

Seventeenth Annual Report 2005



KRONE Communications Limited



CONTENTS

Notice	2
Directors' Report	4
Annexure to Directors' Report	5
Management Discussion and Analysis	6
Report on Corporate Governance	8
Auditors' Report	11
Financial Statements	14
Cash Flow Statement	16
Balance Sheet Abstract	38
Shareholder 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. T.R. Kulkarni	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

Auditors

S. R. Batliboi & Associates
Chartered Accountants

Bankers

Canara Bank
Deutsche Bank

Legal Advisors

Dua Associates

Registrar & Share Transfer Agents

M/s. Karvy Computershare Private Limited
Karvy House, 46 Avenue 4, Street No.1
Banjara Hills, Hyderabad 500 034
Tel: 040-23312454/23320251
Fax: 040-23311968
E-mail: mailmanager@karvy.com

NOTICE TO MEMBERS

Notice is hereby given that the 17th Annual General Meeting of KRONE Communications Limited will be held on Saturday, February 25, 2006 at 10.00 a.m at Hotel Chancery, No. 10/6, Lavelle 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, 2005, the Balance Sheet as at that date and the Reports of the Directors and the Auditors thereon.
2. To appoint a Director in place of Mr. Arun Thiagarajan, who retires by rotation and, being eligible, offers himself for re-appointment.
3. To declare dividend.
4. To appoint Auditors and fix their remuneration.
The retiring auditors M/s S.R. Batliboi & Associates, Chartered Accountants, being eligible, offer themselves for re-appointment.

SPECIAL BUSINESS

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

“RESOLVED that pursuant to Sections 198,269,309,310 read with Schedule XIII and all other applicable provisions of the Companies Act, 1956 (including any modification or re-enactment thereof, for the time being in force) the Company hereby accords its consent and approval to the re-appointment of Mr. K. Bala Chandran, as Managing Director of the Company for a period of five years from October 1, 2005 upon such terms and conditions as set out in the agreement dated October 06, 2005 between the Company and Mr. K. Bala Chandran, which agreement is hereby specifically sanctioned with powers to the Board of Directors to alter and vary the terms and conditions of the said appointment and/or agreement so as not to exceed the limits specified in Schedule XIII to the Companies Act, 1956 or any amendments thereto that the Central Government may make from time to time.

FURTHER RESOLVED THAT THE Board of Directors be and is hereby authorized to take such

steps as may be necessary and desirable to give effect the foregoing Resolution.”

By Order of the Board

R. Ganesh

Vice President - Finance & Company Secretary

Place : Bangalore

Date : December 02,2005

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 the Special Business to be transacted at the meeting is annexed hereto.
4. The Register of Members and the Share Transfer Books of the Company will remain closed from February 15, 2006 to February 25, 2006 (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 Tuesday, February 14,2006. 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 mandate details (form enclosed) to the Company's Share Transfer Agent (for shares held in physical form) and to Depository Participants (for shares held in electronic form).

8. 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 1997 has been transferred to Investor education and Protection Fund (IEPF) on August 18, 2005.

9. Pursuant to the provisions of Section 205 A (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 1998 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.

10. Reappointment of Director

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

Mr. Arun Thiagarajan completed a Masters degree in Engineering from Royal Institute of Technology, Stockholm, Sweden in 1968, a Graduation degree in Business Administration & Information Systems from Uppsala University, Sweden and an Advanced Management Program of the Harvard Business School. He has worked with Wipro and Hewlett-Packard India Private Limited earlier. He is presently an advisor and / or a member of the board at ING Vyasa Bank Limited, PSI Data Systems Limited, Alstom Projects Limited and WeP Peripherals Limited.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT 1956

Item No.5

Mr. K. Bala Chandran's term of appointment as Managing Director was up to 30th September, 2005 and the Board of Directors have at their meeting held on August 30, 2005 reappointed him (subject to the approval of shareholders) as Managing Director of the Company for a further period of five years with effect from October 1, 2005. The terms and remuneration as approved by the Board are as set out below:

A. Salary:
Rs.3,587,221/- per annum with the authority granted

to the Board of Directors to grant such increases as may be decided by the Board from time to time.

B. Variable Performance Bonus:

not exceeding 45% of the Annual Salary based on certain performance criteria to be laid down by the Board of Directors of the Company.

C. Perquisites:

In addition to the above, he will be entitled to the following benefits and facilities as per policy / rules of the Company in force from time to time.

