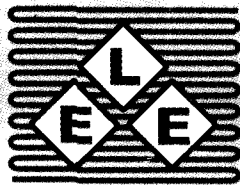


19th Annual Report 2005 - 2006

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**Lloyd Electric
&
Engineering Limited**



LLOYDELECTRIC & ENGINEERING LIMITED

CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. Brij Raj Punj

(Chairman-cum-Managing Director)

Mr. K.Lall

Mr. Sandeep Sethi

Mr. S.K. Sharma

Mr. Sanjay Behari

(IFCI Nominee)

COMPANY SECRETARY

Ms. Anita Kakar

STATUTORY AUDITOR

M/s. Suresh C. Mathur & Co.

Chartered Accountant, New Delhi

SHARE TRANSFER AGENTS

(both for physical as well as electronic shares)

Skyline Financial Services Private Limited

123, Vinobha Puri, Lajpat Nagar-II, New Delhi-110 001

REGISTERED OFFICE

A-146, (B&C), RIICO Industrial Area

Bhiwadi, Distt. Alwar, Rajasthan-301 019

Phone: 01493-220724, 220543, 221348 Fax: 01493-220543

CORPORATE OFFICE

B-10/1, Okhla Industrial Area

Phase-II, New Delhi-110 020

Phone: 41609457, 58, 59 Fax: 41609909

BANKERS

State Bank of Bikaner & Jaipur

State Bank of India

MANUFACTURING FACILITIES

1. A – 146, (B & C),
RIICO Industrial Area,
Bhiwadi, Distt. Alwar,
Rajasthan – 301 019
2. Plot No. 16 & 17 Industrial Area,
Kala-Amb, Trilokpur Road,
Sirmour, Nahan
Himachal Pradesh
3. C-1/1, Industrial Area,
Selakui, Dehradun,
Uttanchal



LLOYDELECTRIC & ENGINEERING LIMITED

Contents

	Page Nos.
Notice	3
Director's Report	5
Management Discussion and Analysis Report	8
Report on Corporate Governance	9
Auditors' Certificate on Corporate Governance	15
Auditors' Report	16
Balance Sheet	19
Profit & Loss Account	20
Schedules forming part of the Account	21
Cash Flow Statement	33
Balance Sheet Abstract	34



LLOYD ELECTRIC & ENGINEERING LIMITED

NOTICE

Notice is hereby given that **Nineteenth Annual General Meeting** of Lloyd Electric & Engineering Limited will be held on Saturday, the 30th Day of September 2006 at 9:00 A.M. at A-146 (B & C), RIICO Industrial Area, Bhiwadi, Distt. Alwar, Rajasthan for transacting the following business(s):

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as on March 31, 2006 and the Profit and Loss Account for the year ended on that date and Directors' and Auditors' Report thereon.
2. To declare final dividend on Equity Shares.
3. To appoint a Director in place of Shri Krishan Lall, who retires by rotation and being eligible, offers himself for reappointment.
4. To consider and if thought fit, to pass with or without modification(s), the following Resolution as an **"Ordinary Resolution"**.

"RESOLVED THAT M/s Suresh C. Mathur & Co., Chartered Accountants, be and are hereby re-appointed as Statutory Auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company.

FURTHER RESOLVED THAT the Statutory Auditors be paid such remuneration and travelling and other out-of-pocket expenses incurred by them for the purpose of the audit, as may be decided by the Board of Directors, who be and is hereby authorised to fix the same."

