

Directors' Report and Management Discussion & Analysis

To the Members,

Your Directors present the Twenty First Annual Report on the business and operations of the Company together with the Audited Statement of Accounts for the year ended March 31, 2004.

FINANCIAL HIGHLIGHTS

| | | (Rs. in lacs) | |
|--|---------------------------|--------------------------|----------|
| Particulars | Year ended 31.03. 2004 | Year ended 31.03.2003 | |
| Total Income | 10,974.23 | 13,572.22 | |
| Gross profit of the year | 526.20 | 2,090.22 | |
| Less : Finance Charges | 1,610.95 | 1,668.56 | |
| Depreciation | 946.82 | 1,005.22 | |
| Development Expenditure Written off | 534.17 | 513.10 | |
| Deferred Revenue Expenditure Written off | 10.90 | 6.47 | |
| Miscellaneous Expenses Written off | 19.84 | 19.84 | 3,213.19 |
| Profit/(Loss) Before Tax | (2,596.48) | (1,122.97) | |
| Add : Deferred Tax Credit | 736.53 | 483.93 | |
| Profit/(Loss) after Tax | (1,859.95) | (639.03) | |
| Extra-ordinary/ Exceptional items | - | (3,852.85) | |
| Add : Profit & Loss Account | | | |
| Balance brought forward from earlier year | (4,272.53) | 182.34 | |
| Less : Deferred Tax Liability of earlier Years | - | (95.98) | |
| Debtenture Redemption Reserve written back | 84.00 | 133.00 | |
| Balance | (6,048.48) | (4,272.53) | |
| Appropriations | | | |
| Profit/(Loss) carried to Balance Sheet | (6,048.48) | (4,272.53) | |
| Total | (6,048.48) | (4,272.53) | |

YEAR UNDER REVIEW

Your Company has registered a total income of Rs. 10,974.23 lacs for the year 2003-04 compared to Rs. 13,572.22 lacs for the previous year. The gross profit earned for the year is Rs. 526.20 lacs. After providing Rs. 1,610.95 lacs and Rs. 946.82 lacs towards finance charges and depreciation respectively, the Company has incurred a loss of Rs.2,596.48 lacs for the year 2003-04.

Your directors are unable to recommend any dividend, in view of absence of profits for the period under review.

PERFORMANCE DURING 2003-04

In spite of market growth of 9%, your Company has lost market share due to import of compressors by the Refrigerator Manufacturers to whom your Company has been supplying compressors over the years. The imports have become cheaper due to weaker dollar and reduced customs duty. Due to the above reasons, your Company lost market share and ended with a 11% reduction in sales numbers.

However, in the case of washing machine motors, due to

increase in volume from the existing customers, your Company registered a growth of 41% during the year.

The performance of the Component Division has been far from satisfactory owing to severe working capital constraints, over competitive market and extended payment terms.

INDUSTRY STRUCTURE AND DEVELOPMENT

The demand for compressors is based on demand and growth of Refrigerators in the Country. Export of Indian Compressors is yet a nascent market. The Indian Refrigerator industry registered a growth of 9% during 2003-04 after a sluggish growth in the last few years. It is estimated that the current year [2004-05] growth would be 12-15%, which augurs well for your Company.

The current levels of energy efficiencies of your Company's compressors meet with the norms prescribed therefor. However, to meet certain export market demands, as well as certain domestic niche segments, more energy efficient and lower noise level compressors would be required in the near future, for which your Company is fully gearing up.

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OUTLOOK

The key challenges before your Company are (i) sluggish growth in the end user industry (ii) increase in imports arising from duty reduction, currency volatility, favourable transfer pricing by overseas parent companies (iii) Free Trade & Preferential Trade Agreements with unequal access to each other's markets (iv) distorted duty structure as between input duties and import duties on components and finished compressors, and (v) nascent export market in West Europe and beyond, which is high on quality and energy efficiency, requiring leapfrogging in technology.

Your Company has devised a comprehensive response to these challenges, engaging the Government on issues where necessary, enhancing internal cost competitiveness, upgrading product and technology where necessary and addressing key export markets with a concerted effort. Your Company is very hopeful of making some key breakthroughs in the export markets in the coming months.

Own manufacturing by some of the multi-national companies to which your Company is presently supplying compressors would pose additional strain on domestic demand for stand-alone compressor manufacturing companies, like yours.

The anticipated growth in the domestic Refrigerator industry would provide a larger market size for Compressor makers and your Company is hopeful in taking advantage of this by becoming more cost competitive as its primary mission.

PUBLIC DEPOSITS

Your Company has not accepted any deposits and hence, no amount of principal or interest was outstanding as on the date of Balance Sheet.

CONTRIBUTION TO EXCHEQUER

Your Company's contribution to the exchequer during the year under review by way of Sales Tax, Excise Duty, Customs Duty and Income tax was Rs.1,141.23 lacs.

CONSERVATION OF ENERGY

Your Company has carried out various energy conservation measures as detailed below:

- Running grinding wheel motors of center-less grinders in "STAR" connection
- Reduction of dehydration process time by adopting open dehydration concept
- Rationalization & de-rating of coolant motors in certain special purpose machines with the help of manufacturers.
- Conducting training programmes for employees on a regular basis to increase their awareness on energy conservation

PARTICULARS OF EMPLOYEES

During 2003-04, none of the employees drew remuneration in excess of Rs. 24 lacs per annum or Rs. 2 lacs per month. Hence, furnishing information in terms of Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 does not arise.

