

**CONSOLIDATED  
FINANCIAL STATEMENTS**

## **CONSOLIDATED FINANCIAL STATEMENTS**

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### **AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS**

#### **TO THE MEMBERS OF KIRLOSKAR ELECTRIC COMPANY LIMITED**

1. We have examined the attached consolidated Balance Sheet of Kirloskar Electric Company Limited and its subsidiaries as at March 31<sup>st</sup>,2005, the consolidated Profit and Loss Account and the consolidated Cash Flow Statement for the year ended on that date. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with generally accepted auditing standards in India. These standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are prepared, in all material respects, in accordance with the identified financial reporting framework and are free from material misstatements. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements. We believe our audit provides a reasonable basis for our opinion.
3.
  - a. *The Company has not received financial statements of its wholly owned subsidiary, KEC North America Inc for the year ended 31<sup>st</sup> December 2004 . Consequently, the last available Balance Sheet of KEC North America Inc as at 31<sup>st</sup> December 2003 has been adopted for the purpose of consolidation. Further, in the absence of necessary information, effect of significant transactions or other events that have occurred from the date of the last available balance sheet in respect of the said company has not been given. Effect on revenue is not ascertainable.*
  - b. *Unaudited financial statements of KEASI Robicon Industrial Systems Pvt. Ltd., for the financial year ended 31<sup>st</sup> March 2005 received have been used for the purpose of consolidation. The Company's share of assets, liabilities, income and expenditure as adopted for consolidation are not a significant percentage of the total reported figures of the group.*
  - c. *We have not audited the financial statements of Kirloskar (Malaysia) Sdn Bhd and Kirloskar Power Equipments Limited for the year ended 31<sup>st</sup> March 2005. Consequently, the Company's share in the profits/ losses of both associates as shown separately in the Profit and Loss Account and the value of investments in the consolidated financial statements are based on the audited financial statements of Kirloskar (Malaysia) Sdn Bhd and unaudited financial statements of Kirloskar Power Equipments Limited for the said year as received from the said associates.*
  - d. *Intra group balances (except in respect of transactions between the Company and its subsidiary, Kaytee Switchgear Limited) have not been reconciled and differences to the extent identified have been treated as intra group suspense, pending reconciliation.*
  - e. *The accounting policies used by KEC North America Inc, two associates and Joint Venture have not been compared and harmonized with the accounting policies used by the Company. The proportion of items in the consolidated financial statements to which different accounting policies have been applied are not ascertained.*
  - f. *In the absence of necessary information, unrealised profits and losses from intragroup transactions, either relating to the year or previous years has not been eliminated. Effect on revenue not ascertainable.*
  - g. *Details of accounting policies, contingent liabilities as at 31<sup>st</sup> March 2005, notes forming part of the accounts, related party transactions etc of KEC North America Inc, KEASI Robicon Industrial Systems Pvt. Ltd., and both associates have not been furnished.*
4. *Subject to our comments in paragraph 3 above, we report that the consolidated financial statements have been prepared by the Company in accordance with the requirements of Accounting Standard (AS-21) Consolidated Financial statements, AS - 23 Accounting for Investments in Associates and AS - 27 Accounting for Joint Ventures in Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India on the basis of the separate audited financial statements of the Company & its subsidiary Kaytee Switchgear Limited, audited Balance Sheet as at 31<sup>st</sup> December 2003 of KEC North America Inc, audited financial statements of an associate and unaudited financial statements of a jointly controlled entity and an associate.*

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## KIRLOSKAR ELECTRIC COMPANY LTD.

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5. Attention is invited to the following: -
- a) Note 5(b) of schedule N regarding balances with certain banks and financial institutions as per books being subject to reconciliation/confirmation, since such banks/financial institutions have not yet given effect to the scheme of arrangement under sections 391-394 of the Companies Act, 1956 approved by the Honourable High Court of Karnataka
  - b) Note 6 (a) & (b) of schedule N regarding non- provision for interest to banks and financial institutions in the wake of the Company's subsidiary (Kaytee Switchgear Limited) request for reduction in the rate of interest. Had the said provision been made, the loss for the year, debit balance in profit & loss account and secured loans would have each been more by Rs.49.924 million than the reported amounts.
  - c) Note 9 of schedule N regarding non provision for interest payable, if any under the Interest on Delayed Payments to Small Scale and Ancillary Industrial Undertakings Act, 1993 (effect on revenue is not ascertained)
  - d) Note 10 of schedule N regarding non-obtainment of confirmation of balances as a result of which we have placed reliance on the balances shown in the books of the Company, accounts with certain parties being under review/ reconciliation and non-provision for doubtful debts/disallowance/advances on a comprehensive basis (effect on revenue is not ascertained pending completion of review and availability of all necessary information)
  - e) Note 12 of schedule N regarding accounts of one of the units of the Company's subsidiary Kaytee Switchgear Limited, whose accounts have been maintained on SAP R/3 systems and Accounting Standard 2 prescribed by the Institute of Chartered Accountants of India not being followed in the valuation of finished goods and work-in-progress by the Company and Kaytee Switchgear Limited
  - f) Notes 8 (b), 11, 13 and 14 of Schedule N regarding shortfall in the market /fair value of investments in relation to their acquisition cost of Rs. 4.352 million and amounts due from certain companies Rs. 87.03 million. We have relied on the representations of the management regarding reasons for non-provision for the value of advances/ debts and that the diminution in the value of investments is temporary in nature. We are unable to express independent opinion in the matter.
  - g) Note 15 of Schedule N regarding certain assets/materials at port where installation/clearances have not been completed for several years, which have been carried in the books at their cost Rs.106.994 million. We have relied on the representations of the management that the said assets/materials are in good condition and that the installation/clearances will be completed before long. We are unable to express any independent opinion in the matter.
6. In our opinion and to the best of our knowledge and according to the information and explanations given to us, the said accounts subject to our comments in paragraphs 3 and 5 above and read with the other notes and schedules give a true and fair view in conformity with accounting principles generally accepted in India:
- a. In the case of the balance sheet, of the consolidated state of affairs of the Group as at 31<sup>st</sup> March 2005
  - b. In the case of the profit and loss account, of the consolidated loss of the Group for the year ended on that date and
  - c. In case of the cash flow statement, of the consolidated cash flow for the year ended on that date.

Date: 1<sup>st</sup> September 2005  
**B.K.Ramadhyani & Co.,**  
4B, Chitrapur Bhavan  
8<sup>th</sup> main, 15<sup>th</sup> Cross  
Malleswaram, Bangalore - 560 055

For **B.K.RAMADHYANI & CO**  
Chartered Accountants

**(Shyam Ramadhyani)**  
Partner  
Membership number 200/19522

## **CONSOLIDATED FINANCIAL STATEMENTS**

### **CONSOLIDATED BALANCE SHEET AS AT 31<sup>ST</sup> MARCH 2005**

Rs in 000's

	Schedule	As at 31st March, 2005	As at 31st March 2004
<b>SOURCES OF FUNDS</b>			
<b>SHAREHOLDERS' FUNDS</b>			
a) Capital	A	432,688	432,688
b) Reserves & Surplus	B	<u>681,017</u>	<u>792,681</u>
		1,113,705	1,225,369
<b>LOAN FUNDS</b>			
a) Secured Loans	C	1,596,511	1,747,457
b) Unsecured Loans	D	<u>2,120</u>	<u>2,895</u>
		1,598,631	1,750,352
<b>TOTAL</b>		<u><u>2,712,336</u></u>	<u><u>2,975,721</u></u>
<b>APPLICATION OF FUNDS</b>			
<b>FIXED ASSETS</b>			
a) Gross Block	E	1,878,599	2,088,709
b) Less : Depreciation		<u>522,183</u>	<u>493,759</u>
c) Net Block		1,356,416	1,594,950
d) Capital Work in progress (At cost)		<u>175,780</u>	<u>97,081</u>
		1,532,196	1,692,031
<b>INVESTMENTS</b>	F	17,172	34,154
<b>CURRENT ASSETS, LOANS &amp; ADVANCES</b>			
a) Inventories	G	403,744	362,519
b) Sundry Debtors		724,394	404,503
c) Cash & Bank Balances		235,746	391,558
d) Loans & Advances		<u>287,135</u>	<u>289,971</u>
		1,651,019	1,448,551
<b>Less : CURRENT LIABILITIES &amp; PROVISIONS</b>	H		
a) Current Liabilities		1,457,095	1,336,881
b) Provisions		<u>64,065</u>	<u>26,366</u>
		1,521,160	1,363,247
<b>NET CURRENT ASSETS</b>		129,859	85,304
<b>MISCELLANEOUS EXPENDITURE TO THE EXTENT NOT WRITTEN OFF</b>	I	77,882	132,451
<b>MINORITY INTEREST IN SUBSIDIARIES</b>		74,471	58,605
<b>PROFIT &amp; LOSS ACCOUNT</b>		880,756	973,176
<b>TOTAL</b>		<u><u>2,712,336</u></u>	<u><u>2,975,721</u></u>
<b>NOTES ON ACCOUNTS</b>			
	N		

