

KIRLOSKAR ELECTRIC COMPANY LTD.

BOARD OF DIRECTORS

Vijay R. Kirloskar
Chairman & Managing Director

Lakshmanan A.S.

Agarwal S.N.

Anil Kumar Bhandari

Sarosh J Ghandy

Mythili Balasubramanian
IDBI Nominee

Ramesh D Damle
LIC Nominee

Malik P.S.
Dy. Managing Director

Venkatesha Murthy D.R.
Director –Sales & Marketing

COMPANY SECRETARY

P.Y.Mahajan

AUDITORS

B.K.Ramadhyani & Co.
Bangalore

BANKERS

Bank of Baroda
Bank of India
State Bank of India
State Bank of Mysore
State Bank of Travancore
The Hongkong & Shanghai Banking Corporation Ltd.
Bank of Commerce, Kuala Lumpur(Malaysia)

REGISTERED OFFICE

Industrial Suburb, Rajajinagar
Bangalore – 560 010

FACTORIES

Belavadi Industrial Area, Mysore
Gokul Road, Hubli
Hirehalli, Tumkur

FIFTY NINTH ANNUAL REPORT 2005-2006

NOTICE

NOTICE is hereby given that the FIFTY NINTH ANNUAL GENERAL MEETING of the Members of KIRLOSKAR ELECTRIC COMPANY LIMITED will be held at Chowdiah Memorial Hall, Gayathri Devi Park Extension, Vyalikaval, Bangalore 560 003 on Thursday, the 28th September, 2006 at 10.00 A.M. to transact the following business:

1. To consider and adopt the Directors' Report, Audited Balance Sheet as at 31st March, 2006 and the Profit and Loss Account for the year ended 31st March, 2006 together with the Auditors' Report thereon.
2. To appoint a Director in place of Mr. Sarosh J Ghandy, who retires by rotation. Being eligible, he has conveyed his intention in writing to seek re-appointment.
3. To appoint Auditors to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to authorise the Board of Directors to fix their remuneration, M/s. B K Ramadhyan & Co., Chartered Accountants, Bangalore and M/s. Chari & Co., Chartered Accountants, Kuala Lumpur are the retiring Auditors.

SPECIAL BUSINESS

4. To appoint a Director in place of Mr.A.S.Lakshmanan who was appointed by the Board as an Additional Director of the Company. He is eligible for appointment. The Company has received a notice in writing from a member signifying his intention to propose the candidature of Mr.A.S.Lakshmanan as a Director of the Company.
5. To appoint a Director in place of Mr. Ramesh D Damle who was appointed by the Board, in the casual vacancy caused by the resignation of Mr. K.Kasturi Rangan, a Director of the Company. Mr. Ramesh D Damle is eligible for appointment and the Company has received a notice in writing from a member signifying his intention to propose the candidature of Mr. Ramesh D Damle as a Director of the Company.

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

RESOLVED THAT pursuant to Sections 198, 269, 309 and other applicable provisions, if any, of the Companies Act, 1956 ('the Act') and Schedule XIII thereto and such other approvals as may be required, the consent of the Company be and is hereby accorded to the re-appointment of Mr. P.S.Malik as a whole-time director of the Company without any remuneration from the Company for a period of 3 (three) years with effect from 10th October, 2006 and that he be designated as 'Deputy Managing Director'.

RESOLVED FURTHER THAT pursuant to Article 160 of the Articles of Association of the Company read with section 255 of the Companies Act, 1956, Mr.P.S.Malik shall not be liable to retire by rotation so long as he continues as a whole-time director unless selected for retirement by rotation by Directors in terms of Article 160 of the Articles of Association of the Company so as to meet the requirements of Section 255 of the Companies Act, 1956.

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

RESOLVED THAT pursuant to Section 314 and other applicable provisions, if any of the Companies Act, 1956, sanction of the Company be and is hereby accorded to Mr.P.S. Malik, Dy.Managing Director of the Company, to continue to act as President & Chief Executive Officer of Kaytee Switchgear Limited, a subsidiary Company on a remuneration of Rs. 2,75,000 per month together with other allowances and benefits, amenities and facilities as set out in the explanatory statement but without any remuneration from Kirloskar Electric Company Limited.

RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorised to do all such acts, deeds and things as it may in its absolute discretion deem fit for the purpose of giving effect to the above resolution.

By Order of the Board of Directors,
for **KIRLOSKAR ELECTRIC COMPANY LIMITED**,

Bangalore
Date : 25th July, 2006

P.Y. MAHAJAN
Company Secretary

KIRLOSKAR ELECTRIC COMPANY LTD.

NOTES:

