 24, 2004. Your Directors place on record their deep appreciation to the contributions made by Mr. Philip Hewes during his tenure as a Director of the Company.

Mr. G. Subramaniam retires by rotation and being eligible offers himself for re-appointment.

Particulars of Employees

Information as per Section 217(2A) of the Companies Act, 1956 read with the Rules framed there under forms a part of this Report. However, as per the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956, the Report and Accounts are being sent to all shareholders of the Company excluding the statement of particulars of employees under Section 217(2A) of the Act. Any shareholder interested in obtaining a copy of this statement may write to the Company Secretary at the Corporate Office or e-mail to: ganesh.r@krone.com

Auditors

M/s. Deloitte Haskins & Sells, Chartered Accountants retire as Auditors of the Company at the conclusion of this AGM and do not wish to offer themselves for re-appointment. The Board now recommends the appointment of M/s. S.R. Batliboi & Associates as the Auditors for the current year, subject to the approval of shareholders. The Board would like to recognize M/s. Deloitte Haskins & Sells, Chartered Accountants contribution to the Company.

Acknowledgements

The Directors thank the Company's Customers, vendors, bankers, shareholders, channel partners and Distributors for their continued support to the company. The Directors also express their gratitude to ADC and KEONICS for the support given to the Company.

The Directors, also wish to thank the management and all the staff for their contribution, support and continued co-operation during another challenging year.

For and on behalf of the Board of Directors

Robert Fitzgerald
Chairman

Place: Bangalore
Date : November 27, 2004

www.reportjunction.com

SANSCO SERVICES - Annual Reports Library Services - www.sansco.net

ANNEXURE TO DIRECTORS' REPORT

Particulars pursuant to Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1998:

A. Conservation of Energy

The Company continues to make process improvements to achieve a high level of overall machine efficiency. Initiatives on Environment, Health and Safety have also commenced during the year.

B. Technology

1. Research & Development

The Company has successfully localised the manufacturing of Cat6 Patch Cords strengthening the cost position for the local market. We have also participated in some group innovation initiatives that have necessitated the ability of our engineers in new product developments.

2. Foreign exchange earnings and outflow:

(i) Foreign Exchange Earnings (FOB)	- Rs.	60,160,671
(ii) Foreign Exchange outflow	- Rs	6,691,867

Report Junction.com

www.reportjunction.com

SANSCO SERVICES - Annual Reports Library Services - www.sansco.net

REPORT ON CORPORATE GOVERNANCE

1. COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE

The Company is committed to a system of good corporate governance, as it firmly believes that good corporate governance signifies good corporate practices aimed at increasing value for its shareholders, customers, employees, the government and all other stakeholders. Corporate governance of the company accords high importance for compliance with laws, rules and regulations at all times. The company's internal control measures ensure the reliability of financial statements.

2. BOARD OF DIRECTORS

The Board of Directors consists of seven directors comprising:

- One Executive Director (Managing Director)
- Six Non-Executive Directors including three independent directors.

Five Board Meetings were held during the period 2004 (period January 2004 to October 2004):

January 31, 2004, April 11, 2004, April 23, 2004, July 24, 2004 and October 29, 2004.

The details of the Directors on the Board of your Company for the year 2004 are given below:

Name	Category	Month & year of appointment	Designation	No of meetings held during the last year	No of meetings attended	No of memberships in Board of other Companies	Membership of Board Committees	Chairman of Board Committees	Whether attended last AGM
Robert Fitzgerald	Nominee Director	July 1999	Chairman	5	4	NIL	NIL	NIL	Yes
K. Bala Chandran	Executive Director	June 2000	Managing Director	5	5	1	3	1	Yes
G. Subramaniam	Independent Director	February 2002	Director	5	5	7	NIL	NIL	Yes
S. Rajagopalan	Independent Director	July 2002	Director	5	5	1	NIL	NIL	Yes
Philip Hewes	Nominee Director	January 2003*	Director	5	3	NIL	NIL	NIL	Yes
Arun Thiagarajan	Independent Director	October 2003	Director	5	5	6	5	1	Yes
H.C.Kishore Chandra	Nominee Director	January 2004	Director	5	3	1	NIL	NIL	No
Gokul Hemmady	Nominee Director	July 2004	Additional Director	5	1	1	NIL	NIL	No
Michael Day	Alternate Director	July 2004	Alternate Director	5	NIL	NIL	NIL	NIL	No

* Ceased to be a Director w.e.f. July 2004

www.reportjunction.com

SANSCO SERVICES - Annual Reports Library Services - www.sansco.net

3. AUDIT COMMITTEE

The role of the Audit Committee shall include the following:

- Oversight of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
- Recommending the appointment and removal of external auditor, fixation of audit fee and also approval for payment for any other services.
- Reviewing with management the annual financial statements before submission to the Board.
- Reviewing the internal audit system and scope of internal audit.

The Audit committee consists of the following Directors:

Mr. G. Subramaniam	:	Chairman
Mr. S. Rajagopalan	:	Member
Mr. Robert Fitzgerald	:	Member
Mr. K. Bala Chandran	:	Member
Mr. Arun Thiagarajan	:	Member

Mr. R. Ganesh, Vice President – Finance & Company Secretary acts as the Secretary to the Committee

During the year 2004 five audit committee meetings were held. Mr. G. Subramaniam, Mr. S. Rajagopalan, Mr. Arun Thiagarajan and Mr. K. Bala Chandran attended all the meetings and Mr. Robert Fitzgerald attended four meetings.

4. COMPENSATION COMMITTEE

The committee reviews and decides the overall remuneration of the employees of the company including the Managing Director.

The compensation committee consists of the following directors:

Mr. Robert Fitzgerald	:	Chairman
Mr. G. Subramaniam	:	Member
Mr. K. Bala Chandran	:	Member
Mr. Philip Hewes	:	Member *

*Mr. Philip Hewes ceased to be a Member of the Compensation Committee with effect from July 2004.

During the year 2004 two Compensation committee meetings were held. The Chairman and the other two members attended both the meetings.

Remuneration of whole-time Director:

Name	:	K. Bala Chandran
Designation	:	Managing Director
Salary	:	2,010,144
Value of perquisite	:	56,248
Total	:	2,066,392

Remuneration of Non-whole-time Directors for the period ended 31 October 2004

Mr. G. Subramaniam	:	Rs. 125,000
Mr. S. Rajagopalan	:	Rs. 125,000
Mr. Arun Thiagarajan	:	Rs. 125,000

5. SHAREHOLDERS / INVESTORS GRIEVANCE COMMITTEE

The committee monitors and redresses Shareholder and Investors complaints.

The Shareholders/Investors Grievance Committee consists of the following Directors:

Mr. S. Rajagopalan	:	Chairman
Mr. Robert Fitzgerald	:	Member
Mr. K. Bala Chandran	:	Member

During the period, four Shareholders/Investors Grievance Committee meetings were held. The Chairman and Mr. K. Bala Chandran attended all the four meetings and Mr. Robert Fitzgerald attended three meetings.

Details of number of Shareholders complaints received, number not solved and number of pending share transfers is provided in the Shareholder information section of this report.

COMPLIANCE OFFICER

Name and designation of compliance officer is Mr. R. Ganesh, Vice President - Finance and Company Secretary.

www.reportjunction.com