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MRO-TEK LTD.

ANNUAL REPORT 2005-2006





MRO-TEKs International Head Quarters at Hebbal, Bangalore

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BOARD OF DIRECTORS

S. NARAYANAN	<i>Chairman & Managing Director</i>
H. NANDI	<i>Managing Director</i>
R. RAJAGOPALAN	<i>Director</i>
A. MOHAN RAO	<i>Director</i>
N. SIVARAM	<i>Director</i>
A. MURALI	<i>Director</i>
R. RAMASWAMY	<i>CFO & Company Secretary</i>

REGISTERED OFFICE

Bellary Road
Hebbal
Bangalore - 560 024
Ph : (91) (80) 23332951

MANUFACTURING UNIT

29-B, Electronic City
Hosur Road, Bangalore - 560 100
Ph : (91) (80) 28520544

MARKETING OFFICES

Lovlesh Court
Off Turner Road
CTS, No. F/1412
Bandra, Mumbai - 400 050
Ph : (91) (22) 26407311

Flat # 310 - 311
International Trade Tower
Nehruplace, New Delhi - 110 019
Ph : (91) (11) 26449164/65

BANKERS

State Bank of India
Canara Bank

STATUTORY AUDITORS

Narayanan, Patil & Ramesh
Chartered Accountants
103, 1st Floor, Brigade Links
54/1, I Main Road
Seshadripuram
Bangalore - 560 020
Ph : (91) (80) 23343014

INTERNAL AUDITORS

Tambakad and Goil
Chartered Accountants
3, Classique Mansion
6th Cross, HAL 2nd Stage
Off Airport Road
Bangalore - 560 008
Ph : (91) (80) 25211427

REGISTRARS &**SHARE TRANSFER AGENTS**

Karvy Computershare Pvt. Ltd.,
TKN Complex, No. 51/2
Vanivilas Road
Opp. National College
Basavanagudi
Bangalore - 560 004
Ph : (91) (80) 26621192

MRO-TEK LIMITED**NOTICE**

The Members
MRO-TEK LIMITED

NOTICE is hereby given that the Twenty Second Annual General Meeting of the Company will be held at 11.00 hours on Wednesday, 28 June 2006, at Hotel Ajantha, Rohini Hall, 22-A, M.G. Road, Bangalore - 560 001, to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the audited Balance Sheet as at 31 March 2006, and the Profit and Loss account for the year ended that date, along with the report of Directors and Auditors thereon.
2. To declare Dividend.
3. To appoint a Director in place of Mr. N.Sivaram, who retires by rotation and who, being eligible, offers himself for re-appointment.
4. To appoint Auditors and to fix their remuneration.

SPECIAL BUSINESS

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

"RESOLVED that Mr.A.Murali, be and is hereby appointed as a Director of the Company, liable to retire by rotation".

6. To consider and if thought fit, to pass with or without modification(s), the following resolution as a Special Resolution:

"RESOLVED that, approval of the Company be and is hereby accorded, pursuant to Sections 198, 269 and 309 of the Companies Act, 1956, and in terms of Schedule XIII thereto, and other applicable provisions, if any, for payment of the following remuneration, to Mr. S. Narayanan, Chairman & Managing Director of the Company, during the period of two financial years commencing from 1 April 2006, and ending with 31 March 2008:

- a. Basic Salary: Rs. 5,00,000 per month (Rupees Five Lacs only);
- b. Provident Fund & Superannuation : at such percentage as is applicable from time to time under the Statute and, paid in respect of other senior executives of the Company.
- c. Commission on Net Profit : Commission on Net Profits, not exceeding an amount equivalent to five percent of Net Profit of the Company for that financial year, as reduced by the yearly remuneration by way of basic salary stipulated above, and that, such Commission be computed as provided under Sections. 349, 350, 351, and any other provisions as may be applicable under any other Section/s of the Companies Act, 1956, and that the periodicity and quantum of disbursement of the same, be finalized by the Compensation & Remuneration Committee and the Board of Directors".

- d. Gratuity : Not exceeding 15 days salary for each completed year of service.
- e. Casual & Earned Leave : As per rules applicable to other executives of the Company with a provision that, unavailed leave can be encashed at the end of every tenure.
- f. Car & Telephone : Free use of Car on Company's business and telephone at residence, except that personal use of car and long distance personal calls shall be charged to the Chairman & Managing Director.