**FOOT NOTE : Schedules referred to above and the Notes attached form an integral part of the Balance Sheet**

As per our report of even date

For and on behalf of Board of Directors

**For B.K. RAMADHYANI & CO.**  
Chartered Accountants

**VIJAY R. KIRLOSKAR**  
Chairman & Managing Director

**S.N. AGARWAL**  
Director

**SHYAM RAMADHYANI**  
Partner

**P.Y. MAHAJAN**  
Company Secretary

**R.K. GUPTA**  
Vice President & Chief Financial Officer

Bangalore  
Date : 1<sup>st</sup> September, 2005

## KIRLOSKAR ELECTRIC COMPANY LTD.

### CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2005

Rs in 000's

	Schedule	Current Year		Previous Year
<b>INCOME</b>				
Sales		3,339,066		2,256,015
Less: Excise Duty		<u>403,413</u>	2,935,653	<u>254,542</u> 2,001,473
Other Income	J	37,346		64,409
Remission of Loan Liability		41,687		-
Profit on Sale of Fixed Assets		93,348		39,788
Profit on Sale of Long Term Investment		-		14,446
<b>TOTAL</b>		<u><u>3,108,034</u></u>		<u><u>2,120,116</u></u>
<b>EXPENDITURE</b>				
Consumption of Raw Materials, Stores, Spares parts & Components and purchasing for Trading	K	2,078,767		1,440,573
Operating and Other Expenses	L	692,952		675,134
Restructuring Expenses		19,119		-
Interest and Finance Charges				
On Fixed Loans		81,932		110,543
On Other Accounts		<u>54,339</u>	136,271	<u>76,738</u> 187,281
Loss on Sale of Fixed Assets		47,931		25,919
Depreciation, Amortisations and Provisions	M	173,656		139,010
<b>TOTAL</b>		<u><u>3,148,696</u></u>		<u><u>2,467,917</u></u>
<b>LOSS BEFORE TAXATION</b>		40,662		347,801
Less: Transfer of Loss for the year- Minority Interest-KSL		15,866		88,272
Less: Share of Profits of Associates		5,598		904
Add : Provision for Taxation (net)		46		(594)
<b>LOSS FOR THE YEAR</b>		19,244		258,031
Less : Transfer from General Reserve				
- realised portion of revaluation reserve on sale of Asset		111,664		1,256
		<u>92,420</u>		<u>256,775</u>
Less : Loss brought forward from Previous Year		973,176		716,401
<b>Balance of Loss Carried to Balance Sheet</b>		<u><u>880,756</u></u>		<u><u>973,176</u></u>
Earning per Share (Face Value Rs. 10 per share)				
Basic		(0.92)		(8.71)
Diluted		(0.87)		(8.18)

**NOTES ON ACCOUNTS**  
**BALANCE SHEET ABSTRACT &**  
**COMPANY'S GENERAL BUSINESS PROFILE**

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FOOT NOTE: Schedules referred to above and the notes attached form an integral part of the Profit and Loss Account

As per our report of even date

For and on behalf of Board of Directors

**For B.K. RAMADHYANI & CO.**  
Chartered Accountants

**VIJAY R. KIRLOSKAR**  
Chairman & Managing Director

**S.N. AGARWAL**  
Director

**SHYAM RAMADHYANI**  
Partner

**P.Y. MAHAJAN**  
Company Secretary

**R.K. GUPTA**  
Vice President & Chief Financial Officer

Bangalore  
Date : 1<sup>st</sup> September, 2005

## **CONSOLIDATED FINANCIAL STATEMENTS**

### **SCHEDULES TO THE CONSOLIDATED BALANCE SHEET AS AT 31<sup>ST</sup> MARCH 2005**

Rs in 000's

	<b>As at 31<sup>st</sup> March, 2005</b>	<b>As at 31<sup>st</sup> March, 2004</b>
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#### **SCHEDULE "A"**

##### **Authorised :**

3,000,000	Preference Shares of Rs. 100/- each	300,000	300,000
40,000,000	Equity Shares of Rs. 10/- each	<u>400,000</u>	<u>400,000</u>
	<b>TOTAL</b>	<u><b>700,000</b></u>	<u><b>700,000</b></u>

##### **Issued, Subscribed and Paid-up :**

1,200,000	Preference Shares of Rs. 100/- each	120,000	120,000
31,268,817	Equity Shares of Rs. 10/- each	<u>312,688</u>	<u>312,688</u>
		<u><b>432,688</b></u>	<u><b>432,688</b></u>

NOTES : 1. Equity Shares include :

- (a) 10,000 Shares of face value of Rs. 0.100 million allotted as fully paid up pursuant to a contract without payment being received in cash;
- (b) 6,679,572 Shares of face value of Rs. 66.796 million allotted as fully paid up by way of bonus shares by capitalisation of Capital Reserve, Capital Redemption Reserve, General Reserve and Share Premium.
- (c) 6,000,000 shares were allotted during the year 2003 - 04 to IDBI on conversion of Preference Share Capital at face value as per the scheme of arrangement approved by Hon'ble High Court of Karnataka.
2. The promotor stakeholders are to bring in capital by way of issue of equity shares to an extent of two million equity shares of Rs 10/- each at a premium of Rs 20/- per share.
3. The preference shares shall be redeemed in 3 annual installments on 30.09.2008, 30.09.2009 and 30.09.2010 respectively
4. The preference shares carry a cumulative dividend of 7% per annum w.e.f 01.10.2001 payable cumulatively out of the profits of the company. The rate of dividend can be increased to 9% per annum by way of payment of redemption premium subject to profitability and cash flows.

#### **SCHEDULE "B"**

##### **RESERVES AND SURPLUS**

##### **Capital Reserve**

As per last balance sheet	7,283	7,283
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##### **Revaluation Reserve**

As per last balance sheet	159,704	160,960
Less: Trasfered to General Reserve	<u>111,664</u>	<u>1,256</u>
	<b>48,040</b>	<b>159,704</b>

##### **Capital Redemption Reserve**

As per last balance sheet	2,500	2,500
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##### **Share Premium Account**

As per last balance sheet	614,194	614,194
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##### **General Reserve**

As per last balance sheet	-	-
Add: Transfer from Revaluation Reserve	<u>111,664</u>	<u>1,256</u>
Less : Transfer to P & L Account	<u>111,664</u>	<u>1,256</u>
	<b>-</b>	<b>-</b>

##### **Reserve for Doubtful Debts**

As per last balance sheet	9,000	9,000
<b>TOTAL</b>	<u><b>681,017</b></u>	<u><b>792,681</b></u>

#### **SCHEDULE "C"**

##### **SECURED LOANS**

a) From Banks	1,147,936	1,255,853
b) From Financial Institutions	<u>369,229</u>	<u>401,369</u>
c) Zero Coupon Debentures	<u>79,346</u>	<u>90,235</u>
<b>TOTAL</b>	<u><b>1,596,511</b></u>	<u><b>1,747,457</b></u>

## KIRLOSKAR ELECTRIC COMPANY LTD.

### SCHEDULES TO THE CONSOLIDATED BALANCE SHEET AS AT 31<sup>ST</sup> MARCH 2005

Rs in 000's

	As at 31st March, 2005	As at 31 <sup>st</sup> March, 2004
<b>SCHEDULE "D"</b>		
<b>UNSECURED LOANS</b>		
a) Fixed Deposits Unclaimed	549	632
b) Interest Accrued and due -FDs	272	964
c) Sicom Sales Tax Loan	1,119	1,119
D) HDFC Housing Loan	180	180
<b>TOTAL</b>	<b>2,120</b>	<b>2,895</b>

