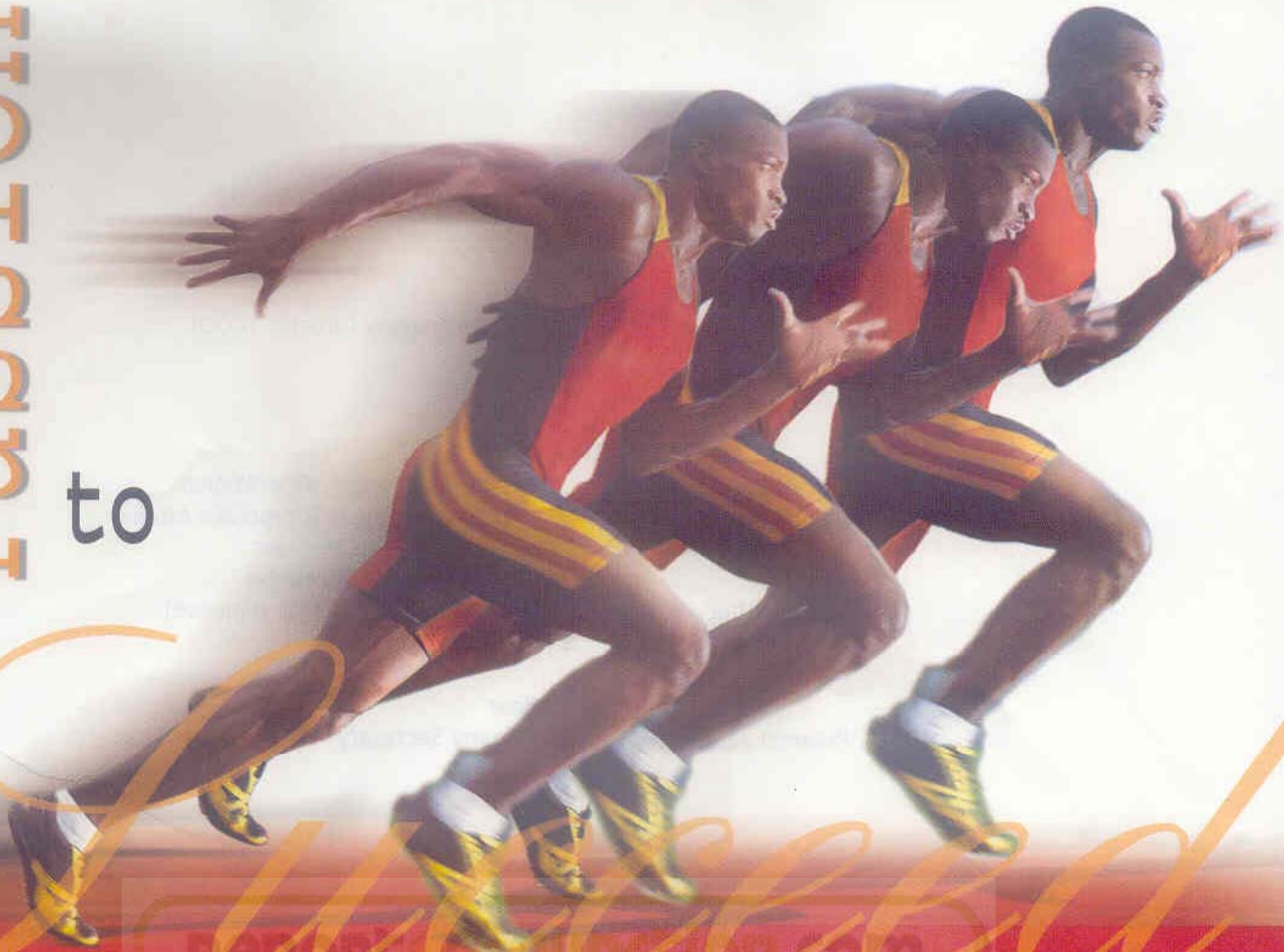


Passion

to



19th Annual Report



Hi-Tech Gears Limited

0405

Board of Directors

Mr. Deep Kapuria	Chairman & Managing Director
Mr. Anil Khanna	Director
Mr. K.L. Kalra	Director
Mr. Sandeep Dinodia	Director
Mr. Pranav Kapuria	Deputy Managing Director (COO)
Mr. Anuj Kapuria	Director