By order of the Board
For **LLOYD ELECTRIC & ENGINEERING LTD.**

Place : New Delhi

Date : 29th August, 2006

ANITA KAKAR
COMPANY SECRETARY

NOTES

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on his/her behalf. A proxy need not be a member of the Company. Proxies in order to be effective should be duly stamped, completed and signed and must reach to the company at A -146, (B&C), RIICO Industrial Area, Bhiwadi, Distt. Alwar, Rajasthan not less than forty-eight hours before the meeting.
2. The Register of Members and Share Transfer Books of the Company will remain closed from **28th September 2006 to 30th September 2006 (both days inclusive)**.
3. The Final Dividend of 10% as recommended by the Board of Directors of the Company is in addition to the interim Dividend of 10% paid by the Company in February, 2006. If the said final Dividend is declared at the meeting, the same will be payable to the Members/Beneficial owners whose names appear in the Company's Register of Members/Records of Depositories as on Book Closure Date i.e. 30th September, 2006.
4. Pursuant to the provisions of the Companies Act, 1956 the amount of dividend commencing from the financial year ended March 31, 1996, onwards remaining unpaid or unclaimed for a period of seven years have been transferred to the "Investor Education and Protection Fund" (the "Fund") set up by the Government of India. Hence in respect of the same, no claim lies against the Company.
5. Members desiring any information as regards the accounts are requested to write to the Company at least seven days before the meeting so as to enable the management to keep the information ready.
6. Members holding shares in physical form are requested to intimate the following directly to the Company's Registrar and Share Transfer Agents, Skyline Financial Services Private Limited, 123, Vinobapuri, Lajpat Nagar - II, New Delhi 110 024.

**LLOYDELECTRIC & ENGINEERING LIMITED**

- (a) Bank Mandate with full particulars for remittance of dividend directly into their bank accounts, if declared at the meeting.
 - (b) Changes if any in their address at an early date.
 - (c) Apply for consolidation of folios, if shareholdings are under multiple folios.
 - (d) Send their share certificates for consolidation.
 - (e) Request for nomination forms for making nomination as per amended provisions of the Companies Act, 1956.
7. Members are requested to quote ledger folio numbers in all their correspondence.
 8. Members holding shares in dematerialized (electronic form) are requested to intimate any change in their address, bank mandate etc., directly to their respective depository participants.
 9. Member(s) / Proxy(s) desirous of attending the meeting are requested to bring the attendance slip and fill-in and sign the same and deliver it at the entrance of the Meeting Hall.
 10. Members attending the Annual General Meeting are requested to bring along with them their copies of the Annual Reports as the same will not be distributed at the meeting.
 11. All the documents as mentioned in the notice are available for inspection at the registered office of the Company during working hours.

By order of the Board
For **LLOYD ELECTRIC & ENGINEERING LTD.**

Place : New Delhi
Date : 29th August, 2006

ANITA KAKAR
COMPANY SECRETARY





LLOYDELECTRIC & ENGINEERING LIMITED

DIRECTORS' REPORT

Dear Shareholders,

Your Directors have pleasure in presenting the Nineteenth Annual Report of the Company along with the Audited Accounts for the year ended 31st March 2006, reporting a strong performance driven by your Company's strategy of optimizing value contribution through integration & creating long term competitive businesses:

FINANCIAL RESULTS

	RUPEES IN MILLION	
	Current year (2005-2006)	Previous year (2004-2005)
Total Income	3480.27	2401.22
Gross Profit before Depreciation	377.06	177.21
Less: Depreciation	58.84	46.92
Provision for Taxation	27.50	15.10
Profit after Tax	290.73	115.19
Deferred Tax for the year	8.55	4.26
Profit After Deferred Tax	282.18	110.93

PERFORMANCE HIGHLIGHTS

Your Company has reported a robust performance during the year 2005-06, reaffirming the confidence reposed by the stakeholders in the company. The Performance of the Company is highlighted hereunder:

- The gross profit before depreciation rose from Rs. 177.21 million in the previous year to Rs. 377.06 million during the year under review, thereby registering a robust growth.
- The net profit after deferred tax provision rose from Rs. 110.93 million in the previous year to Rs. 282.18 million during the year under review.