Minimum Remuneration: Notwithstanding anything to the contrary herein contained, during the period of two years, commencing from 1 April 2006, and ending with 31 March 2008, where, in any financial year, the Company has no profits or its profits are inadequate, remuneration as provided above, be paid as Minimum Remuneration, excepting that, the Basic Salary stated under (a) above, be restricted to Rs 3,50,000 (Rupees Three Lacs Fifty Thousand only), as provided under the presently applicable Notification dated 16 January 2002, relating to Section II of Part II of Schedule XIII to the Companies Act, 1956, issued by the Ministry of Law, Justice & Company Affairs, Government of India, or a higher amount which may be prescribed under a future amendment, if any, and that Commission on Net Profit stated under (c) above shall not be applicable".

7. To consider and if thought fit, to pass with or without modifications, the following resolution as a Special Resolution:

"RESOLVED that, approval of the Company be and is hereby accorded, pursuant to Sections 198, 269 and 309 of the Companies Act, 1956, and in terms of Schedule XIII thereto, and other applicable provisions thereof, for payment of the following remuneration, to Mr. H. Nandi as Managing Director of the Company, during the period of two financial years commencing from 1 April 2006, and ending with 31 March 2008:

- a. Basic Salary: Rs. 5,00,000 per month (Rupees Five Lacs only);
- b. Provident Fund & Superannuation : at such percentage as is applicable from time to time under the Statute and, paid in respect of other senior executives of the Company.
- c. Commission on Net Profit : Commission on Net Profits, not exceeding an amount equivalent to five percent of Net Profit of the Company for that financial year, as reduced by the yearly remuneration by way of basic salary stipulated above, and that, such Commission be computed as provided under Sections. 349, 350, 351, and any other provisions as may be applicable under any other Section/s of the Companies Act, 1956, and that the periodicity and quantum of disbursement of the same, be finalized by the Compensation & Remuneration Committee and the Board of Directors".
- d. Gratuity : Not exceeding 15 days salary for each completed year of service.

e. Casual & Earned Leave : As per rules applicable to other executives of the Company with a provision that, unavailed leave can be encashed at the end of every tenure.

f. Car & Telephone : Free use of Car on Company's business and telephone at residence, except that personal use of car and long distance personal calls shall be charged to the Chairman & Managing Director.

Minimum Remuneration: Notwithstanding anything to the contrary herein contained, during the period of two years, commencing from 1 April 2006, and ending with 31 March 2008, where, in any financial year, the Company has no profits or its profits are inadequate, remuneration as provided above, be paid as Minimum Remuneration, excepting that, the Basic Salary stated under (a) above, be restricted to Rs 3,50,000 (Rupees Three Lacs Fifty Thousand only), as provided under the presently applicable Notification dated 16 January 2002, relating to Section II of Part II of Schedule XIII to the Companies Act, 1956, issued by the Ministry of Law, Justice & Company Affairs, Government of India, or a higher amount which may be prescribed under a future amendment, if any, and that Commission on Net Profit stated under (c) above shall not be applicable".

8. To consider and if thought fit, to pass with or without modification(s), the following resolution as a Special Resolution:

"RESOLVED hereby that, whenever option under the Employees Stock Option Scheme are granted, the amount to be considered as 'market value' shall be 'the latest available closing price, prior to the date of the meeting of the Board of Directors in which options are granted/ shares are issued, on the Stock Exchange on which the shares of the Company are listed, and if the shares are listed on more than one Stock Exchange, then the Stock Exchange where there is highest trading volume on the said date shall be considered, as stipulated in circular no. SEBI/CFD/DIL/ESOP/3/2004/22/7 dated 22 July 2004 issued by SEBI".

"RESOLVED FURTHER that, in relation to equity shares of the Company granted / to be granted from time to time, under the stock option scheme approved by resolutions passed at the Annual General Meeting of the Company held on 10 August 2005 at Bangalore, it is hereby resolved that, such options granted be governed and guided, also by the parameter that the exercise price shall not be either lesser than the face value of the equity shares so granted, or more than eighty percent of the market price, as defined, from time to time, under the SEBI (ESOS & ESPS) Guidelines, 1999".