Senior Executives

Mr. Sushant Jain	Sr. General Manager (Operations)
Mr. Deepak Rai	Sr. General Manager (Corporate Affairs)
Mr. Sanjeev Pandiya	CFO & Sr. General Manager (Group Corporate Strategy)
Mr. Vijay Mathur	Deputy General Manager (Finance)

Principal Officer

Mr. Praveen Jain	Company Secretary
------------------	-------------------

Auditors

M/s. Gupta Vigg & Co.
Chartered Accountants
86, South Park Apartments,
Kalkaji, 'B' Block,
New Delhi- 110019

Report

ion.com

Corporate Office

14th Floor, Tower-B,
Unitech's Millennium Plaza,
Sushant Lok-I, Sector-27,
Gurgaon,
Haryana-122002
Email: info@hitechgears.com

Registered Office & Works

A-589, Industrial Complex,
Bhiwadi- 301019
Dist. Alwar, (Rajasthan)
Tel. (01493) 220934, 220034, 220412
Fax No. (01493) - 220512

Plant II:

Plot No. 24-26,
Sector -7,
IMT Manesar, Gurgaon,
Haryana

Bankers

ICICI Bank Ltd.
9A, Phelps, Connaught Place,
New Delhi-110001

Citi Bank N.A.,
Jeewan Bharati Building,
Parliament Street,
New Delhi-110001

Standard Chartered Bank,
Connaught Place, New Delhi-110001

Registrar & Transfer Agent

Mas Services Private Limited,
AB-4, Safdarjung Enclave,
New Delhi-110029
Tel: (011) 26104142 & 26104326,
Fax: (011) 26181081
Email: mas@vsnl.com



Chairman's Message	2
Interview with COO	4
Milestones	6
Director's Essay	8
Directors' Report	10
Management Discussion & Analysis	14
Auditors' Report	25
Balance Sheet	28
Profit & Loss Account	29
Schedule to the Balance Sheet and to the Profit & Loss Account	30
Notes to Accounts	37
Additional Information	41
Cash Flow Statement	43
Shareholders' Information	44
Financials of Hi-Tech Robotics Systems, Inc. (USA)	45
Consolidated Financials	50
Notice	66

Forward Looking Statement

In our report we have disclosed forward-looking information so that investors can better understand the company's future prospects and make informed decisions. This Annual Report and other written and oral statements that we make from time to time contain such forward-looking statements that set out anticipated results based on management's plans and assumptions. We have tried, wherever possible, to identify such statements by using words such as 'anticipate', 'estimate', 'expects', 'projects', 'intends', 'plans', 'believes', and words and terms of similar substance in connection with any discussion of future operating or financial performance. We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Investors should bear this in mind as they consider forward-looking statements. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

CHAIRMAN'S



Report Junction.com

Dear Shareholders,

We are meeting at a time when the world automobile industry is at a once-in-a-life time crossroad. For most of the last century, the spread of the automobile has virtually heralded the onset of civilization. In developed countries, auto and related economic activity accounts for roughly a fifth of the economy with the automobile industry directly accounting for a tenth of the economy.

Even in dirt-poor India, a large part of economic life revolves around the Highway Economy. Thanks to a crushing fuel shortage and a sudden commodity boom, the auto industry is facing a resource crunch on both sides..... in the cost of buying the vehicle and in the cost of running the vehicle.

This twin phenomenon will result in discontinuous change in the structure/ composition of the vehicle, and with it, in the structure of the auto industry itself. www.reportjunction.com



We are seeing 2 major "big trends" happening concurrently. While on the one side we see Asia situated at the epicenter of the global shift in demand, production and consumption trends... on the other hand, we are going to see a change in the structure of the automobile industry itself, which includes the developed countries as well.

For the global OEs situated in the developed countries, there are twin challenges. On the one hand, they have surplus capacities in the developed countries, no demand, and an expensive currency from which they cannot export; on the other hand, there are these developing countries which have both demand (but at a lower currency-adjusted-price) and the infrastructure available to drive sharp ramp-ups in production capacities.

The second challenge is technological. 4 factors will drive this technology change:

- i) Re-cyclability,
- ii) Safety,
- iii) Emissions control,
- iv) Noise reduction.

This is expected to cost roughly \$ 3000 extra per vehicle. However, with the fall in real purchasing power in the US (from rising inflation, falling real wages, and rising cost of real inputs), such a cost push cannot be passed on to the customer.