1. Company maintained car with driver
2. Telephone at residence
3. Payment of gratuity
4. Reimbursement of annual club membership / subscription fees subject to a limit of Rs. 45,000/- per annum.
5. Annual furnishing allowance subject to a limit of Rs. 25,000/- per annum.
6. Hospitalisation and accident insurance

D. Subject to superintendence, control and directions of the Board, he shall perform such duties and functions as would be commensurate with his position as the Managing Director of the Company and as may be delegated to him by the Board from time to time.

E. The Company or he shall be entitled to terminate this appointment by giving six months notice in writing.

F. In the event of loss or inadequacy of profits, in any financial year, of the Company during the tenure of service of Mr. K. Balachandran, the Company will pay the above remuneration not exceeding the limits as specified in Part II of Schedule XIII to the Companies Act, 1956, (including any statutory modification(s) or re-enactment thereof for the time being in force).

The terms and conditions as stated in this Notice and Explanatory Statement may be treated as an abstract of the terms of contract of re-appointment as required to be disclosed under Section 302 of the Companies Act, 1956.

None of the Directors except Mr. K. Bala Chandran are concerned or interested in the resolution.

The Board commends the resolution for approval of the shareholders.

By Order of the Board

R. GANESH

Vice President - Finance & Company Secretary

Place: Bangalore

Date : December 02, 2005

DIRECTORS' REPORT

To the Members,

The Board of Directors of your Company has pleasure in presenting the Seventeenth Annual Report on the business and operations, including the financial statements for the year-ended October 2005.

Financial Results

(Rs. in lakhs)

	For the Year ended 31st October 2005 (12 months)	For the period ended 31st October 2004 (10 months)
Gross Revenue (including Excise Duty)	8315.53	4160.39
Profit before depreciation	1222.65	647.40
Less: Depreciation	116.85	92.11
Net Profit for the year before Taxation	1105.80	555.29
Provision for Taxation	468.20	196.70
Profit after tax	637.60	358.59
Add: Profit brought forward from previous year	2192.67	3274.63
Profit available for Appropriation	2830.27	3633.22
Appropriations		
Interim Dividend	-	1196.00
Final Dividend (Proposed)	161.00	46.00
Aggregate Dividend	161.00	1242.00
Tax on Dividends	22.58	162.55
Transfer to General Reserve	63.76	36.00
Profit retained in Profit & Loss Account	2582.93	2192.67

Leveraging its position in the copper connectivity business, the company continued to serve the private telecom providers. Of specific mention is the supply of Multipair Cables to Reliance Infocomm serving the Metro Ethernet program. We do recognize that this largely is an opportunistic sale, which may not occur every year.

On the Enterprise market, the company's share continued to grow and positioning of our solutions with TCS largely contributed to this growth during the year. Recognising that the company's distribution set up had to be stronger, a national distribution arrangement was also finalized.

Dividend

Your Directors recommend a dividend of 35% for the year ended October 2005 subject to the approval by the shareholders at the forthcoming Annual General Meeting.

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

Strategy & Operations

Revenue growth, cost, leadership and innovation continued to be the key strategic elements for the Company's survival and growth.

The Connectivity solutions pertaining to copper are strongly dependent on wireline growth, which is currently showing signs of remaining static.

In terms of operation the Company continued to revisit manufacturing processes to improve efficiency and deliver a better-cost position for its products.

Directors

During the year, Mr. H.C. Kishore Chandra ceased to be a Director with effect from February 19, 2005.

We welcome Mr. T.R. Kulkarni, the nominee Director from KEONICS to the Board. Mr. Kulkarni joined the Board with effect from February 19, 2005.



Corporate Governance

As required under clause 49 of the Listing Agreement, a report on Corporate Governance and Auditor's Certificate confirming compliance thereof are made a part of this Annual Report.

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@adckrone.com

Auditors

The Auditors - M/s. S.R. Batliboi & Co., retire at the conclusion of the ensuing Annual General Meeting and offer themselves for re-appointment.

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 through the year.

For and on behalf of the Board of Directors

Robert Fitzgerald
Chairman

Place : Bangalore

Date : December 02,2005

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

The Company localized some of the patch panel products used in the cabling to improve its cost

situation. The design and project engineering teams engaged successfully and were able to reengineer them for local requirements.

1. Research & Development

The Company has successfully localized the manufacturing of Cat6 Patch Cords strengthening the cost position for the local market.