9. To consider and if thought fit, to pass with or without modification(s), the following resolution as a Special Resolution:

"RESOLVED hereby that, in accordance with Section 31 and other applicable provisions of the Companies Act, 1956, approval of the Company, be and is hereby

accorded, for deletion of the existing Article 40 of the Articles of Association of the Company, and to substitute the following new Article 40 in its stead:

40 As may be fixed from time to time by the Board of Directors, the non- whole time Directors may be paid a fee, traveling, hotel and other expenses, incurred for attending any meeting of the Members, Board or any Committee / sub-committee thereof, and in addition, subject to the approval of the members, be paid a commission on Net Profits, subject to the limit/s specified under Section 309 and/or any other applicable provision/s, of the Companies Act, 1956."

10. To consider and if thought fit, to pass with or without modification(s), the following resolution as a Special Resolution:

"RESOLVED hereby that, subject to the approval of the Central Government, if required, pursuant to Sections 198 and 309 of the Companies Act, 1956, and other applicable provisions thereof, approval of the Company be and is hereby accorded, for payment to the non-whole time Directors, for a period of five years, effective from 1 April 2005, of Commission on Net Profits, computed as provided under Sections 349 and 350, and the Board of Directors of the Company, be and are hereby authorized to finalize, from time to time, the amount and periodicity of disbursing such commission, subject to the limit/s specified under Section 309 and/or any other applicable provision/s, of the Companies Act, 1956".

NOTES :

1. A member entitled to attend and vote at the meeting, is entitled to appoint a proxy to attend and vote in his stead. A proxy need not be a member.
2. The duly filled proxy-form, in order to be effective, should be received at the Registered Office of the Company, not less than forty-eight hours before the Annual General Meeting.
3. The Explanatory Statement pursuant to Section 173(2) of the Companies Act 1956, relating to the Special Business is annexed hereto.
4. The Register of Members and Share transfer books of the Company will remain closed from 14 June 2006 to 28 June 2006 (both days inclusive) in connection with the final dividend being considered for approval in the Annual General Meeting.
5. Subject to the provisions of Sec 206A of the Companies Act, 1956, dividend as recommended by the Board of Directors, if declared at the Annual General Meeting, shall be disbursed on or after 28 June 2006, and before 27 July 2006.
6. Under Section 205A of the Companies Act, 1956, the amount of dividend remaining unpaid or unclaimed for a period of seven years from the date of payment is required to be transferred to the Investor Education and Protection Fund of the Central Government and under Section 205-C, of the Companies Act, 1956, no claim shall lie against

MRO-TEK LIMITED

the Company or the said Fund, in respect of individual amount which remain unclaimed or unpaid for a period of seven years from the date of payment, and no payment shall be made in respect of any such claims.

7. In view of the above, members who have not encashed the dividend warrant(s) so far for any of the dividends declared earlier, viz dividend(s) for the year 1998-99 or for any subsequent year/s, are requested to make their claims immediately to the Company.
8. **Members may address all their communications relating to dividend or any other grievance/s, directly to the Shares Department at the Company's Registered Office.**
9. Members are requested to intimate all changes with respect to their bank details, nomination, power of attorney, change of address, change in name, etc. to their respective depository participant (DP).

Explanatory statement in respect of Special Business [Pursuant to Section 173(2) of the Companies Act, 1956]

Item 5

Mr A. Murali, presently aged 47 years, a graduate in Law, has had a consistently good academic record, culminating in his standing first in his batch, and also bagging the gold medal in Company Law from the Madras University, in the year 1983.

Mr A. Murali is currently associated with AZB & Partners, Advocates & Solicitors, one of the largest law firms in the Country, as the firm's senior partner in their Bangalore Office.

Prior to his present association with AZB & Partners, Mr A. Murali, was a part of the legal & consulting firm of Mr N. Jayaraman, Advocate, who is considered the pioneer of company law and allied corporate laws in the State of Karnataka, until the year 2003, when he, along with his team, merged with AZB & Partners.