The industry therefore needs to look to redesign its value chain such that it is able to absorb these costs. Besides, the increase in electronics embedded in the car will further add to the cost sheet of the global OE. Put it all together and you get a picture of extreme ferment. This will create both opportunities and threats.

Speaking on behalf of the Indian auto component industry, I think our most probable scenario leans towards opportunity. The Hawk Report talks about clear opportunities for India and China. Collectively speaking, India with its superior engineering services and IT backbone, will score on Analysis & Simulation, Engineering Animations, Modeling & Drafting, Tooling Design & Manufacturing, Customization and Automation.... each being a critical differentiator for the 21st century auto industry. For the coming years, I place my optimism on the big trends articulated above.

The global OEs are looking to push conventional manufacturing to the Low Cost Countries (LCCs). India will find itself competing with Brazil, Mexico, Turkey, East Europe and of course, China. The country differentiators, besides the local factors outlined above, will be logistics, infrastructure, the amount of friction in international trade (like port turnaround, etc). Given the increasing presence of FTAs/ RTAs, these factors will play a much bigger role.

At the firm level, Quality, ontime delivery, price are hygiene factors and mostly taken for granted. The new differentiators will be traceability (of the product at various stages of production), New Product Development (NPD) and Project Management skills. Warranty issues will play an increasing role in purchase decisions. You will notice that most of these new issues are softer in nature and relate to the company's internal processes, how the company converts knowledge. ***The focus is shifting from the "what" to the "how".***

Somewhere in this huge cauldron of opportunities, there will be space for our company. I am optimistic about the recent successes we had with new customers like Robert Bosch and Cummins. I am happy about the fact that our relationship with Getrag is expanding... In January they added an IPO to the JV that we have with them.

Finally, I must mention that despite pressure from input costs, I believe that our company will see progress, both in topline and bottomline, over the medium-term.

While most people are very keyed up about the autocomp industry, we notice that they often mix up apples with oranges. Have you also faced this flawed perception?

Yes. Talking about autocomp industry as one undifferentiated mass is really like bundling apples and oranges. The key drivers of different segments of the auto industry can be remarkably different. For e.g. automotive glass has very different profitability, growth drivers, input issues or capital efficiency from forgings or castings. From an analyst's point of view, this makes it a more difficult industry from which to derive generalized conclusions. Each company has to be analysed individually.

What are the special features to be considered in tracking your company?

Well, firstly our current fortunes are linked more to the two-wheeler industry. Our key customers Hero Honda, HMSI, Yamaha are all major two wheeler players. Further, exports are making up a large chunk of our pie. These exports are mostly in Commercial Vehicles segment, (ie, Diesel Engine applications like engine gears for Cummins, Caterpillar, New Holland and injector flanges for Robert Bosch). While our current financials are heavily impacted by 2 wheeler segment performance, our future prospects are going to be considerably driven by a much wider range of variables, e.g., currency pressures, outsourcing trends, make vs. buy issues in Europe, FTA issues, and of course, the depth of the relationship which we can build with certain key customers/ JV partners.



What are your investment plans and how well have you done at exports?

We would have invested roughly Rs. 45 crores in the new Manesar Plant, most of which is for exports and for production of Timing Gears. Some of this production will be done for the 2-wheeler business.

Exports: in 2004-05, out of a turnover of Rs. 160 crores, roughly Rs. 32 crores were contributed by exports. This year we expect exports to grow by 50%. A big chunk of this growth will come from Robert Bosch. We have new products coming from Robert Bosch for which we have set up a dedicated line for a high volume part.

Deemed Exports: We also have sales to New Holland and HM, which are further exported (classified as Deemed Exports). As far as new business is concerned, we have enquiries from virtually every leading player in the industry. The problem is not enquiries, but the ability to service such spectacular growth.



What are the major handicaps?

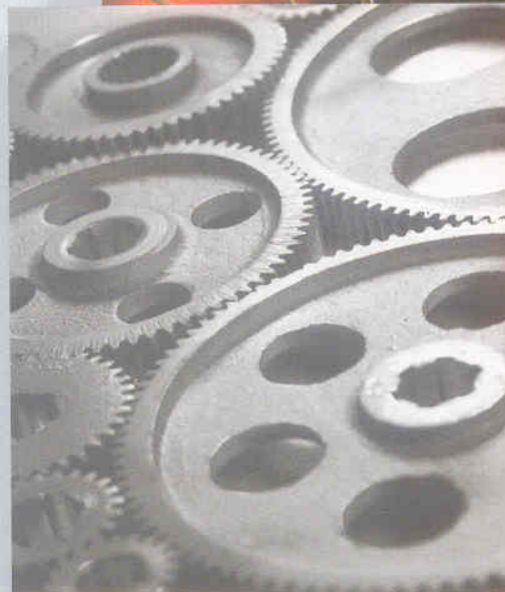
Well, there is the much-mentioned infrastructure, logistics and "country-disadvantage" issues (ie, labour laws, contract law, safety and emission norms, etc.).