DIRECTORS

In accordance with the provisions of the Articles of Association of the Company, Mr. K S Jayanth Kumar and Capt. S Prabhala, Directors, retire by rotation at the Twenty First Annual General Meeting. Mr. Jayanth Kumar has conveyed that he would not be seeking re-appointment at the ensuing Annual General Meeting, on health grounds. Capt. S Prabhala being eligible, offers himself for re-appointment.

Mr. Harshal Jayavant, Wholetime Director resigned with effect from 31st December 2003. Your Directors wish to place on record their appreciation of the valuable contributions made by Mr. K S Jayanth Kumar and Mr. Harshal Jayavant during their tenure as the Directors of the Company.

Mr. M V Ramdas, Director, has been appointed as the 'Manager' of the Company with effect from 30th June 2004 for a period of three years.

AUDITORS

M/s Varma and Varma, Chartered Accountants, Bangalore, Statutory Auditors of the Company retire at the ensuing Annual General Meeting and are eligible for re-appointment.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirement under Section 217 (2AA) of the Companies Act, 1956 with respect to Directors' Responsibility Statement, it is hereby confirmed that :

- i. in the preparation of the annual accounts for the financial year ended 31st March, 2004, the applicable accounting standards had been followed along with proper explanation relating to material departures ;
- ii. the Directors had selected such accounting policies and applied them consistently and made judgements and estimates that were 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 the year under review ;
- iii. 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 ;

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iv. the Directors had prepared the accounts for the financial year ended 31st March, 2004 on a 'going concern' basis.

INTERNAL CONTROLS AND SYSTEMS

Your Company has an adequate system of Internal Audit conducted by qualified Chartered Accountants covering Inventory Management, Purchases, Production, Sub-contract activities, Accounts and Finance including Cash/Bank Operations, Expenses, Debtors, Creditors, Fixed Assets, Insurance besides Statutory Compliances. The Statutory Auditors also review the area, scope and coverage of the Internal Audit from time to time and advise the Management.

Since the formation of the Audit Committee of the Board, the Internal Auditors have submitted their reports to the Audit Committee at regular intervals for their review. The Committee reviews the audit observations and issues necessary directions for implementation of corrective actions against deviations, if any.

HR & PEOPLE

In order to bring effective changes in the organizational capabilities and to face the global competition, the following initiatives were undertaken :

- A Task force has been set up for cost reduction covering entire factory operations, involving majority of employees by creating awareness on cost issues through periodic orientation programmes.
- Introduced outsourcing of certain non-core/non-value adding functions to enable the organization to stay focussed and for better utilization of human resources.
- Continued on the journey of implementation of TPM, in order to achieve sustained value creation, cost reduction and better utilization of men, machines and materials.

As at 31st March 2004, the Company had a total strength of 1,054 employees.

EMPLOYEE RELATIONS

Employee relations at all levels remained cordial. The Directors express their appreciation to all the employees for their dedication and hard work.

MANAGEMENT DISCUSSION & ANALYSIS

Your Directors have covered the Management Discussion & Analysis as required under the Corporate Governance requirements, as a part of the Directors' Report in appropriate places, to avoid duplication and overlapping of the contents of the said two reports.

ACKNOWLEDGEMENTS

Your Directors place on record their appreciation of the valuable support and guidance received from SANYO,

Japan, and thank all the customers, suppliers and the Financial Institutions, Bankers and the shareholders for their continued support.

For and on behalf of the
Board of Directors

Bangalore Viswanath Nambiar M V Ramdas
31st July, 2004 Director Director & Manager

Regd. Office : 17th KM, Old Madras Road, Avalahalli,
Virgonagar Post, Bangalore 560 049

ANNEXURE TO DIRECTORS' REPORT

Particulars required under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 and forming part of the Directors' Report for the financial year ended 31st March, 2004.

RESEARCH AND DEVELOPMENT

Your Company is continuously working on the development of new products to meet the market requirements, which are not presently serviced. Your Company's R&D activities were focused on the following areas during the year 2003-04:

- Successfully absorbed and implemented Non-CFC technology and the resultant compressors are running successfully for the last 2 years without any quality issues.
- New models based on Non-CFC (R-134a) technology to meet new customer requirements.
- New Hydrocarbon (R-600a) refrigerant based compressors are being developed to meet European market requirements.
- An exclusive model to address the replacement market needs of a key compressor buyer and another exclusive model for a key compressor customer who required an inverter & battery power back up. Significant product development and application engineering went into these products.
- New washing machine motors as per customer requirements.
- Developed 2 models of 5.1 Home Theatre (5 satellite and one subwoofer) for DVS, 150W and 350W respectively.
 - Developed 3 way stereo speaker system for CATCO in the economy price range.
 - Mobile Telephone Handset components like charger, speaker and microphone are being developed.
 - Developed new range of ceiling speakers for channel music.
 - Developing various UL approved cables and power cords for Indian Market.