Note : Amount falling due for payment within one year is Rs.2.120 million ( previous year Rs.2.895 million)

### SCHEDULE "E" :FIXED ASSETS

PARTICULARS	Gross Block (at cost)				Depreciation				Net Block	
	As at 1st April 2004	Additions/ Transfers	Deductions/ Transfers	As at 31st March 2005	As at 1st April 2004	For the Year	Withdrawals during the Year	As at 31st March 2005	As at 31st March 2005	As at 31st March 2004
GOODWILL	42,346	—	—	42,346	42,346	—	—	42,346	—	—
LAND	205,729	345	111,664	94,410	—	—	—	—	94,410	205,729
Lease Hold Land	—	6,627	—	6,627	—	—	—	—	6,627	—
BUILDINGS	296,227	9,645	111,601	194,271	78,746	4,653	36,867	46,532	147,738	217,481
PLANT & MACHINERY	1,469,824	13,165	15,153	1,467,836	321,986	74,560	13,952	382,594	1,085,241	1,147,838
Furniture Equipment	59,971	1,684	5,273	56,382	40,439	3,358	4,352	39,444	16,938	19,532
Vehicles and Aircraft	13,588	2,609	494	15,703	9,348	1,242	221	10,369	5,334	4,240
Proportionate Share of Jointly Count	1,024	—	—	1,024	894	2	—	896	128	130
<b>TOTAL</b>	2,088,709	34,075	244,185	1,878,599	493,759	83,816	55,392	522,182	1,356,416	1,594,950
PREVIOUS YEAR	2,184,472	26,385	122,148	2,088,709	473,243	81,806	61,290	493,759	1,594,950	

Note:

- Land Includes foundry land at Bangalore which was revalued in the year 1999 - 2000 on the basis of Chartered Engineers certificate. Incremental amount on revaluation was credited to Revaluation Reserve Rs. 48,040 (in 000's)
- Additions to freehold land represents additional consideration and stamp duty on execution of sale deed at Hirehalli, Tumkur. This land stands in the name of KECL.
- Leasehold Land represents land taken on lease from KIADB. On expiry of lease period, on payment of balance consideration, if any and on execution of the sale deed, the title will pass to the Company.

### SCHEDULE "F"

Rs in 000's

Details of Investment	Name of the Company	Nos.	Face Value	As at 31st March 2005	As at 31st March, 2004
<b>INVESTMENTS (AT COST) {LONG TERM}</b>					
<b>A. TRADE:</b>					
<b>(a) Quoted : (i) Equity Shares - Fully Paid-up</b>					
	Kirloskar Computer Services Ltd., (#-)	200,000	10	2,380	2,380
	The Mysore Kirloskar Ltd., (#)	770,750	10	21,260	21,260
<b>(ii) Debentures - Fully Paid-up</b>					
	The Mysore Kirloskar Ltd., @	30,000	44	1,320	1,320
<b>(b) Unquoted : (i) Equity Shares - Fully Paid-up</b>					
	Investments in Associates				
	Kirloskar Power Equipments Ltd.,	1,050,000	10	10,213	3,848
	Kirloskar (Malaysia) Sdn. Bhd,	150,000	MR1	2,373	3,140
	Kuala Lumpur, Malaysia				
<b>Investment in Other Equity Shares Fully paid-up:</b>					
	Best Trading & Agencies Ltd.,	584	10	6	6
	Kirloskar Proprietary Ltd.,	26	100	128	128
	(acquired 25 shares on rights issue)				
	Sangli Bank Limited	10,000	10	100	100
	Kirloskar Kenya Limited, Nairobi, Kenya	1,272	KSH1000	852	852
	Kirsons Trading Pte. Ltd	56,250	S \$1	1,120	1,120
				<b>39,752</b>	<b>34,154</b>
	Less: Provision for diminution in value of Investments			<b>22,580</b>	<b>—</b>
	<b>TOTAL</b>			<b>17,172</b>	<b>34,154</b>
~	Pledged with ICICI Bank Limited as security for Term Loan.				
#	Non-disposal undertaking furnished to financial institution and matured & due for payment.				
@	Matured and due for payment.				
Notes: 1)	Aggregate value of quoted investments cost			Rs. in 000's	Rs. in 000's
	market value			24,960	24,960
	2) Aggregate value of unquoted investments			Not Available	Not Available
	Book value			14,792	9,194

## CONSOLIDATED FINANCIAL STATEMENTS

### SCHEDULES TO THE CONSOLIDATED BALANCE SHEET AS AT 31<sup>ST</sup> MARCH 2005

Rs in 000's

SCHEDULE "G"	As at 31st March, 2005	As at 31 <sup>ST</sup> March,2004
<b>CURRENT ASSETS, LOANS &amp; ADVANCES</b>		
<b>A. Current Assets</b>		
1. <b>Inventories - as certified by the Managing Director</b>		
i. Raw Materials, Stores, Spares Parts, Components etc.,	123,800	104,374
ii. Stock in Trade		
Finished Goods (including Trading Stocks)	76,763	93,522
Process Stock	212,417	172,801
iii. Others-Including Material at Port and Scrap	<u>29,220</u>	<u>22,278</u>
	<b>442,200</b>	<b>392,975</b>
Less: Provision for Non-moving Stock	<u>38,456</u>	<u>30,456</u>
	<b>403,744</b>	<b>362,519</b>
2. <b>Sundry Debtors</b> (Unsecured, Considered Good except doubtful debts of Rs. 88.086 Million, previous year Rs.97.293 million)		
i. Debts outstanding for a period exceeding six months	477,524	294,238
ii. Other Debts	<u>334,956</u>	<u>207,558</u>
	<b>812,480</b>	<b>501,796</b>
Less : Provision for doubtful debts	<u>88,086</u>	<u>97,293</u>
	<b>724,394</b>	<b>404,503</b>
3. <b>Cash and Bank Balances</b>		
a. Cash on Hand	220	248
b. Cheques in hand	336	961
c. Amount in transit	2,248	4,330
d. Balances with Scheduled Banks		
- On Current Account	77,271	124,625
- Unclaimed / Unpaid Dividends On Current Account	349	1,150
- On Short term deposit accounts	1,54,780	259,513
Proportionate Share in Jointly controlled entity	<u>542</u>	<u>731</u>
	<b>235,746</b>	<b>391,558</b>
<b>B. Loans and Advances</b> (Unsecured, Considered Good except doubtful advances of Rs. 40.236 Million,previous year Rs.41.569 million) Advances Recoverable in Cash or in kind or for value to be received		
Sundry Advances	311,550	319,656
Less : Provision for Doubtful Advances	<u>40,236</u>	<u>41,569</u>
	<b>271,314</b>	<b>278,087</b>
Central Excise Deposits	9,035	8,393
Advance payment of tax	6,619	3,325
Proportionate Share in Jointly controlled entity	<u>167</u>	<u>166</u>
	<b>287,135</b>	<b>289,971</b>
<b>TOTAL</b>	<b><u>1,651,019</u></b>	<b><u>1,448,551</u></b>
<b>SCHEDULE "H"</b>		
<b>CURRENT LIABILITIES &amp; PROVISIONS</b>		
<b>A. Current Liabilities</b>		
Sundry Creditors	973,039	976,585
Acceptances	76,391	42,885
Trade Advances	28,619	32,472
Unclaimed / Unpaid Dividends (*)	349	1,150
Other liabilities (@)	338,186	242,565
Lease Rental Dues	39,406	39,700
Interest accrued but not due on loans and deposits	508	864
Proportionate Share in Jointly controlled entity	<u>597</u>	<u>660</u>
	<b>1,457,095</b>	<b>1,336,881</b>
<b>B. Provisions</b>		
For Taxation	6,492	6,446
For Earned Leave Encashment	13,304	10,045
For Warranty claim	14,199	9,509
Others	30,000	-
Proportionate Share in Joint Venture	<u>70</u>	<u>366</u>
	<b>64,065</b>	<b>26,366</b>
<b>TOTAL</b>	<b><u>1,521,160</u></b>	<b><u>1,363,247</u></b>
(*) Unclaimed for less than 7 years.		
(@) Includes Rs. 0.309 million due to directors ( Previous year Rs.0.309 million)		
<b>SCHEDULE "I"</b>		
<b>MISCELLANEOUS EXPENDITURE TO THE EXTENT NOT WRITTEN-OFF</b>		
1 Deferred Revenue Expenditure		
Voluntary Retirement Scheme	<u>77,882</u>	<u>132,451</u>
<b>TOTAL</b>	<b><u>77,882</u></b>	<b><u>132,451</u></b>