The professional career of Mr A. Murali, spanning a period of more than 22 years, has given him various opportunities to closely interact with various industries and industrial houses, professional and other bodies such as the Institute of Company Secretaries, Institute of Chartered Accountants, Stock Exchanges etc. One of his major professional achievements till date, is that he has handled the most number of mergers and de-mergers in the Karnataka High Court, which achievement has received special mention from the then sitting Judges.

Your Directors are confident that the rich and varied experience and expertise of Mr.A.Murali, particularly in the fields of Company Law and Contract Laws, shall add immense value and guidance to the Board of Directors and your Company, and as such, recommend this resolution for your consideration.

None of the Directors of your Company, excepting Mr.A.Murali, is concerned or interested in this resolution.

Item 6 & 7

By resolutions approved by the Members at their Annual General Meeting held on 6 August 2003, Mr S.Narayanan and Mr H.Nandi, were re-appointed as Chairman & Managing Director and Managing Director of the Company,

respectively for five year period, from 1 April 2003, until 31 March 2008.

By the same resolutions passed at the said Annual General Meeting held on 6 August 2003, remuneration payable to each of Mr S.Narayanan and Mr H.Nandi, were approved for the initial three years of the tenure, commencing 1 April 2003, and ending 31 March 2006, at an amount, equivalent to five percent of Net Profit of the Company for each of the financial years, computed as provided under Sections 349, 350, 351, and any other provisions as may be applicable under any other Section/s of the Companies Act, 1956, with a provision to pay, within the aforesaid limit of five percent of Net Profit, an amount of Rs 3,50,000 per month as Basic Salary, and to pay the incremental amount such five percent of Net Profit bears over and above the Basic Salary, as Commission on Net Profit.

The said resolutions also approved payment / provision of the following, as was applicable to other executives of the Company:

- a) Provident Fund & Superannuation contributions, at 12 % and 15% respectively of Basic Salary;
- b) Gratuity at half a month's salary for each completed year of service;
- c) Casual & Earned Leave : As per rules of the Company applicable to the other executives, with a provision that, unavailed leave can be encashed at the end of every tenure;
- d) Car & Telephone: Free use of Car on Company's business and telephone at residence, with a provision that personal use of car and personal long distance calls shall be billed to the said whole time Directors;
- e) Minimum Remuneration: Where in any financial year, the Company had no profits, or its profits were inadequate, remuneration as provided above, except Commission on Net Profit, be paid as Minimum Remuneration, subject to approval of the Central Government, if required.

Though the then re-appointments were for a period of five years commencing 1 April 2003, the approvals for remuneration were only for the initial three year period, commencing 1 April 2003 and ending 31 March 2006, in line with Para 1 – Part B-C(iii) of the Notification dated 16 January 2002, relating to Section II of Part II of Schedule XIII to the Companies Act, 1956.

As such, the remuneration payable to the two whole-time Directors - Mr S.Narayanan as Chairman & Managing Director and Mr H.Nandi, as Managing Director of the Company, for the remainder period of two years, commencing from 1 April 2006, and ending with 31 March 2008, are for consideration by the members now.

Duly recognizing the contributions continuing to be made to the Company and its activities, by Mr. S Narayanan and Mr H.Nandi, right from the date of incorporation of the Company, and duly acknowledging their sustained and dedicated efforts and role in steering the Company to its present stature, and also considering the fact that their continued involvement is absolutely essential to sustain

and achieve further growth, your Directors have, at their meeting held on 9 March 2006, at Bangalore, resolved to continue the same total remuneration for the remainder period of two years commencing from 1 April 2006, and ending with 31 March 2008, at an amount equivalent to five percent of Net Profit of the Company for each of the financial years, computed as provided under Sections 349, 350, 351, and any other provisions as may be applicable under any other Section/s of the Companies Act, 1956.

Within the aforesaid limit of five percent of Net Profit, the Basic Salary payable per month, is recommended to be fixed at Rs 5,00,000 per month, the sum total of which shall continue to be reduced from overall ceiling of five percent of Net Profit of the Company for each year, and the differential amount between the amount equivalent to such ceiling of five percent, and the sum total of Basic Salary, to be continued to be paid as Commission on Net Profit, with other perquisites such as contribution to Provident Fund and Super Annuation Fund, Gratuity, Leave entitlement and provision of Car & Telephone to continue.