2. Foreign exchange earnings and outflow:

(i) Foreign Exchange Earnings (FOB)	- Rs. 69,325,431
(ii) Foreign Exchange outflow	- Rs. 5,928,686



MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY STRUCTURE AND DEVELOPMENTS

There has been tremendous growth in the Telecommunications sector in 2004-05, with the Service Providers aggressively rolling out their networks. The growth engine for the Telecommunications revolution has been mobile communications with an average of almost 2.5 million subscribers added every month. During the first seven months of the current fiscal about 15.73 Mio were added. In contrast in the fixed line segment a total of 0.34 Mio subscribers were added in October 2005 and these are predominantly wireless in the local loop. The gross subscriber base consisting of fixed line as well as mobile has become 116 Mio at the end of October 2005. Therefore the teledensity of the country is 11.6 % as of October 2005.

Broadband has also shown extraordinary growth rates since the start of 2005 and has grown from 1.85 lakhs to 6.9 lakh connections. As per the broadband policy the target for December 2005 was 3 Mio. connections. Therefore there is a significant growth expected in this market as well.

Networking market continued to show growth and 2004-05 was significant for the structured cabling industry with lot of new activities. Copper cabling got a new lease of life with 10Gigabit Ethernet over UTP (Unshielded Twisted Pair) and new technologies like Power Over Ethernet gaining market acceptance.

Overall market growth in 2004-05 is estimated to be 25% over previous year. This strong growth was contributed mainly by industry verticals like IT / ITES, BFSI, government and telecom. India is a traditional UTP market and Category 6 cabling was the dominant standard with an estimated 48% share of the market. Category 5e is slowly giving way to the newer standards and Fibre cabling also accounted for 14% of the market.

REVIEW OF OPERATING PERFORMANCE

The financial statements have been prepared in compliance with the requirement of the Companies Act, 1956 and Generally Accepted Accounting Principles (GAAP) in India. The management of KRONE accepts responsibility for the integrity and objectivity of these financial statements and the basis for the various estimates and judgments used in

preparing the financial statements.

The financial results for the year ended October 31, 2005 is for twelve months as compared to ten months of previous year and hence not comparable. Some of the key performance indicators are given below:

(Rs. in lakhs)		
Particulars	2005 (12 months)	2004 (10 months)
Gross Revenue	8315.53	4160.39
Profit before Depreciation And Tax	1222.65	647.40
Depreciation	116.85	92.11
Profit before tax	1105.80	555.29
Ratio of Profit before Tax to Revenue in %	13.29	13.33
Profit After Tax	637.60	358.59
Capital Expenditure	239.62	43.77
Capital expenditure/ Sales	2.96	1.09
Total Assets	5504.96	4303.32
Earning per share	13.86	7.80
Inventory Turnover Ratio	8.70	5.00
Debtors Turnover Ratio	4.41	3.13

During the year approximately 75% of the Company's total sales came from CARRIER (Telecommunication) and 25% from ENTERPRISE (IT-Networking). Overall product sales inclusive of excise duty was RS.8103 lakhs for the year 2005. Profit before taxation in percentage term remained more or less at the same level as that of last year 13.29% as compared to 13.33% of last year.

OPPORTUNITIES AND THREATS

The Indian telecommunication scenario is certainly buoyant with robust overall growth but predominantly arising out of wireless growth. All major service providers in the incumbent and competitive carrier market are intending to roll out large subscriber bases relating to CDMA and GSM technology. The company



does not possess any products related to the wireless technology and therefore, this could be a threat to our future growth.

Growth curve for industry verticals like IT/ITES, BFSI, Government and Telecom shows an excellent market growth for the structured cabling industry. 10G over UTP standard is expected to be ratified by EIA/TIA by mid 2006 and this will accelerate the adoption of 10G UTP cabling.

With more and more new players entering the market, price pressure is increasing though the volume growth looks exciting. Competition from the unorganized sector also is becoming more visible in the lower end market.

Adoption of our brand by several overseas companies, who are beginning to establish bases here calls for aggressive marketing and market promotion related expenditures.

RISKS AND CONCERNS

Telecommunications is a capital intensive business, and the ongoing reduction in tariff's by the service providers do impact vendors like us, as we are constantly asked to offer better prices for our products. Therefore though we see an increase in production volume year on year we do experience price erosion for our products.

With the removal of trade barriers there is market penetration of low cost products and this in turn also leads to pressure to maintain price and market share.

LACK OF OWNED TECHNOLOGY

The Company primarily makes and sells technology developed and owned by Companies affiliated to it. The right of the Company to continue to make and sell products is therefore contingent upon these affiliated companies electing to utilize the company as the manufacturing or sales channel.

INTERNAL CONTROL SYSTEM AND THEIR ADEQUACY

The company has adequate internal control systems for various business processes, financial reporting and compliance with applicable laws and regulations.