BUSINESS OPERATIONS

The year 2005-06 continued to be good year when your Company achieved several new records and milestones riding on the overall economy and buoyancy in the market. During the year, your company further strengthens its leadership in India and abroad. During the year the Company had increased its capacity for manufacturing of air conditioners from 50,000 units to 200,000 units in its manufacturing unit at Kala-Amb (Himachal Pradesh).

Your Company had recently signed a Memorandum of Understanding (MOU) with Air International Transit Pty Limited (AITPL), an Australian based Company, for the designing, manufacturing and supplying of AC package units to Metro Rail Corporation in India. The Company, namely Air International Transit is the original equipment supplier of AC package units to Rotem who supplies coaches to Delhi Metro Rail Corporation (DMRC).

Your Company had been gearing up to manufacture these air conditioners under the technical know how of AITPL.

Your Company had recently tied up with a Korean based company *Hanyung Alcobis Co. Ltd.*, for the manufacture of Roll Bond and Frost Free coils for Refrigerators produced by Hanyung Alcobis Co. Ltd.

Hanyung Alcobis is a well known producer of heat exchangers with highest technology and is ranked in the top most Companies of the world. Your Company is exploring the possibilities of exporting to Middle East & Europe.

The Company stands to gain from such kind of process integration which would result in the overall profitability and growth of the Company in the coming years.

Setting of Plant in Dehradun

In order to keep up with the technological advancement in our industry, your Company had recently set-up a new manufacturing unit in Dehradun (Uttaranchal). The Company intends to manufacture room air-conditioners, components of air-conditioners and electronic goods.

DIVIDEND

Your Company had paid an interim dividend of 10% in February 2006.

Taking into account the growth in Company's profitability, your directors are pleased to recommend a final dividend of 10%. Thus the total dividend for the financial year 2005-2006 shall be 20%. The final dividend if approved at the forthcoming Annual General Meeting to be held on 30th September, 2006 will be paid to those shareholders whose names appear(s) in the Register of Members as on book closure date at the closing hours of business on 30th September, 2006. In respect of the shares held in electronic form, the dividend will be paid on the basis of beneficial ownership furnished by Depositories viz., NSDL/CDSL for this purpose.

The Register of Members and Share Transfer Books of the Company will remain closed from 28th September 2006 to 30th September 2006 (both days inclusive).



LLOYDELECTRIC & ENGINEERING LIMITED

ISSUE OF CONVERTIBLE EQUITY WARRANTS

During the year, the Company issued 40,00,000 share warrants on preferential basis to promoter/ non promoters. These share warrants have been issued with a convertible option to be exercised within a period of 18 months from the date of allotment. i.e. 13th August 2005. Each warrant issued can be converted into one equity share of the company of nominal value of Rs. 10/- each at a price of Rs. 125/- which includes a premium of Rs. 115/- per share calculated in accordance with SEBI (Disclosure and Investor Protection) Guidelines, 2000.

The objective of this preferential issue is to meet fund requirements for expansion of its activities, finance additional working capital requirements and to meet general corporate purpose.

ISSUE OF GLOBAL DEPOSITORY RECEIPTS (GDRs)

During the year under review, the Company issued 46,00,000 GDRs (including 15% green shoe option) to the foreign investors and raised USD 28.75 Millions to fund its expansion activities, working capital and for general corporate purpose. The GDRs were issued at USD 6.25 per GDR each representing 2 underlying equity shares of the Company. The GDRs are listed and traded at London Stock Exchange. The trading of GDRs commenced on London Stock Exchange on 13th October 2005. The Bank of New York acts as the Depository and ICICI Bank as the domestic custodian in respect of GDRs issued.

Details of utilization of proceeds of GDRs issue upto 31st March, 2006 are as follows:

Amount Raised from GDR issue	(USD 28.75 Millions)
	INR in Millions
Amount Raised	1290.59
Less: Issue Expenses	41.73
Less: Expenses incurred towards funding additional working Capital requirement and general corporate purpose	267.86
Amount Parked in Fixed Deposits Abroad	981.00

DEPOSITS

Your Company has not accepted any Fixed deposits as per section 58A of the Companies Act, 1956 and Rules made thereunder.