However, the Minimum Remuneration, in any financial year where the Company has no profits, or its profits are inadequate, is recommended at a Basic Salary of Rs 3,50,000 (Rupees Three Lacs Fifty Thousand only), as provided under the presently applicable Notification dated 16 January 2002, relating to Section II of Part II of Schedule XIII to the Companies Act, 1956, issued by the Ministry of Law, Justice & Company Affairs, Government of India, or a higher amount which may be prescribed under a future amendment, if any, together with provision of all other perquisites detailed in the resolution, except that Commission on Net Profit shall not be applicable.

The Compensation & Remuneration Committee, as well as the Directors, recommend that, the remuneration as detailed above, be approved for payment to Mr S.Narayanan and Mr H.Nandi during the remainder period of two years, commencing 1 April 2006, and ending with 31 March 2008.

None of the Directors of the Company, except Mr. S. Narayanan and Mr H.Nandi, are concerned or interested in their respective resolutions.

Item 8:

The salient features of the Employee Stock Option Scheme, as incorporated in the Explanatory Statement appended to the Notice dated 30 May 2005, convening Annual General Meeting of the Shareholders held on 10 August 2005 included, inter alia, explanation of 'market value' which was then stated as 'to mean the average price, two weeks high and low of the closing prices, of the said shares, as quoted on NSE, preceding the date of the option'.

It is since noted that, vide a circular bearing no. SEBI/CFD/DIL/ESOP/3/2004/22/7 dated 22 July 2004, SEBI have stipulated definition of 'market value', effective from the date of said circular, as 'the latest available closing price, prior to the date of the meeting of the Board of Directors in which options are granted/ shares are issued, on the Stock Exchange on which the shares of the Company are

listed. If the shares are listed on more than one Stock Exchange, then the Stock Exchange where there is highest trading volume on the said date shall be considered'.

The Audit Committee and the Compensation & Remuneration Committee of the Directors have taken due note of this mandatory provision, and have recommended the same to be brought to the attention of the share holders by incorporating this resolution in this Notice.

It is also noted that, the salient features of the Employee Stock Option Scheme, incorporated in the Explanatory Statement appended to the Notice dated 30 May 2005, relating to Annual General Meeting of the Company held on 10 August 2005, do not include a reference to 'the exercise price'.

As such, the Directors of your Company have, after due deliberations, recommend that, the Scheme shall be governed and guided also by the parameter that such 'exercise price' shall not be either lesser than the face value of the equity shares so granted, or more than eighty percent of the market price, as defined, from time to time, under the SEBI (ESOS & ESPS) Guidelines, 1999, and commend the proposed resolution for your consideration and approval.

The Directors of the Company may be deemed to be interested/concerned, to the extent of their shareholding in the Company and to the extent they may be covered by the Employee Stock Option Scheme.

Item 9 & 10

Your directors are thankful to the non-whole time Directors for their valuable contributions by way of guidance, directions and time devoted to the activities of your Company. Viewed particularly from the increasing onus and responsibilities cast upon such non-whole time Directors by the Statute, your Directors are desirous of suitably compensating the non-whole time Directors, in addition to sitting fee presently being paid, also with Commission on Net Profits of the Company, in line with policy now being implemented by other Companies.

In order to specifically provide for the same, your directors propose amendment, as detailed in the resolution, to Article 40 of the Articles of Association, presently reading as under, and commend the same for your approval.

"The Directors may be paid such a sum, as may be fixed from time to time by the Board of Directors, for attending the meeting of the Board or any sub-committee thereof, and in addition, the Directors may be paid travelling, hotel and other expenses properly incurred for attending and for returning from the meeting of the members, in case where the meeting is held at a place other than the place at which the Directors are normally resident".

The non-whole time Directors of the Company may be deemed to be interested/concerned, to the extent of their entitlement to such commission on net profits of the Company.

by Order of the Board of Directors

Place : Bangalore
Date : 3 May 2006

R. Ramaswamy
Company Secretary

MRO-TEK LIMITED

REPORT OF DIRECTORS AND MANAGEMENT DISCUSSION & ANALYSIS

Your Directors have pleasure in presenting herewith their Twenty Second Annual Report on the activities of your Company during the year ended 31 March 2006.