## KIRLOSKAR ELECTRIC COMPANY LTD.

### SCHEDULES TO THE CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2005

Rs in 000's

	Current Year	Previous Year
<b>SCHEDULE "J"</b>		
<b>OTHER INCOME</b>		
<b>Interest:</b>		
On Fixed Deposits	6,525	1,893
Others	<u>837</u>	<u>1,060</u>
	7,362	2,953
(Tax deducted at source Rs.0.26 million previous year Rs.0.1 Million)		
Dividend from Long term Investments:		
Trade	10	22
Rent Received	5,368	3,512
(Tax deducted at source Rs. 0.50 million previous year Rs.0.49 million)		
Miscellaneous	24,295*	57,824
Proportionate Share of Income of Jointly Controlled Entity	311	98
<b>TOTAL</b>	<u><u>37,346</u></u>	<u><u>64,409</u></u>

\*Includes provision no longer required Rs.20,704(Rs.29,474)

### SCHEDULE "K"

#### CONSUMPTION OF RAW MATERIALS, STORES, SPARE

#### PARTS & COMPONENTS AND

#### PURCHASES FOR TRADING

Raw material and Components	1,931,876	1,389,537
Stores, Spares Parts etc.,	<u>25,069</u>	<u>-</u>
	1,956,945	1,389,537
Purchases for Trading	<u>143,187</u>	<u>76,322</u>
	2,100,132	1,465,859

*Add /(deduct) : Decrease /(Increase) in Stocks*

Stock at close		
Process Stock	212,417	172,801
Trading and Finished Goods	76,763	93,522
Scrap	<u>3,137</u>	<u>4,629</u>
	<u>292,317</u>	<u>270,952</u>
Less: Stock at commencement		
Process Stock	172,801	120,858
Trading and Finished Goods	93,522	121,578
Scrap	<u>4,629</u>	<u>3,230</u>
	<u>270,952</u>	<u>245,666</u>
	(21,365)	(25,286)
<b>*Net of expenditure on asset internally manufactured</b>	<u><u>2,078,767</u></u>	<u><u>1,440,573</u></u>

## **CONSOLIDATED FINANCIAL STATEMENTS**

### **SCHEDULES TO THE CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2005**

Rs in 000's

	<b>Current Year</b>	<b>Previous Year</b>
<b>SCHEDULE "L"</b>		
<b>OPERATING &amp; OTHER EXPENSES</b>		
Power & Fuel	59,256	55,229
Expenses relating to Employees :		
Salaries, Wages & Bonuses	340,721	335,239
Contribution to Employees PF, Family Pension Scheme and Superannuation Fund	33,556	30,820
Gratuity as per actuarial valuation	20,176	19,128
Workmen and Staff Welfare Expenses (includes contribution to employees' State insurance & PF Administration Charges	35,529	32,686
Rent	429,982	417,873
Repairs	6,788	7,740
Buildings	4,497	2,423
Machinery	14,425	10,297
Others	7,360	8,626
	<u>26,282</u>	21,346
Selling Expenses	37,050	35,927
Commission	3,586	9,462
Cash Discount	7,679	3,382
Additional Sales Tax	5,068	1,873
Maintenance of Vehicles	1,917	2,143
Insurance	5,877	5,285
Rates and Taxes	5,574	6,347
Advertisement	2,050	5,829
Printing & Stationery	7,109	8,181
Travelling Expenses	31,857	35,055
Postage, Telegrams and Telephones	12,955	13,372
Auditors Remuneration	2,709	2,542
Tech. Consultancy & Professional Charges	17,439	15,362
Royalty	23	
Bank Charges (Includes difference in exchange of Rs. 0.39 Million previous year Rs.2.068 million)	14,008	13,736
Subscription to Technical Associations, Journals and Magazines	2,252	1,706
Computer hire, Software development and data preparation charges	635	483
Manufacturing expenses and sundries	8,161	5,037
Bad debts written off	10,553	23,317
Less : Provision for Doubtful debts withdrawn	10,537	23,317
	16	-
Donations	36	3
Directors' sitting fees	239	112
Remuneration to Whole-time Directors	4,266	6,407
Proportionate Share of Income of Jointly Controlled Entity	138	702
	<u>Total</u>	<u>675,134</u>
	<u>692,952</u>	<u>675,134</u>
<b>SCHEDULE "M"</b>		
<b>DEPRECIATION, AMORTISATION AND PROVISIONS</b>		
1. Depreciation	83,816	81,806
2. Amortisation of Voluntary Retirement Scheme	54,569	56,672
3. Provision for Inventories	8,000	-
4. Diminution in value of Investment	22,580	-
5. Warranty Claim	4,691	532
	<u>Total</u>	<u>139,010</u>
	<u>173,656</u>	<u>139,010</u>

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## KIRLOSKAR ELECTRIC COMPANY LTD.

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### SCHEDULES TO THE CONSOLIDATED BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

#### SCHEDULE "N"

##### Notes attached to and forming part of the Consolidated Balance Sheet and Profit and Loss Account

#### 1. SIGNIFICANT ACCOUNTING POLICIES

##### 1.1 BASIS OF CONSOLIDATION

The financial statements of Kaytee Switchgear Limited, a subsidiary a jointly controlled entity and all associates used in the consolidation are drawn up to the same reporting date as that of the parent company i.e. year ended March 31<sup>st</sup>, 2005. In respect of KEC North America Inc, a subsidiary, the financial statements are not readily available for consolidation hence, the latest available Balance Sheet as at 31<sup>st</sup> December 2003 has been adopted. The financial statements of KEASI Robican Industrial Systems Pvt. Ltd., and Kirloskar Power Equipment Limited used are as received from the respective companies and are unaudited. Intra group balances (except in respect of transactions between the company and Kaytee Switchgear Limited) have not been reconciled and differences to the extent identified have been treated as intra group suspense, pending reconciliation.

##### **Basis of Presentation of Financial statements**

The financial statements of the Company and its subsidiary Kaytee Switchgear Limited have been prepared under historical cost convention, in accordance with the Generally Accepted Accounting Principles (GAAP) applicable in India and the provisions of the Companies Act, 1956. The preparation of the financial statements in conformity with GAAP requires that the management makes estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities as at date of the financial statements, and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates. Their accounting policies adopted by KEC North America Inc, KEASI Robican Industrial Systems Private Limited and both associates have not been compared and harmonized with the accounting policies used by the company. The proportion of items in the consolidated financial statements to which different accounting policies have been applied are not ascertained.

##### 1.2 PRINCIPLES OF CONSOLIDATION

- a) The financial statement of the parent company and its subsidiaries have been consolidated on a line by line basis by adding together the book values of like items of assets, liabilities, income and expenditures after eliminating intra group balances and transactions.
- b) The Company's interest in KEASI Robican Systems Pvt. Ltd, a jointly controlled entity has been accounted as per the proportionate consolidation method envisaged in Accounting Standard - 27. In terms of this method, the venture's share of assets, liabilities, Income and Expenses of a jointly controlled entity is reported as separate line items in the consolidated financial statements.
- c) Investments in Associate Companies have been accounted under the Equity Method as per Accounting Standard 23. Under the Equity Method of Accounting, the investment is initially recorded at cost, identifying any goodwill / capital reserve arising at the time of acquisition. The carrying amount of investment is adjusted thereafter for post acquisition change in the investor's share of net assets of the Investee. The consolidated statement of profit and loss reflects the investor's share of the results of operations of the investee. Calculation of goodwill/ capital reserve as well as post acquisition changes have been made based on available information. Comprehensive information was not available.
- d) In the absence of necessary information, unrealized profits and losses from intragroup transactions either relating to the year or previous years has not been eliminated.

#### **ACCOUNTING POLICIES FOLLOWED BY THE COMPANY AND KAYTEE SWITCHGEAR LIMITED:**

##### 1.3 ACCRUAL SYSTEM OF ACCOUNTING:

The Company follows the accrual system of accounting in respect of all items of expenditure and income.