TRANSFER TO INVESTOR EDUCATION & PROTECTION FUND

Pursuant to provisions of Section 205A(5) of the Companies Act, 1956, the unclaimed and unpaid dividend for a period of seven years has been transferred to the Investor Education & Protection Fund.

CORPORATE GOVERNANCE

In order to enhance customer satisfaction and stakeholder value, Lloyd continues to benchmark its corporate governance practices with the best in the world in line with international norms.

Your company had complied with all the requirements relating to Corporate Governance as stipulated in Clause 49 of the Listing Agreement of the Stock Exchanges. For the financial year ended March 31, 2006, the Compliance Report is provided in the Corporate Governance Report attached to the Annual Report. The auditor's certificate on compliance to the conditions of Corporate Governance stipulated in Clause 49 of the Listing Agreement of the Stock Exchanges forms a part of this Annual Report.

DIRECTORS

Pursuant to the provisions of the Companies Act, 1956 and the Articles of Association of the Company, Shri K. Lall, Director of the Company, is liable to retire by rotation at the forthcoming Annual General Meeting and being eligible, offers himself for re-appointment.

Mr. Lall is a fellow member of the Institute of Company Secretaries of India and of the Institute of Cost and Works Accountants of India. Mr. Lall possess over thirty five years of experience in financial management and planning, institutional finance for new projects, modernisation of existing plants, working capital management, legal and commercial laws.

Mr. Lall does not hold any shares in the Company.

INDUSTRIAL RELATIONS

The Company has always maintained healthy, cordial and harmonious industrial relations at all levels. Despite severe competition, the enthusiasm and unstinting efforts of the employees have enabled the Company to remain at the forefront of the industry.

DIRECTORS' RESPONSIBILITY STATEMENT

As required under Section 217 (2AA) of the Companies Act, 1956, the Directors of the Company hereby state and confirm that:

- in preparation of the annual accounts of the year under review, the applicable accounting standards were followed.
- the directors had selected such accounting policies and applied them 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.
- the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.
- that the directors had prepared the annual accounts on a going concern basis.



LLOYDELECTRIC & ENGINEERING LIMITED

AUDITORS

M/s Suresh C. Mathur & Co., Chartered Accountants, Statutory Auditors of the Company retire at the conclusion of ensuing Annual General Meeting and being eligible, offer themselves for re-appointment. Certificate from the Auditor has been received to the effect that their re-appointment, if made, would be within the limits prescribed under Section 224 (1B) of the Companies Act, 1956.

AUDITORS' REPORT

The observations of the Auditors as contained in the Auditor's Report read with Notes on Accounts are self explanatory and do not call for any further clarification.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO:

Information as per section 217(1)(e) of the Companies Act, 1956 read with Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is given in Annexure A forming part of this report.

PARTICULARS OF EMPLOYEES

Information as per section 217(2A) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars of Employees) Rules, 1975 and forming part of the Directors' Report is given as under:

- A. Employed for the whole year and were in receipt of remuneration which was not less than Rs. 24,00,000/- p.a. in aggregate,
NIL
- B. Employed for part of the year and were in receipt of remuneration which was not less than Rs. 2,00,000/- p.m. in aggregate,
NIL

LISTING OF SECURITIES

At present the equity shares of the company are listed at Bombay Stock Exchange Limited and National Stock Exchange of India Limited. The Company's GDRs are listed on London Stock Exchange.

APPRECIATION

Your Directors place on record their appreciation of the assistance and guidance provided by the various Ministries, the Central and State Governments and all the Regulatory Bodies. Your Directors also thank the Financial Institutions and Banks for their continued support.

Your Directors also acknowledge the commitment and contribution of your Company's employees.

Your involvement as shareholders is greatly valued. Your Directors look forward to your continuing support.