FINANCIAL RESULTS

	2005-2006 (Rs.Lacs)	2004-2005 (Rs. Lacs)
Net Revenue	14,403.53	11,963.92
Profit before Depreciation	2,806.17	1,925.94
Depreciation	363.53	405.85
Profit before Taxation	2,442.64	1,520.09
Exceptional Expenses	-	809.69
Provision for Taxation	686.28	295.10
Profit after Taxation	1,756.36	415.30
Prior year income	0.05	11.45
Balance for appropriations	1,756.41	426.75

APPROPRIATIONS

To General Reserve	1,150.00	100.00
To Interim Dividend paid - 25% (previous year - Nil)	255.38	-
To Dividend Tax on Interim Dividend	35.81	-
To Final Dividend - 20% (previous year-25%)	204.30	255.38
To Dividend Tax on Final Dividend	28.65	35.81
To carry-over to Balance Sheet	82.27	35.56

DIVIDEND

With higher profitability and higher quantum of balance available for appropriations, in keeping with their continuing commitment to the members, your Directors disbursed an interim dividend of 25% in January 2006, in addition to which, are now pleased to recommend a final dividend of 20%, thereby aggregating to a total dividend of 45% for the year, as compared to 25% during the previous year.

PERFORMANCE

During the year under review, as in the past years,

- ◆ your company's endeavor continued, to maximize strong and satisfied customer base, by maintaining the impeccable track record of quality and delivery efficiency;
- ◆ as a natural consequence of maintaining the customers at their utmost satisfaction levels, their patronage continued to be received for your company's products and services;
- ◆ in this setting, your Company achieved a net revenue of Rs. 14,403.53 lacs, registering an increase of 20% over that of the previous year;

- ◆ vigorous marketing efforts coupled with persistent cost-reduction activities, and continuous monitoring of inventory, receivables and overheads, to peg them at the minimum required levels, facilitated a considerable increase in Profit Before Taxes, to register Rs. 2,442.64 lacs, as compared to Rs 1,520.09 lacs of the previous year;
- ◆ the Profit After Taxation, registered Rs 1,756.36 lacs, as compared to Rs 415.30 lacs of the previous year, which in turn facilitated, transfer of a higher amount at Rs 1,150 lacs to the General Reserves, as also declaration of an interim dividend, in January 2006, of 25%, as well as the present recommendation for a final dividend of 20%, thereby aggregating to a total dividend of 45% for the year, as compared to 25% during the previous year. Your Directors assure yet again that, all efforts shall continue, to sustain satisfactory margins, and to further consolidate retained earnings.

PROSPECTS & OUTLOOK

The steady improvement being registered in overall National economy, the boom and the revolution taking place in mobile telephony and the metro-network, the zeal and earnestness in which connectivity is being implemented in all other fields, including the Railways, Banking, Finance and Insurance sectors, provide immense scope and opportunity for your company's products, which are directly linked to communication sector.

Your Company is very closely monitoring such demands, and making all efforts to position itself, at the right time, and at the right place, and retain its rightfully accomplished position of being the market leader.

Never resting on its laurels, your Company's consistent efforts in constant upgrading of products, in keeping with advancing technological trends, maintaining the superiority in quality, and unblemished timely service support, shall ensure continuity, not only of such leadership position, but also of total satisfaction of the customers.

Efforts vigorously continue, from the in-house R&D stable, to develop and commercialize NGN (next generation network) which would have considerable demand in the overseas market too.

During the year under review, certain changes in manufacturing process have been implemented, to comply with International requirements. Steps have been initiated to obtain 'product approvals' in overseas countries, in respect of certain products, which will facilitate more aggressive export activity.

With relentless efforts to enlarge product portfolios, your Directors are hopeful of accomplishing consistent growth in the revenues and retained earnings in the coming years.

FINANCE

During the year under review, close monitoring of finances and pegging of inventory, receivables and overheads at the minimum required levels, continued. The term debts as well as temporary working capital borrowings were fully liquidated making your Company, totally DEBT-FREE.

Your Directors place on record their sincere appreciation for continuing assistance, guidance, co-operation and whole-hearted support from your company's bankers.