The internal audit function is looked after by an independent firm of Chartered Accountants who conducts regular reviews and checks on various areas

of operations of the Company. The audit committee of the Board of Directors finalizes the annual internal audit plan. The summary of the Internal Audit observations is presented to the Audit Committee and corrective actions are taken to ensure effective operation of all departments in the company.

MANUFACTURING OPERATIONS

Some of the products, which were hitherto being imported such as Cat6 Patch Cord and Cat6 Patch Panel, are now being manufactured in-house resulting in cost reduction. Formal purchase policy clearly defining authorities and responsibilities is now in place.

Integrated supply chain management (SCM) approach resulted in better negotiation with the customers. Due to this the steep increase in copper and steel prices did not result in cost increase of inputs.

Series II module production reached an annual level of 2.40 mio pieces, being the highest in the history of the Company.

HUMAN RESOURCE DEVELOPMENT

As at October 31, 2005 the Company had 110 employees. The Company provides a congenial working environment for the employees enabling high levels of productivity. All the employees have played a significant role and has this year enabled the Company to post highest sales since the incorporation of the Company.

IT

During the year the network was upgraded to improve the response time for the users thereby increasing the efficiency of the Company's operations.

Cautionary Statement:

Statements in this Management Discussion and Analysis describing the company's objectives, projections, estimates and expectations may constitute "forward looking statements" within the meaning of applicable laws and regulations and which the management believes are true to the best of its knowledge at the time of preparation. Actual results might differ materially from those either expressed or implied and hence the Company and the management shall not be held liable for any loss, which may arise as a result of any action taken on the basis of the information contained herein.



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.

Four Board Meetings were held during the period November 27, 2004, February 19, 2005, May 27, 2005, August 30, 2005.

The details of the Directors on the Board of your Company for the year 2005 are given below:

Name	Category	Month & Year of Appointment	Designation	No. of meetings held during the last year	No. of meeting attended	Number 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	4	3	1	NIL	NIL	Yes
K. Bala Chandran*	Executive Director	June 2000	Managing Director	4	4	2	3	1	Yes
G. Subramaniam	Independent Director	February 2002	Director	4	3	7	NIL	NIL	Yes
S. Rajagopalan	Independent Director	July 2002	Director	4	4	0	NIL	NIL	Yes
Arun Thiagarajan	Independent Director	October 2003	Director	4	3	9	7	1	Yes
H.C.Kishore Chandra**	Nominee Director	January 2004	Director	4	NIL	1	NIL	NIL	No
T.R. Kulkarni***	Nominee Director	February 2005	Director	4	2	1	1	NIL	No
Gokul Hemmady	Nominee Director	July 2004	Additional Director	4	NIL	NIL	NIL	NIL	No
Michael Day	Alternate Director	July 2004	Alternate Director	4	NIL	1	NIL	NIL	No

* Re-appointed as Managing Director with effect from 01st October 2005 pending approval of the shareholders at the ensuing Annual General Meeting.

** Ceased to be a Director w.e.f. February 2005

*** Appointed as a Director w.e.f February 2005



3. AUDIT COMMITTEE

The role of the Audit Committee includes the following:

- Oversight of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statements are fairly stated.
- 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 2005 four-audit committee meetings were held. In one audit committee meeting the quorum included only one independent director. All the other three meetings of the audit committee were attended by atleast two independent directors. The requirements on periodicity and time gap between two meetings, were in accordance with the requirements of clause 49 of the listing agreement.

4. COMPENSATION COMMITTEE

The committee reviews and decides the overall remuneration of the key employees of the Company and the Managing Director.

The compensation committee consists of the following directors:

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

During the year 2005 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	: Rs. 3,587,221
Bonus	: Rs. 1,551,869
Value of perquisite	: Rs. 32,474
Total	: Rs. 5,171,564

Remuneration of Non-whole-time Directors for the year ended 31 October 2005

G Subramaniam	: Rs. 150,000
S Rajagopalan	: Rs. 150,000
Arun Thiagarajan	: Rs. 150,000

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 year, 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.

COMPLIANCE OFFICER

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

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.

6. GENERAL BODY MEETINGS

Location and time of the last three Annual General Meetings;

Year	Date	Venue	Time
2002	April 28, 2003	Hotel Atria, No.1, Palace Road, Bangalore	03.00 p.m
2003	April 23, 2004	Hotel Atria, No.1, Palace Road, Bangalore	10.00 a.m
2004	February 19, 2005	Hotel Atria, No.1, Palace Road, Bangalore	10.00 a.m