##### 1.4 FIXED ASSETS:

Fixed Assets (other than land which were revalued) are stated at cost of acquisition inclusive of freight, duties, taxes and incidental expenses relating to the acquisition, installation, erection and commissioning less depreciation. A portion of the land owned by the company has been revalued. Internally manufactured assets are valued at works cost.

##### 1.5 INVESTMENTS:

Investments unless otherwise stated are considered as long term in nature and are valued at acquisition cost less provision for diminution, if any.

##### 1.6 INVENTORIES:

Raw Materials, Stores, Spare Parts and Components are valued at cost determined on FIFO basis or net realizable values whichever is lower except for stocks purchased in prior years at the switchgear division, which are valued at estimated cost due to non-availability of adequate data. Work in progress is valued at works cost. Finished goods are valued at cost or market price whichever is lower.

## **CONSOLIDATED FINANCIAL STATEMENTS**

### **SCHEDULES TO THE CONSOLIDATED BALANCE SHEET AND PROFIT AND LOSS ACCOUNT**

#### **SCHEDULE "N" (Contd.....)**

#### **Notes attached to and forming part of the Consolidated Balance Sheet and Profit and Loss Account**

##### **1.7 DEPRECIATION:**

- a) Depreciation is charged on the written down value of assets at the rates specified in schedule XIV to the Companies Act, 1956 or Income Tax Act, 1961, whichever is higher on assets as on 31st March 1994.
- b) Depreciation on furniture and fixtures above Rs. 5,000/- provided at the residences of the employees has been charged at the rate of 33.33% on the straight-line method irrespective of the quarter of addition. Furniture and fixtures whose cost is Rs.5,000/- or below are fully depreciated in the year of addition.
- c) In respect of other additions after 1st April 1994, depreciation on straight-line basis at the rates specified in schedule XIV to the Companies Act 1956 has been charged.
- d) Depreciation on assets leased is charged over the primary lease period.
- e) Depreciation on assets (other than Furniture and Fixtures provided to employees) bought / sold during the year is charged at the applicable rates on a quarterly basis, depending upon the quarter of the financial year in which the assets are installed / sold.

##### **1.8 AMORTISATION OF EXPENDITURE ON VOLUNTARY RETIREMENT SCHEME:**

- a) Expenditure incurred under the voluntary retirement scheme, providing for lump sum benefits at the time of retirement is amortised over a period of 4 / 5 years.
- b) Liability in respect of other Voluntary Retirement Schemes providing for payment of benefits in installments over specified periods is amortised over 5 years.

##### **1.9 CONSTRUCTION CONTRACTS:**

Invoicing in respect of indivisible Works Contracts is done on the basis of confirmation of delivery at site for full value of the equipment inclusive of corresponding erection and commissioning charges as indicated in the contract.

##### **1.10 RESEARCH AND DEVELOPMENT EXPENDITURE:**

Revenue Expenditure in carrying out Research and Development activity is charged to the Profit and Loss Account of the year in which it is incurred. Capital Expenditure in respect of Research and Development Activity is capitalised as Fixed Assets and depreciation provided as detailed above.

##### **1.11 REVENUE RECOGNITION:**

Sale of goods is recognized on shipment to customers and excludes recovery towards sales tax.

##### **1.12 RETIREMENT BENEFITS:**

Contribution to Gratuity and Superannuation funds has been based on the assessment of liability by Life Insurance Corporation of India.

##### **1.13 FOREIGN CURRENCY TRANSLATION ON OVERSEAS BRANCH ETC.:**

The financial statements of foreign branches have been translated in accordance with Accounting Standard 11 prescribed by The Institute of Chartered Accountants of India.

##### **1.15 TAXES ON INCOME:**

Provision for current tax for the year is after taking cognizance of excess / short provision in prior years. Deferred tax assets/liability is recognized, subject to consideration of prudence, on timing differences.

##### **1.16 BORROWING COSTS:**

Interest and other borrowing costs on specific borrowings relating to qualifying assets are capitalized up to the date such assets are ready for use / intended to use. Other interest and borrowing costs are charged to Profit & Loss Account.

##### **1.17 CONTINGENT LIABILITIES:**

Financial effect of contingent liabilities is disclosed based on information available upto the date on which financial statements are approved. However, where a reasonable estimate of financial effect cannot be made, suitable disclosures are made with regard to this fact and the existence and nature of the contingent liability. Details of the accounting policies followed by KEC North America Inc and all associates have not been furnished.

2. The Consolidated Financial Statement (CFS) presents the consolidated accounts of Kirloskar Electric Company Limited with its following Subsidiaries, Joint Venture and Associates:

<b>Name of the Company</b>	<b>Ownership Percentage</b>	<b>Country of Incorporation</b>
<b>Subsidiaries:</b>		
Kaytee Switchgear Limited	70.96 %	India
KEC North America Inc. USA	70.00 %	North America
<b>Associates:</b>		
Kirloskar Power Equipments Limited	30.00 %	India
Kirloskar (Malaysia) Sdn. Bhd	40.00 %	Malaysia
<b>Joint Venture:</b>		
KEASI Robicon Systems Industrial Pvt. Ltd.,	50.00 %	India

## KIRLOSKAR ELECTRIC COMPANY LTD.

### SCHEDULES TO THE CONSOLIDATED BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

#### SCHEDULE "N" (Contd.....)

#### Notes attached to and forming part of the Consolidated Balance Sheet and Profit and Loss Account

3. (a) CONTINGENT LIABILITIES OF THE COMPANY AND KAYTEE SWITCHGEAR LIMITED ETC.	As at 31.03.2005 Rs. (000's)	As at 31.03.2004 Rs. (000's)
i) Guarantees / Counter guarantees given on Import and Sale contracts etc.	<b>71,086</b>	117,151
ii) Certain industrial disputes are pending before various judicial authorities – not acknowledged by the Company.	<b>Not Ascertainable</b>	Not Ascertainable
iii) Wage settlements have expired at certain units of the company and Negotiations are under progress. Wage arrears, if any.	<b>Not Ascertainable</b>	Not Ascertainable
iv) Central excise and customs authorities have issued notices and raised certain demands, which are pending in appeal before various authorities, not acknowledged as debt by the Company	<b>6,758</b>	14,107
v) Bill discounted with bank	<b>14,854</b>	NIL
vi) Sales tax demanded under appeal in branches of the Company	<b>8,855</b>	16,506
vii) Claims against the Company not acknowledged as debt. The Company has made counter claim against one of the parties amounting to Rs.12.944 million (Previous year Rs.12.944 million)	<b>2,49,377</b>	244,630
viii) The Commercial Tax authorities have issued notices concerning the tax liability relating to Entry Tax on certain disputed items for the period 1983-84 to 1992-93 which is pending disposal before the Hon'ble Supreme Court, Karnataka High Court and other Appellate authorities. The liability is not acknowledged as debt by the Company.	<b>NIL</b>	8,731
ix) The Company has furnished guarantees for the loan of RS.43.24 million (Previous year RS.43.24 million) interest and other costs provided to Kirloskar Computer Services Ltd., (KCSL) credit facilities of Rs.152.55 million (Previous year: RS.129.50 million) interest and other costs to Kirloskar Batteries Pvt. Limited (KBPL) and redemption of Preference shares issued by Kirloskar Investment and Finance Ltd. (KIFL) Rs.20 million (Previous year Rs.20 million) and has obtained counter guarantees from the said Companies. The preference shareholder of KIFL has claimed the amount from the Company. The Company has written to the said party denying its liability. The Company does not acknowledge this liability.		
x) Arrears of dividend on cumulative preference shares (including tax thereon). In terms of the Scheme of Arrangement approved by the Hon'ble High Court of Karnataka, dividend on the said preference shares with effect from October 1 <sup>st</sup> , 2001 are payable cumulatively out of the profits of the company and the said dividend for the period from October 1 <sup>st</sup> , 2001 to September 30 <sup>th</sup> , 2003 are to be funded and converted to Zero Coupon Debentures (ZCDs). The Board of Directors vide their meeting held on September 26 <sup>th</sup> , 2003 allotted ZCD's to an extent of Rs. 2.345 crores representing dividends on the said Preference Shares from October 1 <sup>st</sup> , 2001 to September 30 <sup>th</sup> , 2003. However, on subsequent reexamination of the matter, the Board of Directors held that the said allotment was contrary to the scheme since in terms of the same, dividends with effect from October 1 <sup>st</sup> , 2001 were payable only out of profits and in as much as there were no profits, the allotment would be violative of section 205 of the Companies Act, 1956. Accordingly your Board of Directors vide their meeting held on January 17 <sup>th</sup> , 2004 proceeded to annul the said allotment. The preference shareholder has requested the Company to evolve an alternate mechanism to compensate them. Pending finalisation of the matter, no provision has been made in the books of account for the same.	<b>41,106</b>	31,193
xi) Kirloskar Electric Company Ltd. had imported certain capital equipments without payment of customs duty under the Export Promotion Capital Goods Scheme subject to exporting Rs. 3,887.63 million within 8 years starting from the financial year 1996-97. Estimated amount of customs duty payable on capital goods imported (excluding interest and penalty). The Director General of Foreign Trade has granted extension of time till 24/3/2006 to fulfill export obligations. The company has sought further extension of time to honour its commitments. The shortfall in export performance as of 31 <sup>st</sup> March 2005 in relation to commitments is Rs.3,665.54 million.	<b>182,722</b>	182,722
xii) Sales tax liability in respect of pending assessments	<b>Not Ascertainable</b>	Not Ascertainable