PENDING CLAIMS / APPLICATIONS:

The proceedings pertaining to the application made by your company relating to the demand from the Income-Tax Department for a total sum of Rs 66.64 lacs as incremental income tax payable for the Assessment Years of 1998-1999 and 1999-2000, are still pending.

As per legal advice received by your company, the outcome of these proceedings shall be favouring your Company, and as such, no provision has been made in the financial accounts.

JOINT VENTURES

- a) RAD-MRO Manufacturing Pvt. Ltd., the Joint Venture Company at Bangalore, India, continued to deliver the intended benefits such as delivery efficiency, access to latest technological developments, and reasonable profits.

During the year under review, this company achieved, as per provisional figures pending audit finalization, a total revenue of Rs. 2,452.21lacs, with a PBT of Rs 278.03 lacs and PAT of Rs. 184.12 lacs.

- b) In the previous report to you, the Directors had stated that MRO-TEK Singapore Pte Ltd, the Joint Venture Company at Singapore, with 50% equity participation involving an investment of Rs 10.66 lacs, remained dormant, as the company continued to face the administrative restriction of inability to commercialize the intended activity of 'network design consultancy services', without ability also to supply the corresponding equipment. During the year under review, action has been completed to voluntarily wind-up this Company. An amount of Rs 9.13 lacs having already been absorbed in prior years under 'diminution in value' of investments, the balance of Rs 1.53 lacs has duly been charged to the accounts in this year.

HUMAN RESOURCES & INDUSTRIAL RELATIONS

Your Company continues its endeavor to attract and retain the best available talents in the Industry. Every effort is made in recognizing and adequately rewarding such most-valuable human power.

In this regard, your Company has also implemented an Employee Stock Option Scheme relating to which, approval was accorded in the last Annual General Meeting. Information relating to the implementation of the Scheme has been detailed elsewhere in this report.

Information as per Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, as amended from time to time, forms 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 the members, excluding the statement containing the particulars of employees to be provided under Section 217(2A) of the Companies Act, 1956. Any member interested in obtaining such particulars may inspect the same at the Registered Office of the Company or write to the Company Secretary for a copy.

EMPLOYEE STOCK OPTION SCHEME (2005)

Subsequent to approval accorded by the members at their last Annual General Meeting, for issuance of 10,00,000 equity shares of Rs 5 each under the ESOS, in-principle approval has since been

obtained from NSE and BSE for listing of shares, when the same are issued and allotted, under the said Scheme.

In respect of certain operational matters relating to the Scheme, a resolution has been proposed in the Notice convening the Annual General Meeting, and your Directors commend the same for your approval.

During the year, Company has granted 3,11,400 employee stock options, equivalent to 3,11,400 equity shares of Rs 5 each, to its employees as per terms enunciated in the "MRO-TEK Limited Employees Stock Option Scheme".

Such options granted being for the first time in March 2006, which carry a vesting period of 12 months, no options have vested, lapsed or been exercised, during the year under review. The exercise price being payable only at the time of exercising the options, during the year under review, no money has been realized on this account.

No employee has been granted 5% or more of the options granted during the year and / or options equal to exceeding 1% of issued capital of the company at the time of grant. Total options granted includes, grants to senior management personnel, viz., VP(Marketing) and CFO of the Company, at 75,000 options each.

The exercise price has been fixed at approximately 25% of the market value, in order to provide adequate reward to the eligible executives.

The other relevant details pertaining to this have been furnished also under Notes to accounts.

The total amount considered for charging to 'employee compensation cost' using intrinsic value method, is lower by Rs 81,724 as compared to computation under the 'the fair method' under Black & Scholes Method. As such, the amount charged to the Profit & Loss account of this year would have been lower by Rs 2,412 & the EPS would have been lower by Rs 0.0001.

In computation of 'fair-value', following assumptions have been made:

Risk-free interest rate	6.50%
Expected life of the options	12 months
Expected volatility	11.80%
Expected Dividend	20.00%
Price of share in the market at the time of option grant	Rs 73.75

Weighted average exercise price per share	Rs 20.00
Weighted average fair value per share	Rs 41.64

INTERNAL CONTROL SYSTEMS & THEIR ADEQUACY

Your Company continues to remain committed to maintain, high standards of internal control designed to provide adequate assurance on the efficiency of operations and security of its assets. The adequacy and effectiveness of the internal control across various activities, as well as compliance with laid-down systems and policies are comprehensively and frequently monitored by your Company's management at all levels of the organization. The Audit Committee, which meets at-least four times a year, actively reviews internal control systems as well as financial disclosures.

