

**27th
ANNUAL
REPORT
2005-2006**



PRECISION ELECTRONICS LIMITED

PRECISION ELECTRONICS LIMITED

| | | |
|--------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|
| Board of Directors | : MR. ASHOK KANODIA MR. PRADEEP KANODIA MR. S. C. SHARMA MR. RAHUL GOENKA BRIG. JOGINDAR SINGH (Retd.) MR. ANANT KANOI | - Managing Director - Executive Director - Director - Director - Director - Director |
| Company Secretary | : MS. MEENU CHAUHAN | |
| Registered Office | : D-1081, NEW FRIENDS COLONY NEW DELHI-110 065 | |
| Corporate Office & Works | : D-10, SECTOR - 3, NOIDA - 201 301 (U.P.) | |
| Branch Office | : 134, BIPLABI RASH BEHARI BASU ROAD, (CANNING STREET), CALCUTTA - 700 001. | |
| Auditors | : M/S. RAJENDRA K. GOEL & COMPANY NEW DELHI | |
| Registrars and Transfer Agent | : SKYLINE FINANCIAL SERVICES PVT. LTD. 123, VINOBA PURI, LAJPAT NAGAR-II, NEW DELHI - 110 024 | |

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Regd. Office: D-1081, New Friends Colony, New Delhi-110 065

NOTICE OF THE 27th ANNUAL GENERAL MEETING

NOTICE is hereby given that the 27th Annual General Meeting of Precision Electronics Ltd. will be held on Friday, the 14th July, 2006 at 11:00 A.M. at India International Centre, 40 Max Mueller Marg, New Delhi-110 003 to transact the following business:

ORDINARY BUSINESS :

1. To receive, consider and adopt the Directors' Report, Audited Balance Sheet as on 31st March 2006 and the Profit and Loss A/c for the year ended on that date and the Auditors' Report thereon.
2. To re-appoint Mr. Rahul Goenka who retires by rotation and being eligible, offers himself for re-appointment
3. To appoint Auditors to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to fix their remuneration. M/s Rajendra K. Goel & Co. Chartered Accountants, the retiring Auditors hold office till conclusion of this meeting and are eligible for reappointment.

SPECIAL BUSINESS :

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

“RESOLVED that pursuant to the provisions of Section 314 and other applicable provisions, of the Companies Act, 1956, approval of the Company be and is hereby accorded to the appointment of Mr. Vidur Kanodia as Chief Officer (IT) w.e.f. 01.09.2005 and revision in his gross remuneration w.e.f 01.04.2006 on the following terms and conditions:

1. Basic Salary: Rs. 41,000/- per month.
2. In addition to basic Salary he would also be entitled to other benefits v.i.z. Transport Allowance, Provident Fund, LTA, Gratuity etc. as per the rules of the Company.

Provided however, that the aggregate amount of Basic Salary and other benefits shall be less than Rs. 50,000/- per month during his tenure in the Company.

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

“RESOLVED that in pursuance of applicable provisions of the Companies Act, 1956, {including any amendment to or re-enactment thereof}, Article No. 168 and other applicable provisions of the Articles of Association of the Company, and in accordance with the Guidelines of the Securities & Exchange Board of India and provisions of any other applicable law/s, including Foreign Exchange Management Act. 1999, approval of the Company be and is hereby granted and accorded that a sum of Rs. 83091070/- be capitalized out of the General Reserve of the Company and set free for distribution amongst the Equity shareholders/ beneficial owners of Equity shares of the Company {members} by issue and allotment of 8309107 Equity Shares of Rs. 10/- each, credited as fully paid up Bonus Shares, to

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the existing Equity shareholders/beneficial owners of Equity Shares of the Company {members} in the proportion of 3 {Three} Equity Share for every 2 {two} Equity Shares held by them as on a Record Date to be fixed by the Board of Directors/their delegate(s), and that the new Equity Shares so allotted shall be treated as an increase in the nominal amount of the Capital of the Company held by each such member and not as income and, that, such Bonus shares shall rank pari passu in all respects with the existing Equity Shares of the Company.

RESOLVED FURTHER that no fractional certificate/s shall be issued to the members in respect of their respective fractional entitlement of bonus shares but all the fractions remaining after allotment of the Bonus shares, as aforesaid, shall be consolidated into full bonus shares which shall be allotted at the discretion of the Board of Directors to any person/s in trust for the benefit of those members who are entitled to fractional entitlements of Bonus shares, for the purpose of selling such consolidated full Bonus shares as soon as possible in the market, and that, the net sale proceeds of such consolidated full Bonus shares after deducting therefrom the costs, charges, and expenses of sale, shall be divided and distributed proportionately amongst those members who would be entitled to fractional entitlements of such full Bonus shares.