## **CONSOLIDATED FINANCIAL STATEMENTS**

### **SCHEDULES TO THE CONSOLIDATED BALANCE SHEET AND PROFIT AND LOSS ACCOUNT**

#### **SCHEDULE "N" (Contd.....)**

#### **Notes attached to and forming part of the Consolidated Balance Sheet and Profit and Loss Account**

	<b>As at 31.03.2005 Rs. (000's)</b>	<b>As at 31.03.2004 Rs. (000's)</b>
xiii) Sales tax on equipment procured on hire/ lease and on computer software charges is contested by the suppliers – amount not ascertainable and will be charged to revenue in the year of final claim.	<b>Not Ascertainable</b>	Not Ascertainable
xiv) Interest and penalty if any, on account of delays/default on payment of statutory/ suppliers dues not ascertainable. The Company has made waiver petition wherever such interest/ penalty has been levied.	<b>Not Ascertainable</b>	Not Ascertainable
xv) Penal damages levied by the Regional Provident Fund Commissioner and subject to writ before the High Court of Karnataka, Bangalore. An amount of Rs.4.618 million paid has been included in loans and advances.	<b>9,154</b>	Nil
xvi) By virtue of the Scheme of Arrangement, referred to in note 5 (a), the company has to provide guarantees to lenders of Best Trading & Agencies Limited for the realisation of Principal amount outstanding as at 31.03.2003 less subsequent payment. The guarantees will come into force after expiry of 36 months from 30.09.2001 and in the event of shortfall if any, in realisation of the assets of the said company.  In respect of items above, future cash outflows in respect of contingent liabilities is determinable only on receipt of judgments pending at various forums/ settlement of matter.	<b>139,945</b>	805,228
3. b) Estimated amount of contracts remaining to be executed on Capital Account and not provided for (Net of advances) Rs. 68,194 (Rs.29,415)		
<b>4. SECURED LOANS OF THE COMPANY AND KAYTEE SWITCHGEAR LIMITED:</b>		
a) From Bank of Commerce (M) Bhd, Selangor, Malaysia - Secured by a floating charge in respect of property situated, kept, placed or stored at any place in Malaysia, both present and future, including all stocks in trade, goodwill and book debts to an extent of RM 550,000.	<b>1,556 RM136</b>	700 RM61
b) Working Capital facilities from Consortium Banks are secured by first pari passu charge on current assets and second pari passu charge on fixed assets. All the facilities are guaranteed by Chairman & Managing Director of the company.  Term Loans from banks and financial institutions are secured by first pari passu charge on fixed assets along with amount due on debentures to Sundaram Finance Limited and second pari passu charge on current assets.  Default in payments of installment and interest thereon to certain lenders shall result in a right to convert the whole or part of the outstanding into fully paid equity shares of the Company at par.		
c) Zero Coupon Debentures to IDBI and Sundaram Finance Limited – First pari passu charge on fixed assets along with banks and financial institutions as referred in (b) above.		
<b>5.</b>		
a. The order of the Hon'ble High Court of Karnataka according approval for the Scheme of Arrangement under Sections 391 to 394 of the Companies Act 1956 was received in February 2003 with effect from September 30, 2001 as the appointed day. This Scheme of Arrangement interalia involved restructuring of liabilities to banks and financial institutions and transfer of the Rotating Machines Group to Kaytee Switchgear Limited (KSL).		
b. A few banks and financial institutions who had advanced moneys to the Company have not yet bifurcated the transactions of and the amounts owed by the Company, KSL and Best Trading and Agencies Limited, the special purpose vehicle for holding certain assets and liabilities as per the orders of the Hon'ble court. However, the Company has given effect to the scheme as approved by the Hon'ble court. Accordingly, the balances owed to such banks and institutions as at 31 <sup>st</sup> March 2005 are as per books and are subject to confirmation. Charge will be registered with the Registrar of Companies in few cases after completion of documentation.		
c. Certain assets and liabilities of Best Trading and Agencies Limited including consents/approvals from various regulatory authorities continue to remain in the name of the Company. Necessary action is being taken in the matter.		

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## KIRLOSKAR ELECTRIC COMPANY LTD.

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### SCHEDULES TO THE CONSOLIDATED BALANCE SHEET AND PROFIT AND LOSS ACCOUNT SCHEDULE "N" (Contd.....)

#### Notes attached to and forming part of the Consolidated Balance Sheet and Profit and Loss Account

6. a. KSL during the year has approached all the lenders (banks and financial institutions) to reschedule the installments and interest due to them in view of delay in implementation of the Scheme approved by the Hon'ble High Court of Karnataka in February 2003. The Company has submitted to them a proposal seeking reduction in the rate of interest to 8% on all facilities and repayment of installments being postponed by 18 months starting from 01.10.2005. Further as per the said proposal, interest accrued and due is to be converted into 6.50% cumulative redeemable preference shares. The company is yet to receive sanction letters to this effect from certain financial institutions and banks. However, the Company has taken cognizance of the said restructuring proposal while preparing the accounts.  
b. In the event the KSL's proposal is not considered, there will be an additional liability on account of interest of Rs.49.924 million (excluding overdue and penal interest).  
c. Interest due for the period 1<sup>st</sup> October 2002 to 30<sup>th</sup> September 2004 shall be converted into 6.50% Cumulative Redeemable Preference Shares in the event the Company's proposal is accepted by banks/ financial institution.
7. The Company has preferred a suit for various claims against Deutsche Bank, one of the members of the consortium of bankers for breach of trust for withholding of monies belonging to the company and freezing sanctioned working capital limits.
8. **Sundry Advances include: -**
  - a) Rs. 24.987 million (Rs.24.376 million) due from private limited companies in which the directors are interested.
  - b) Rs.50.239 million (Rs.64.245 million) being rescheduled advances from certain companies. The management is confident of recovering these dues and no provision is considered necessary. Some of these companies have incurred losses
9. Sundry creditors include Rs.271.541 million to small-scale industrial undertakings to the extent identified from the records of the company. Interest payable, if any, under Interest on delayed payments to Small Scale and Ancillary Industrial Undertakings Act, 1993 will be accounted on settlement. All data of this paragraph is as certified by the management.
10. Confirmation of balances from certain sundry debtors / creditors, deposit accounts, loans and advances are awaited. Accounts of certain sundry debtors, loans and advances, deposits/ margin money with banks, collector of customs and creditors, are under review and reconciliation. Provision for doubtful debts / advances have been made to the extent ascertained. Adjustments if any, will be made on completion of review/reconciliation. Effect on revenue is not ascertainable.
11. KSL has taken over certain dues from Best Trading & Agencies Limited (value as per their books Rs.179.16 million) at a lumpsum discounted amount of Rs.5.20 million. This amount of Rs.5.20 million is included in 'Loans & Advances'. The management is confident of recovering these dues and no provision is considered necessary. Since no individual values have been assigned, amounts dues from a private limited company in which a director is interested and other related parties have not been included in note 8 and 19.
12. a. The accounts of one of the units of the Company has been maintained on SAP R3 system, which envisages an integrated system of materials, production, sales and financial accounting. Various errors and inconsistencies mainly in the areas of production and material accounting, valuation of inventories, creation of masters and upload of balances when this unit went live and of two units whose operations were merged by the Company in prior years with the unit referred to above, have crept in. These are interalia on account of inaccurate definition of master information as well as change in material codes and have been corrected to the extent identified by the Company. The priced stock ledger relating to raw materials, stores and components has been reconstructed outside SAP R/3 System rectifying all known errors and inconsistencies. The closing stocks of all inventories have been adopted as per physical inventory taken by the management at the end of the year, pending identification of mistakes, differences, reconciliation and consequential corrections. Consequently, the impact of these differences is not quantifiable.  
b. Accounting Standard - 2 prescribed by the Institute of Chartered Accountants of India has not been followed in the valuation of finished goods and work-in-progress by the Company and Kaytee Switchgear Limited.
13. Kirloskar Computer Services Limited, where the Company holds shares has incurred substantial losses. However, the company is confident of realizing the acquisition cost and shortfall, if any, is not likely to be material. Under the circumstances, diminution in the value of the said investments is considered temporary and no provision is considered necessary by the management.