For and on behalf of the Board

Place: New Delhi
Dated: August 29, 2006

Brij Raj Punj
Chairman-cum- Managing Director

ANNEXURE TO DIRECTORS' REPORT

Information pursuant to Section 217(1)(e) of the Companies Act, 1956 relating to the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 are as follows :

A. CONSERVATION OF ENERGY

Energy Conservation is an important thrust area of the management and is being continuously monitored. Improvement in energy efficiency is a continuous process at Lloyd and conservation of energy is given a high priority in all plants and offices. Monitoring and Operating air conditioner plants, water pumps and other accessories, optimum utilization of Distribution and Test Bed Transformers, installation of load managers for monitoring energy consumption etc are some of the important measures which are being adopted on a regular basis.

B. TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

Imported technologies have been successfully absorbed resulting in improved quality, reduction in rejections and better value to its customers. The Company is monitoring the process of technology adoption on a regular basis. Infact it is an ongoing process and the Company endeavors to adopt innovative measures for technology absorption and adaptation in the years to come.

EXPENDITURE INCURRED FOR REASERCH AND DEVELOPMENT

Capital Expenditure	:	Taken as Fixed Assets and depreciation is provided accordingly.
Revenue Expenditure	:	Charged out as expenses through the respective heads of accounts.

C. FOREIGN EXCHANGE EARNING AND OUTGO

Foreign Exchange earned	:	Rs. 1359.77 Millions
Foreign Exchange Outgo	:	Rs. 207.47 Millions



LLOYDELECTRIC & ENGINEERING LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

Review of the Economy

The Indian GDP grew at 8.4% in 2005-06, surpassing the high of 7.5% achieved in 2004-05. In the last few years, both the industry and services have acted as the twin engines propelling the growth of the economy, contributing about 20% and 61% of the GDP respectively.

Heating, Ventilation, Air-conditioning and Refrigeration Industry (HVACR) has witnessed an average growth of 35% each year over the last few years. Demand is noticeable across all sectors - residential and commercial. With the increase in disposable income, change in lifestyle and easy availability of finance at low rate of interest has led to the growth in the industry.

This augurs well for the industry in general and the Company in particular, in the years ahead.

Company Performance

The booming Indian economy had a distinctive and favourable impact on the business of the Company for the year 2005-06. Being a market leader in India in the manufacture of coils, the Company is looking ahead to widen its horizons with a strong global presence and create its niche in the coil manufacturing industry worldwide. The Company's strategy is to grow organically as well as inorganically. With the objective of profitable growth, the Company is pursuing several strategic initiatives in the areas of product innovation, manufacturing process and exports.

The Company aims at enhancing Shareholders' Value by achieving profitable growth in scalable high end businesses, expanding international operations, achieving operational excellence and through effective talent management.

The Company's business strategy includes innovation of new technology and to adopt modern and sophisticated techniques for manufacturing product, strengthening and increasing brand equity of the Company and focusing on quality performance and thereby increasing the earning potential.

Thus, with the accelerated growth in the economy, backed by the initiatives of the various business sectors, the company is optimistic about its increasing growth prospects in the coming years.

Outlook

The Company had set up a new manufacturing unit at Dehradun (Uttaranchal) for the manufacture of room airconditioners, components of airconditioners and electronic goods. The Management feels that the new project will help the Company to reach new heights in the industry.

Risks and Concerns

Risk is intrinsic to every business and is essential ingredient to growth. In the course of the business your Company is exposed to a variety of market and other risks including the effects of demand dynamics, currency exchange rates, and interest rates as well as risk associated with financial issues, hazard events and specific assets risk. Wherever possible, your Company uses the instrument of insurance to mitigate risk. Macro-economic factors like slowdown, unforeseen political and social upheaval, natural calamities, may affect the Company as other companies in the Indian Industry.

Internal Control System and their Adequacy

Your Company has an appropriate internal control system commensurate with the size of its operations. The internal control is supplemented by placing an extensive programme of internal audits in place, frequent review by the management and implementation of sound policies, guidelines and procedures.