RESOLVED FURTHER that for the purpose of giving effect to the above, the Board of Directors or its delegate to which the Board may delegate all or any of its power/s, be and is hereby authorised to agree to make and accept all such conditions, modifications and alterations stipulated by any relevant authorities while according approvals or consents to the issue, as may be required/considered necessary, proper or expedient, and, to take all actions and/or step/s as may be necessary, desirable or expedient including matters of fractional entitlement/s, and, to resolve and settle all questions and difficulties that may arise in the proposed issue and allotment of the Bonus shares, and, to do all acts, deeds, matters and things which are incidental and consequential as the Board of Directors or its delegate(s) may at its absolute discretion deem necessary or desirable for such purpose/s, to give effect to this Resolution".

By Order of the Board
For **Precision Electronics Limited**

Place : New Delhi

Date : 17-06-2006

(Meenu Chauhan)
Company Secretary



Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself and a proxy need not be a member of the company.
2. Proxies in order to be effective should be duly completed and signed in the enclosed form and must be deposited at the Registered Office of the Company not less than 48 hours before the commencement of the meeting.
3. Members are requested:
 - To kindly notify the change of address, if any, to the Company/The Registrar & Transfer Agent/ depository participants, as the case may be.
 - To bring their copy of Annual Report.
 - To deposit duly completed Attendance slip at the meeting.
4. The Register of Members and the Share Transfer Books of the Company will remain closed from 12.07.2006 to 14.07.2006 (both inclusive).
5. Members desirous of obtaining any information concerning the accounts and operations of the Company are requested to address their queries to the Managing Director / Company Secretary of the Company at least seven days before the date of the meeting so that the information required may be made available at the meeting.
6. Explanatory Statement(s) pursuant to Section 173(2) of the Companies Act, 1956 pertaining to the business contained in items 4 & 5 above is annexed. All the documents referred to in the aforesaid notice are open for inspection at the registered office of the Company between 11.00 A.M. to 1.00 P.M. on all the working days except Saturday up-to the date of the Annual General meeting.
7. The particulars of director to be re-appointed at the meeting are given in the Corporate Governance Section, of this Annual Report.

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EXPLANATORY STATEMENTS

(Pursuant to the Section 173(2) of the Companies Act, 1956)

Item No. 04

Mr. Vidur Kanodia is a Bachelor in Electrical Engineering with Major in 'E-Commerce' from University of Sydney, Australia. During his studies, he worked as Research Assistant with Prof. Rafael Calvo at the University of Sydney, Australia and carried out various case studies in the field of .LRN and E-learning.

The Board of Directors of the Company in their meeting held on 28th October, 2005 appointed him as Chief Officer (IT) on monthly gross remuneration of Rs.25,000/- per month to look after IT related functions in the Company. In view of his commendable performance, Board of directors increased his gross remuneration on terms and conditions as contained in this resolution.

Pursuant to Section 314 of the Companies Act, 1956, approval of Shareholders is required for the appointment and increase in remuneration of Mr. Vidur Kanodia.

Mr. Pradeep Kanodia being relative of Mr. Vidur Kanodia may be deemed to be concerned or interested in the resolution.

Item No. 05

The Board of Directors in their meeting held on 16th June, 2006 adjourned to 17th June 2006 has recommended issuance of Bonus Equity shares in the ratio of 3:2 i.e. Three Equity Share of the Company of Rs.10/- each, fully paid up, shall be issued and allotted as Bonus Share to the existing shareholders / beneficial owners of shares held in dematerialized form, of the Company, in the proportion of two Equity Share/s held by them as on a Record Date as may be fixed by the Board or its delegate. Proposed issuance of Bonus Shares amounting to Rs.83,091,070/- shall be made by capitalizing the General Reserves Account, the balances whereof as at 31st March, 2006 in the Audited Balance Sheet of the Company are Rs. 91,500,000/-.

Issuance and allotment of Bonus Shares shall be as per the Guidelines of Securities & Exchange Board of India and with the approval of the shareholders. The Resolution contained in Item No. 5, is recommended by the Board to be passed by the shareholders as a special resolution.

The Articles of Association permits issue of Bonus Shares, a copy of which shall be available for inspection during office hours on all working days at the registered office of the Company.

None of the Directors are interested or concerned in the proposed resolution except to the extent of the Bonus Equity Shares as may be allotted to them or to their relatives or the company (ies) in which they or their relatives may be shareholders or Directors by virtue of their entitlement.