## **CONSOLIDATED FINANCIAL STATEMENTS**

### **SCHEDULES TO THE CONSOLIDATED BALANCE SHEET AND PROFIT AND LOSS ACCOUNT**

#### **SCHEDULE "N" (Contd.....)**

##### **Notes attached to and forming part of the Consolidated Balance Sheet and Profit and Loss Account**

14. a) The Company holds unquoted investments with book value of Rs. 1.972 million in Kirsons Trading Pvt. Ltd. and Kirloskar Kenya Limited. Current Assets, Loans & Advances include Rs.31.59 million due from these and certain other companies.
- b) All the above companies have incurred losses and their net worth is substantially eroded. Having regard to the long-term association with these companies, the potential of the power sector & the North American market, their revival plans as communicated to the Company and other factors, no provision either for diminution in the value of investments or the value of receivables is considered necessary. The diminution in the value of the said investments is considered temporary by the management.
15. a) Capital work in progress Rs. 90.114 million representing value of assets under installation for several years without any further work on the same. The Management is hopeful that it will be in a position to put the said assets to use before long. The management has formed a team to examine the matter and recommend further investments that are required.
- b) Materials lying at port include Rs.16.88 million representing value of materials not cleared for period exceeding one year. The management is hopeful that it will be in a position to clear the same before long.
16. Prior period income / expenditure has not been separately ascertained and disclosed in terms of Accounting Standard - 5 issued by The Institute of Chartered Accountants of India but have been added/ netted off under their natural heads. This has no effect on the working results of the Company.
17. The company has various operating leases for office facilities, guest house and residential premises of employees that are renewable on a periodic basis, and cancelable at its option. Rental expenses for operating leases included in the financial statements for the year are Rs. 6.788 million (Rs.7.74 million).
18. In the absence of profits in terms of Sec 349 of the Companies Act, 1956, minimum remuneration as stated below has been paid / provided to the Whole -time Directors of the Company

<b>Particulars</b>	<b>Current Year (Rs. In 000's)</b>
Salary	3,828
Contribution to Provident & Other Funds	438
<b>TOTAL</b>	<b>4,266</b>

Liability in respect of accrued gratuity is not ascertainable separately.

##### **19. Related Parties Disclosure:**

<b>SI.No.</b>	<b>Name of the related party</b>	<b>Relationship</b>
1	Mr. Vijay R. Kirloskar Mr. P. S. Malik Mr. D. R. Venkatesha Murthy Mrs. Meena Kirloskar Ms. Janaki Kirloskar	Key management personnel and their Relatives.
2	Kirloskar Computer Services Limited Kirloskar Batteries Private Limited Ravindu Motors Private Limited Vijay Farms Private Limited Sri Vijaydurga Investments and Agencies Private Limited Vijay Jyothi Investment and Agencies Private Limited Abhiman Trading Company Private Limited Vimraj Investment Private Limited Vijay Kirthi Investment and Agencies Private Limited	Enterprises over which key management personnel and their relatives are able to exercise significant influence



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**KIRLOSKAR ELECTRIC COMPANY LTD.****SCHEDULES TO THE CONSOLIDATED BALANCE SHEET AND PROFIT AND LOSS ACCOUNT**  
**SCHEDULE "N" (Contd.....)**

Notes attached to and forming part of the Consolidated Balance Sheet and Profit and Loss Account

**DETAILS OF TRANSACTIONS**

<b>Nature of transactions</b>	<b>Key management personnel and their Relatives</b>	<b>Enterprises over which key management personnel and their relatives are able to exercise significant influence</b>	<b>Total</b>
<b>Purchases of goods/services</b>	<b>Nil</b>	<b>12,049</b> (7,243)	<b>12,049</b> (7,243)
<b>Sale of goods</b>	<b>Nil</b>	<b>1,712</b> (445)	<b>1,712</b> (445)
<b>Rent received</b>	<b>Nil</b>	<b>2,442</b> (2,400)	<b>2,442</b> (2,400)
<b>Investments as on 31.03.2005</b>	<b>Nil</b>	<b>2,380</b> (2,380)	<b>2,380</b> (2,380)
<b>Amount due to Company as at 31.3.2005</b>	<b>2,700</b> (1,000)	<b>62,951</b> (76,312)	<b>65,651</b> (77,312)
<b>Amount due from Company as at 31.3.2005</b>	<b>90</b> (162)	<b>731</b> (Nil)	<b>821</b> (162)
<b>Sale of immovable Property</b>	<b>Nil</b> (14,200)	<b>Nil</b>	<b>Nil</b> (14,200)
<b>Rent Paid</b>	<b>540</b> (315)	<b>Nil</b>	<b>540</b> (315)
<b>Remuneration</b>	<b>8,125</b> (6,408)	<b>Nil</b>	<b>8,125</b> (6,408)

## **CONSOLIDATED FINANCIAL STATEMENTS**

### **SCHEDULES TO THE CONSOLIDATED BALANCE SHEET AND PROFIT AND LOSS ACCOUNT** **SCHEDULE "N" (Contd.....)**

**Notes attached to and forming part of the Consolidated Balance Sheet and Profit and Loss Account**

**20. Segment Reporting:**

The Company has identified the reportable segments as Power Distribution, Rotating Machine Group, Electronics and others taking into account the nature of products and services, the different risks and returns and the internal reporting systems. The accounting policies for segment reporting are in line with the accounting policies followed by the Company. (Rs. 000's)

	Particulars	Primary Segment			Others	Total
		Electronics	Rotating Machines Group	Power Distribution		
1	<b>Segment Revenues</b>					
	SALES	130,323 (108,842)	2,512,946 (1,748,349)	451,774 (217,361)	244,023 (181,463)	3,339,066 (2,256,015)
	Total	130,223 (108,842)	2,512,946 (1,748,349)	451,774 (217,361)	244,023 (181,463)	3,339,066 (2,256,015)
	Less: Inter segment revenues	-	-	-	-	-
	Net Sales / Income from operations	130,223 (108,842)	2,512,946 (1,748,349)	451,774 (217,361)	244,023 (181,463)	3,339,066 (2,256,015)
2	<b>Segment Results: Profit / (Loss)</b>	10,192 (-2,412)	103,422 (-36,221)	33,109 (-7,621)	79,417 (53,961)	226,140 (7,707)
	Before Taxation and Interest					136,271 (187,281)
	Less: Interest					173,656 (139,010)
	Less: Depreciation & Amortisations					81,325 (147,158)
3	<b>Unallocable Expenditure</b>					81,325 (147,158)
4	<b>Other Income</b>					124,277 (118,545)
5	<b>Share of Profits/ (Losses) in associates (Net)</b>					5,598 (904)
6	<b>Share of (Loss) in Joint Venture</b>					173 (604)
7	<b>Minority Interest share in Losses</b>					(15,866) (88,272)
	Less: Provision for Tax (Net)					46 (-594)
	<b>Total Loss After Taxation</b>					19,244 (258,031)
8	<b>Segment Assets</b>	69,506 (72,370)	1,400,451 (2,089,163)	217,298 (233,092)	130,233 (96,672)	1,817,488 (2,491,297)
9	<b>Unallocable Assets</b>					2,414,142 (813,770)
10	<b>Segment Liabilities</b>	34,551 (46,656)	454,690 (151,675)	138,644 (133,670)	70,839 (62,598)	698,724 (394,599)
11	<b>Unallocable Liabilities</b>					822,435 (2,716,880)
12	<b>Capital Expenditure</b>	475 (39)	63,735 (2,108)	17,926 (341)	37 (318)	82,173 (2,806)