The internal control is designed to ensure that financial and other records are reliable for preparing financial information and other data and for maintaining accountability of assets.

Industrial Relation

Your company has a team of able and experienced staff and executives at different levels. Industrial relations at all the Company's work and plants remained cordial throughout the year.

Cautionary Statement

Statement in this "Management Discussion and Analysis" describing the Company's objectives, projections, estimates, expectation or predictions may have "forward looking statement" within the meaning of applicable securities laws and regulations. Actual Performance may differ substantially and materially from those express or implied.



LLOYDELECTRIC & ENGINEERING LIMITED

CORPORATE GOVERNANCE REPORT

THE COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE

The Company's philosophy on Corporate Governance envisages attainment of the highest levels of transparency, accountability and equity in all facets of its operations and its transaction with its stakeholders including shareholders, employees, lenders and the government. It has always believed that an Independent Board following international practices, transparent disclosures and empowerment of stakeholders are as necessary as solid financial results for creating and sustaining shareholders' value. The Company is conscious of its responsibility as a good corporate citizen and is committed to a high standard of Corporate Governance Practices. This is reflected in the well composed and independent structure of the Company's Board of Directors.

At Lloyd, value creation is a philosophy that is ubiquitous across the organization. The fabric of Corporate Governance in the Company is woven with transparency, independence and commitment to creating wealth for its shareholders. Our broad-based Board of Directors, constituted in compliance with the Companies Act 1956 and the listing agreement executed with the stock exchange are in accordance with the best practices in corporate governance. Lloyd believes in implementing the philosophy of Corporate Governance in letter and in spirit.

I. BOARD OF DIRECTORS

A Composition

The Company is managed and controlled by a professional board comprising a blend of Executive and Non- Executive Independent Directors. The Company's board comprises eminent persons with considerable professional expertise and experience. The Independent Directors of the Company meet all the criteria mandated by the revised Clause 49 of the Listing Agreement.

As on 31st March 2006 more than 50% of the Board comprises of Non-Executive & Independent Directors. The present strength of the Board of Directors is Five (5), of which four (4) members are Non-Executive Independent Directors, including a Nominee Director of IFCI Ltd.

The names and categories of the Directors on the Board along with their attendance at the Board meetings held during the year ended March 31, 2006 and at the last Annual General Meeting, and the number of other Directorship and Chairmanship/ Membership of Committees held by them, is given below:

S. No.	Name of Directors	Category	No. of Directorships in other Companies*	Committee Membership**		No. of Board Meetings Attended (Total meeting held 7)	Whether attended last AGM
				Member	Chairman		
1	Mr. Brij Raj Punj	Executive Chairman-cum-Managing Director	2	2	-	5	Yes
2	Mr. K. Lall	Independent, Non-Executive	4	4	4	7	Yes
3	Mr. Sandeep Sethi	Independent, Non-Executive	-	2	-	3	No
4	Mr. S.K. Sharma	Independent, Non-Executive	-	1	-	7	No
5	Mr. Sanjay Behari	Independent, Non-Executive (Nominee-IFCI Ltd.)	2	1	-	5	No

* Other Directorships do not include those of private limited companies

** Includes only Audit Committee and Investors'/Shareholders' Grievance Committee.

B Board Meetings

The Board of Directors met seven times during the financial year 2005-06 on the following dates:

S.No.	Date of Meetings
1.	30th April 2005
2.	22nd June 2005
3.	30th July 2005
4.	10th August 2005
5.	13th August 2005
6.	29th October 2005
7.	30th January 2006

C Details of Directors' Remuneration

The details of remuneration paid/provided to Directors during the financial year ended March 31, 2006 are furnished below:
The details of the remuneration paid to Mr. Brij Raj Punj, Managing Director

Gross Remuneration: Rs. 7,20,000

Service Contract is for 5 years