In addition, we need to make quantum improvements to the supply chain. While our specific OEs are quite receptive to the needs of Tier 1 and Tier 2, it is the backward linkages (forging, raw material, etc.) that needs to be developed.

Talent is another bottleneck. There is a huge upward momentum to people cost. But it is not in proportion to the quality of talent that we can find. For a nascent industry like ours, it could spell a death knell if people turn too expensive even before we have established a quality reputation. The best way to get around this is to quickly build processes and train people in following Quality Management Systems (QMS). This, I feel, will be a key differentiator for our future performance.

How do you expect to fare this year?

Well, top line will continue with the same growth momentum that we have seen last year. In fact, I might even be adventurous enough to assert that this growth momentum may last even beyond the current year. But, bottom line is affected because of high steel prices. Further, we have had to incur extra expenditure on development of new projects. This is also expected to continue as we can be adding new products and new customers. However, the positive side is that raw material cost-push has recently flattened out. The outlook on the raw material front is more positive than last year. So, you can expect profitability to slow down as compared to top line growth. But we remain cautiously optimistic for the long-term.



1986	Incorporated as a Public Limited Company
1988	Production commencement: single source
1989	Product Indigenisation
1992	Technical Tie-up with Kyushu Musashi, a subsidiary of Honda Motors, Japan
1993	Backward Integration into Precision Forgings
1995	Selected as single source supplier to Honda Power, Tata Cummins Ltd.
1996	Technology Agreement with Getrag, US
1996	Certified as ISO 9002
1996	BPR launched
1997	Selected as a global source to Cummins, US
1997	Pilot Phase of BPR completed
1998	Certified as QS 9000
1999	Separate Division to handle high-end design and CAD services established, under the name of Hitech eSoft
2002	Launched initiative of Lean Manufacturing
2003	Certified for Integrated Quality Management Systems
2003	Certified for TS 16949
2003	Environment Certification ISO 14001 : 1996
2003	Occupational Health & Safety Certification OHSAS 18001 : 1999
2004	Establishment of Hitech Robotic Systemz
2004	Prototyping/ productionising Precision Components for Robert Bosch, GM, Volvo and Daimler Chrysler
2005	State-of-the-art manufacturing facility set up at Manesar

DOWN THE YEARS



Since its beginning Hi-Tech Gears Ltd has focused on acquiring technology as a differentiator. A dedicated CAD centre called Hi-Tech eSoft was set up in 2000.

The 30 engineers working in this environment are creating innovative solutions to practical

shop floor problems. Since its inception this Division has registered two copyrights for cutting-edge products.

These products use technology to capture engineering information on very thin files and populate html pages which are also linked to databases. The entire matrix of knowledge that is created is dynamically linked to the underlying CAD information. Because of the thin file sizes and simple structure of the information, this can then be pumped into the organization - creating an engineering network linked as it were to the ERP system.

These products have been installed at Cummins, Hero Honda, New Holland, Tata Cummins and Eicher apart from being used in-house. Our solution - eCatalogue - sucks out the engineering images and data dynamically from engineering data bases and populates a website used for spare part identification and instructions on the field for assembly and dismantling. Customers have been delighted with this tool. We have won awards from PTC (the authors of the CAD tool Pro e) for this solution. These customers would be going live on the web with this solution very shortly.

We believe that this would fundamentally transform the manner in which engineering companies give out technical product information and manage spares world-wide. The choice of customers (as stated above) and the



complexity of the products that they handle have ensured that our product has been tested for its robustness and sustainability.

During the present year this Division is targeting a quantum jump in performance. The implementation of the eCatalogue and its roll out by customers on the internet would create immense brand recognition and business opportunity for this Division.

Apart from this we are also involved in providing engineering solutions to customers in Europe and America. These focus on product design and developing automated templates to help engineers facilitate their working.

The outlook for this Division therefore is one of cautious optimism - waiting for the seed to bear fruit.