By Order of the Board
For Precision Electronics Limited

Place : New Delhi

Date : 17-06-2006

(Meenu Chauhan)
Company Secretary



DIRECTOR'S REPORT

To the Members of Precision Electronics Ltd.,

Your Directors have pleasure in presenting the 27th Annual Report on the business and operations of the Company along with the audited statements of accounts for the financial year ended March 31, 2006.

PERFORMANCE OF THE COMPANY

Summary of the financial results is as under:

| | CURRENT YEAR | (Rs. in Millions) PREVIOUS YEAR |
|--------------------------------------------|--------------|------------------------------------|
| Revenue | 368 | 264 |
| Profit before Depreciation, Interest & Tax | 73 | 33 |
| Depreciation | 9 | 9 |
| Interest | 2 | 1 |
| Net profit before Tax | 62 | 23 |
| Provision for Tax | 23 | 8 |
| Net profit after Tax | 39 | 15 |
| Profit brought forward from Balance Sheet | 55 | 54 |
| Amount available for appropriation | 94 | 69 |
| Appropriation : | | |
| Transfert to General Reserve | 77 | 14 |
| Profit Carried forward to Balance Sheet | 17 | 55 |

DIVIDEND

In view of conservation of financial resources of the Company, your directors do not recommend any dividend for the financial year under review.

BONUS ISSUE

With a view to reward the equity shareholders who have reposed confidence in the Company, your directors are pleased to recommend issue of bonus shares to the equity share-holders in proportion of 3 equity shares for every 2 equity shares held as on a record date to be fixed subsequently.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL AND OPERATIONAL PERFORMANCE :

Your Company continues to perform well with total revenue of Rs.368 million compared to previous year revenue of Rs.264 million – a growth of 39%. Net profit for the year ended March 2006 increased by 160 % to Rs.39 million from Rs.15 million during FY05. Earnings per Share (EPS) recorded a growth of 40 % to Rs.7.10.

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Increase in revenue and profit is the strong performance of the telecom division due to digitalization of the BSNL network and consequent demand for the lease line data circuits and the in roads the company has made in the defence communication sector. The PCB division incurred a lower loss in the year under review and it is anticipated that the losses will further reduce in current year with demand picking up.

OPERATIONAL EXCELLENCE

PRODUCT DEVELOPMENT:

The Design & Development department of the Company has made significant contribution. Prestigious defence project 'Parikshak'- a test bed of Tactical Communication System (TCS) project to be implemented by the Indian Army involving the military adaptation of the commercial equipment (COTS) and its vehicular adaptation was successfully carried out by the company. This has given significant visibility to your company in this area.

Your company has changed its orientation from a 'product development' company to a 'solution provider' emphasizing the service part of the business. PST-12M 'secured communication terminal' is a step in this direction. 'Integrated Communication System' (ICS) that was displayed during the DefExpo 2006, generated great customer interest and enquiries are in the pipeline.

QUALITY :

Your Company continues to be an ISO 9001:2000 certified company. In addition, it is registered with the Director General Quality Assurance (DGQA)- the quality wing of the Army, DGAQA- quality wing of the Air Force, CGMQA- the quality wing of Dept of communication (DOT) etc thereby company has achieved all the necessary certification, a prerequisite to conduct business in these segments. Self certification of our products being supplied to BSNL/MTNL, PSU of DOT is under active consideration of CGMQA.

Your company is in the process of implementing advanced quality tools such as policy deployment and balanced scorecard.

PROJECT MANAGEMENT :

The company has installed a project management team with all necessary tools and practices. In addition to 'Project Parikshak' we have already marked our foot prints in various other projects in difficult terrain and hostile areas that has established your company as a serious player in the defence arena.

ERP IMPLEMENTATION :

Your company has embarked on a project for augmentation of IT infrastructure with a view to leverage the latest developments in IT field to improve business performance. A 'security policy' is under formulation and will be implemented in phased manner. Implementation of ERP modules, company wide is expected during the current year. ERP system is expected to result in accelerated product development, lower operating costs, optimum utilization of human resources and better knowledge management.

WEBSITE CREATION :

Your company's website has been completely transformed to indicate the focus as also to provide on line information to all the interested stake holders. It has attracted positive comments from the customers for its information content and ease of navigation.

SEGMENT - WISE PERFORMANCE

PCB DIVISION:

PCB division's performance has shown further improvement during the year. Production increased by 21% over the previous year but the division continues to incur a loss. This is mainly due to increase in the input costs which are mostly oil and metal price dependent and our inability to pass on the cost increase to the customer. A MOU has been entered upon with a UK company for sale and manufacture of 'RF' PCB used in antennas and radios in India. In view of the improved market condition and demand, the company plans to replace critical equipment in the PCB division in the current year (2006-07) for optimum capacity utilization and better price realization.