## KIRLOSKAR ELECTRIC COMPANY LTD.

### SCHEDULES TO THE CONSOLIDATED BALANCE SHEET AND PROFIT AND LOSS ACCOUNT SCHEDULE "N" (Contd.....)

Notes attached to and forming part of the Consolidated Balance Sheet and Profit and Loss Account

#### 21. Earnings per share:

Particulars	31.03.2005 Rs. (000's)	31.03.2004 Rs. (000's)
<b>BASIC E.P.S:</b>		
Loss for the Reporting Period after Tax	19,244	258,031
Add: Preference Dividend including dividend tax	9,578	9,872
	<b>28,822</b>	<b>267,903</b>
Weighted No. of Equity Shares for Basic EPS	<b>31,268,817</b>	30,768,817
Basic EPS (Rs.)	<b>(0.92)</b>	(8.71)
<b>DILUTED E.P.S:</b>		
Loss for the Reporting Period after Tax	19,244	258,031
Add: Preference Dividend including dividend tax	9,578	9,872
	<b>28,822</b>	<b>267,903</b>
No. of Equity Shares for Diluted EPS	<b>33,268,817</b>	32,768,817
Diluted EPS (Rs.)	<b>(0.87)</b>	(8.81)

#### 22. Deferred Tax Calculation:

	As At 31.03.2005	As At 31.03.2004
Liability relating to depreciation	284,239	268,754
Asset relating to Disallowance and Unabsorbed depreciation under the Income Tax Act, 1961 (recognized only to the extent of net liability)	284,239	268,754
Net amount	Nil	Nil

Details of deferred tax asset /liabilities of KEC North America Inc. all associates and joint venture are not available.

23. During the year the company has made the provisions towards warranty claims from the customers towards sales, wage settlement arrears and leave encashment to the employees the details of the same are as under:  
Rs in 000's

Particulars	Warranty Claims	Towards Wage Settlement	Leave Encashment
Balance outstanding at the beginning of the year	9,509	Nil	10,045
Provision for the year (net)	4,690	30,000	3,259
Balance outstanding at the end of the year	14,199	30,000	13,304

24. The Company has incurred substantial losses and a significant part of its net worth has been eroded. However, having regard to current Order position, release of non fund based facilities by the banks as per the scheme, request made to the Banks and Financial Institutions for rephasing of dues, the reduction in the work force, cost reduction initiatives taken and other relevant factors, the Company is confident of turning around within a reasonable period of time. Accordingly, the accounts of the Company have been prepared on the basis that it's a going concern and that no adjustments to the carrying value of the assets and liabilities are necessary.
25. In the absence of Consolidated financial statements for the year ended 31<sup>st</sup> March, 2004 it is not practicable to furnish the previous year's figure in the cash flow statement.
26. Figures have been rounded off to the nearest " 000's" as permitted by Government of India Notification No.GSR: 14(E) dated 23.12.1978.
27. Corresponding figures for the previous year have been regrouped and recast in order to be in conformity with current year's figures wherever necessary.

## **CONSOLIDATED FINANCIAL STATEMENTS**

### **CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2005** (Rs in 000's)

Particulars	Current Year Rs.
<b>A. CASH FLOW FROM OPERATION ACTIVITIES</b>	
NET LOSS BEFORE TAX AND EXTRAORDINARY ITEMS	(19,198)
DEPRECIATION (INCLUDING GOODWILL)	83,816
AMORTISATION & PROVISIONS	62,518
DIMINUTION IN VALUE OF INVESTMENT	22,580
PROVISION FOR INVENTORIES	8,000
PROFIT FROM SALE OF FIXED ASSETS (NET)	(45,417)
REMISSION OF LIABILITY	(41,687)
INTEREST AND DIVIDEND (NET)	128,899
	<u>218,709</u>
<b>OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES</b>	<b>1,99,511</b>
ADJUSTMENT FOR	
TRADE & OTHER RECEIVABLES	(313,761)
INVENTORIES	(49,225)
TRADE & OTHER PAYABLES	151,075
	<u>(211,911)</u>
<b>CASH GENERATED FROM OPERATIONS</b>	<b>(12,400)</b>
INTEREST PAID	(136,627)
DIRECT TAXES PAID	(3,294)
	<u>(139,921)</u>
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>(152,321)</b>
<b>B. CASH FLOW FROM INVESTING ACTIVITIES</b>	
PURCHASE OF FIXED ASSETS	(34,075)
DECREASE IN THE VALUE OF INVESTMENT	16,982
DIMINUTION IN VALUE OF INVESTMENT	(22,580)
SALE OF FIXED ASSETS	234,210
INCREASE IN CWP	(78,699)
INCREASE IN MINORITY INTEREST	(15,866)
INTEREST RECEIVED	7,362
DIVIDEND RECEIVED	10
	<u>107,344</u>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>107,344</b>
<b>C. CASH FLOW FROM FINANCING ACTIVITIES</b>	
REMISSION OF LOAN LIABILITY	41,687
REPAYMENT OF TERM BORROWINGS	(151,721)
DIVIDEND PAID	(801)
	<u>(110,835)</u>
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(110,835)</b>
<b>D. NET INCREASE IN CASH</b>	<b>(155,812)</b>
CASH & CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	391,558
CASH & CASH EQUIVALENTS AT THE END OF THE YEAR	235,746 (155,812)

As per our report of even date

For and on behalf of Board of Directors

**For B.K. RAMADHYANI & CO.**

*Chartered Accountants*

**SHYAM RAMADHYANI**

*Partner*

Bangalore

Date : 1<sup>st</sup> September, 2005

**VIJAY R. KIRLOSAR**

*Chairman & Managing Director*

**P.Y. MAHAJAN**

*Company Secretary*

**S. N. AGARWAL**

*Director*

**R.K. GUPTA**

*Vice President &*

*Chief Financial Officer*

## KIRLOSKAR ELECTRIC COMPANY LTD.

### STATEMENT REGARDING SUBSIDIARY COMPANIES

Pursuant to Section 212(1),(3) and (5) of the Companies Act, 1956

(Rs. in 000's)

1. Name of the Subsidiary Company	KEC North America Inc.	Kaytee Switchgear Limited
2. Financial year of the subsidiary ended on	31.12.2003	31.03.2005
3. Holding Company's Interest	210 Common Stock fully paid up US\$ 297500	15619512 Equity Shares of Rs.10 each at a premium of Rs.23.88 per share
4. Net Aggregate amount of Subsidiary's Profits/(Losses) not dealt with in the Holding Company's Accounts :		
(i) Profit/(Loss) for the Subsidiary's financial Year ended 31.12.2003 <sup>®</sup> / 31.3.2005*	USD (9193) <sup>®</sup> INR 29,73,816	(54,647)
(ii) Profits/(Losses) for its Previous financial Years	USD (1694321) INR (77599902)	(598,935)
Net Aggregate of Subsidiary's Profit/(Losses) Dealt with in the Holding Company's Accounts:		
(i) Profit/(Loss) for the Subsidiary's financial Year ended 31.12.2003 <sup>®</sup> / 31.3.2005*	NIL	NIL
(ii) Profits/(Losses) for its Previous financial Years	NIL	NIL
5. Changes in the interest of the Subsidiary Company between the end of the financial Year of the Subsidiary and the financial Year of the Company.	NIL	NIL
6. Material changes between the end of the financial year of the subsidiary and the financial year of the Company in respect of :		
Subsidiary's fixed assets		
Subsidiary's investments	NIL	NIL
– Money lent by the subsidiary		
– Money borrowed by the subsidiary for the Purpose other than that of meeting current liabilities		

For and on behalf of Board of Directors

**VIJAY R. KIRLOSKAR**  
*Chairman & Managing Director*

**P.Y. MAHAJAN**  
*Company Secretary*

**S. N. AGARWAL**  
*Director*

**R.K. GUPTA**  
*Vice President &  
Chief Financial Officer*

Bangalore  
Date : 1<sup>st</sup> September, 2005