MRO-TEK LIMITED

CONSERVATION OF ENERGY

During the year under review, efforts continued to conserve and avoid wastage of energy in every possible way.

RESEARCH & DEVELOPMENT

Field trials are satisfactorily continuing on products developed in-house by the R&D section of your Company. In respect of certain products, commercialization has commenced, and is expected to grow considerably during the current and coming years.

Steps have been initiated for adequately protecting the patent and Trade mark rights, pertaining to these products.

During the year under review, an amount of Rs. 45.14 lacs (Prev. year- Rs. 20.25 lacs) has been invested in equipment and an amount of Rs 368.64 lacs (Prev. year- Rs.261.86 lacs) has been defrayed towards Revenue Expenses, which has been absorbed in these accounts, in accordance with the attending accounting standards.

TECHNOLOGY ABSORPTION

The in-house technical and commercial teams consistently engage themselves in their endeavor to indigenize technology and components, as well as implementation of value-engineering and cost-saving methods.

FOREIGN EXCHANGE EARNINGS AND OUTGO

Development of overseas market for the products of your Company, as also development of products required for the overseas market, are progressing satisfactorily. Efforts also continue to minimize foreign exchange outflow by the process of indigenization.

Full details of foreign exchange earnings and expenditure are furnished under note no. 18 and 19 of Notes on Accounts.

CORPORATE GOVERNANCE

A detailed compliance note on Corporate Governance, as required under the provisions in the listing agreement with the Stock Exchanges, together with the certificate of Statutory Auditors thereon, is attached to this report.

MANAGEMENT DISCUSSION AND ANALYSIS

As requisite and appropriate Management Discussion & Analysis is covered under this Report itself, a separate note on the same is not being furnished.

DIRECTORS

Mr S Narayanan and Mr H Nandi, were appointed Chairman & Managing Director and Managing Director respectively of your Company for a period of five years effective from 1 April 2003, upto and including 31 March 2008.

Though the then re-appointments were for a period of five years commencing 1 April 2003, approval for remuneration was only for the initial three year period, commencing 1 April 2003 and ending 31 March 2006, in line with Para 1 – Part B-C(iii) of the Notification dated 16 January 2002, relating to Section II of Part II of Schedule XIII to the Companies Act, 1956.

As such, the requisite resolutions for remuneration payable to them during the remainder period of two years effective from 1 April 2006, have been proposed in the Notice convening the Annual General Meeting.

Mr A.Murali, inducted as an Additional Director on the Board of your Company on 10 August 2005, holds office, u/s 260 of Companies Act, 1956, upto the date of this Annual General Meeting, and as such, his candidature for Directorship is being proposed at the Annual General Meeting.

Mr. N.Sivaram, retires by rotation at this meeting, and being eligible, offers himself for re-appointment.

Your Directors commend all the above for your approval.

AUDITORS

M/s. Narayanan, Patil & Ramesh, Chartered Accountants, Bangalore, retire as Statutory Auditors at the conclusion of this Annual General Meeting. They are eligible for re-appointment and your Directors recommend the same for your consideration.

ACKNOWLEDGEMENTS

Your Directors place on record their sincere gratitude to the continuing patronage of the valued Customers. Your Directors also place on record, their sincere appreciation of the dedication and commitment of the employees at all levels, who have together been responsible for the growth of the Company.

Your Directors wish to register their acknowledgement and appreciation for the timely support and co-operation being extended by the Banks and all their officials.

DIRECTORS' RESPONSIBILITY STATEMENT

As required under Section 217(2AA) of Companies Act, 1956, your Directors hereby confirm that

- ◆ in the preparation of these annual accounts, the applicable accounting standards have been followed and no material departures have been made from the same;
- ◆ they have 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 profits for that period;
- ◆ they have 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;
- ◆ they have prepared annual accounts on a 'going concern' basis.

for & on behalf of the Board of Directors

Place : Bangalore
Date : 3 May 2006

S. Narayanan
Chairman & Managing Director