TELECOM DIVISION:

Telecom division continued to maintain its sound performance record. Revenue during the year ended 31st March 2006 increased by 41 % to Rs.328 million as against revenue of Rs.233million in the previous year. The division increased the profit by 100% to Rs.71 million as against Rs.36 million in the previous year. Whereas the sale of PMUX with the interface cards has been buoyant, sale to the Armed Forces has resulted in the overall improved performance of the division. In-house developed secured radio product PST-12M orders are in hand. Supply will commence during the current year and upon installation further orders are expected. Defence sector is envisaged to contribute significantly to the revenues and the bottom line of the company. Capacity utilization of the division has been good and with the growth rate envisaged, there is need for additional capacity creation and marketing infrastructure.

OPPORTUNITIES, THREATS, RISK & CONCERNS

OPPORTUNITIES :

Cellular market is driving the growth in the commercial space. Large tenders are being floated by BSNL. DOT (Dept of Communication) to encourage local manufacturing has issued guidelines to BSNL / MTNL for procurement of locally manufactured goods. This will impact positively the entire telecom equipment manufacturing sector including your company. Local manufacturing will drive the PCB division growth also. Data networks and Broadband coupled with convergence technologies will be the key drivers of growth of the sector.

Government through various policy initiatives is opening the Defence equipment sector for private industry participation. Objective is self-reliance through creation of National technical capability in depth. A high powered 'Kelkar Committee' was formed by the Defence Minister to recommend policy measures to achieve the above stated objectives. The recommendations are being implemented and some of the notable ones that will have a deep impact on the Indian industry are the "Offset clause" and the creation of 'Raksha Udyog Ratna' (RUR). A company certified as 'RUR' will be treated at par with the Government owned manufacturing units for Prime contractor's role in large defence projects.

Your company is working closely with all the departments of the Min of Defence. It has acquired domain knowledge and experience and is trying to increase the domain offerings. The company is in discussions with various international companies for joint participation.

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THREATS, RISK & CONCERNS :

An assessment of the dynamics of rapidly changing business environment in which your Company operates has been made and the company has identified a number of challenges. Technology obsolescence coupled with globalization of competition, implementation of policy initiatives in the defence sector, preference given to the Defence Public Sector Units (DPSU), long time taken for finalization of tenders, availability of skilled manpower are some of the threats, risks and concern that the company faces in the product segment that it operates. In addition spectacular increase in metal and oil prices have increased the input cost that may affect the profit margins.

OUTLOOK :

Your Company's outlook is bullish. The endeavor is to harness its core strength of an excellent infrastructure, its design & development team and its market access to a winning combination. The Company has devised strategies and action plans to convert the threats/weakness into opportunities /strengths and takes advantage of the emerging opportunities. The measures that would be adopted by the company inter-alia include:

- Strengthening of R&D, technology base and product portfolio.
- Strengthening marketing set up.
- Thrust on indigenisation and product upgrades.
- Marketing in army command sales & service revenues.
- Continuous cost reduction as competitive strategy.
- Development and creation of additional infrastructure for capacity expansion.
- Linking remuneration with business growth.

The Company is engaged in the business of design & manufacturing, selling and trading of Printed Circuit Board (PCB) and Telecom Transmission products. PEL products find scope in industrial electronic equipment manufacturers, telecom service providers and are used by PSUs like BSNL, MTNL, besides other Govt. client like Ministry of Defence, Home Affairs, Airport Authority of India, Oil Companies etc. Market segment of PEL is primarily Govt. / PSU. Company has participated in tenders floated by the Min of Defence and is a leading contender. The market size for the company would increase many folds.

ADEQUACY OF INTERNAL CONTROL :

The company continues to have a proper and adequate internal control procedure commensurate with its size and nature of business. The internal control system provides for laid down policy, guidelines and approval procedure. This control procedure ensures efficient use and protection of resources, compliance with established Company policy and guidelines and compliance of statutes.

The company has an internal audit, which carries out independent periodic audit. The scope of internal audit covers variety of operational and financial matters follow up and review of implementation of recommendations made for corrective action. The prime object of such audit is to test the adequacy, effectiveness and adherence of all internal control laid down by the management and to suggest improvement. Quarterly internal audit reports are reviewed in Audit committee held from time to time.

HUMAN RESOURCE DEVELOPMENT

Human resource development is a major thrust area and a continuous endeavor of the company. The Company has a strong team of able and experienced staff and executives. Regular workshops are being held to update