- (a) A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. PROXIES IN ORDER TO BE EFFECTIVE MUST BE RECEIVED AT THE COMPANY'S REGISTERED OFFICE NOT LATER THAN FORTY-EIGHT HOURS BEFORE THE COMMENCEMENT OF THE MEETING.
- (b) The relevant Explanatory Statement pursuant to Section 173 of the Companies Act, 1956, is annexed hereto.
- (c) Documents relating to any of the items mentioned in the Notice and the Explanatory Statement thereto, are open for inspection at the Registered Office of the Company on any working day during business hours.
- (d) Members requiring information on the accounts are requested to write to the Company at least seven days before the date of the meeting to enable the Company to furnish the information.
- (e) Members holding shares either singly or jointly in identical order in more than one folio are requested to write to the Company enclosing the share certificates to enable the Company to consolidate their holdings in one folio.
- (f) Members are requested to notify immediately of any change in their address to the Company. Members holding shares in the electronic form are advised to notify any change in their address to the concerned depository participants.
- (g) Pursuant to Section 205 A of the Companies Act, 1956, unpaid dividend for the financial years upto 31.3.1998 has been transferred to the Investor Education and Protection Fund.
- (h) Members desirous of making a nomination in respect of their shareholdings in the Company, as permitted under Section 109 A of the Companies Act, 1956, are requested to submit the prescribed Form 2B duly completed to the Secretarial Department of the Company.
- (i) Information about Directors proposed to be re-appointed/appointed:-
1. Mr. Sarosh J Ghandy, a Graduate from Carnegie Institute of Technology, USA, who is 68 years of age, joined Tata Engineering & Locomotive Co.Ltd, Jamshedpur in 1958. He held various positions in TELCO, Jamshedpur and joined the Board of Directors of TELCO in 1976 and was on the Board of TELCO till 1999. Mr Ghandy was Managing Director of Telco Construction Equipment Company during the period from 1999 to 2002. Mr. Ghandy was also a Special Advisor to the Chairman of Telco Construction Equipment Company Limited for a year.
Mr. Sarosh J Ghandy is holding 615 equity shares of Rs.10/- each of the Company.
He is a Director of the following companies :
- | | |
|---|------------------------------------|
| TRF Limited | Servion Global Solutions Ltd. |
| NTTF Industries Limited | Bhuruka Gases Limited. |
| Nettur Technical Training Foundation Ltd. | Tele Radiology Solutions Pvt. Ltd. |
| RAPSRI Engineering Co. Ltd. | Maini Materials Movement Pvt. Ltd. |
| Indian Infrastructure Equipment Ltd. | |
2. Mr.A.S.Lakshmanan, a graduate in Electrical Engineering from Loughborough University, London, who is 75 years of age, has been the Chairman and Managing Director of Senapathy Whiteley Pvt. Ltd. since 1964. He was nominated by the Indian Standards Institution as an Indian Delegate to attend the International Electro-technical Commission held in Stockholm in 1977. As Chairman of the Karnataka Industries Advisory Board, he led a delegation of Industrialists to South East Asia and Far East in 1979 for promotion of Small Scale Industries. He is a "Fellow" member of the Institution of Engineers, India. He is Chairman of Bureau of Indian Standards and National Safety Council (Karnataka Chapter). He is a member of CII (Karnataka Region).
Mr. A.S.Lakshmanan is holding 19909 equity shares of Rs.10/- each of the Company.
He is a Director of the following companies :
- | | |
|---------------------------------------|--|
| KAR Mobiles Limited | Lakshmanan Isola Pvt. Ltd. |
| NTTF Industries Limited | Meher Capacitors (P) Ltd. |
| Toyama Electric Limited | John Fowler (India) Private Limited |
| Glaxo Smithkline Pharmaceuticals Ltd. | Barton Son & Co. Pvt. Ltd. |
| Kaytee Switchgear Ltd. | R.B.Associates Pvt. Ltd. |
| Senapathy Whiteley Pvt. Ltd. | Unitech Systems (I) Pvt. Ltd. |
| Senapathy Symons Insulations (P) Ltd. | VonRoll Isola (India) Holding Pvt.Ltd. |
3. Mr. Ramesh Damle, MA (Economics), who is 63 years of age held various senior positions in Life Insurance Corporation of India and at the time of his retirement he was Executive Director (Estate & Office Services).
Mr. Ramesh Damle is holding 500 equity shares of Rs.10/- each of the Company.
4. Mr.P.S.Malik, who is 60 years of age, joined the Company as Corporate Vice President in February 1997. He was later promoted as President in October 2000. Prior to his appointment in Kirloskar Electric Company Limited, he was working as Vice President in Indian Lead Limited, Mumbai. He was elevated to the position of Deputy Managing Director from 10th October, 2001.
Mr. Malik is holding 750 shares of the Company.
He is a Director of the following companies :
- | | |
|---------------------------------|---|
| Kirloskar Power Equipments Ltd. | KEASIROBICON Industrial Systems Pvt. Ltd. |
| Best Trading & Agencies Limited | Kirsons Trading Pte. Ltd. |
| KEC North America Inc. USA | |
- j. The share transfer books and Register of Members of the Company will remain closed from 14th September, 2006 to 28th September, 2006 (both days inclusive).
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ANNEXURE TO THE NOTICE

Explanatory Statement as required by Section 173 (2) of the Companies Act, 1956

The following Explanatory Statement sets out all material facts relating to the Special Business mentioned in the accompanying notice of the Annual General Meeting of the Company.

1. Item No. 4 of the Notice

Pursuant to Article 153 of the Articles of Association of the Company Mr. A.S.Lakshmanan was appointed by the Board of Directors as an Additional Director of the Company effective from 26.10.2005. He holds office upto the date of this meeting and is eligible for appointment. The member who has given notice proposing the candidature of Mr.A.S.Lakshmanan as a Director has complied with the requirements of Section 257 of the Companies Act, 1956.

Except Mr. A.S.Lakshmanan, who is interested in the Resolution, as the same relates to his appointment, none of the other Directors is in any way concerned or interested in the said Resolution.

The Board recommends the Resolution for approval by the members.

2. Item No. 5 of the Notice

Mr. Ramesh D Damle was appointed by the Board as a Director with effect from 1.9.2005 to fill the casual vacancy caused by the resignation of Mr. K.Kasturi Rangan. Under section 262(2) of the Companies Act, Mr.Ramesh D Damle holds office upto the date of this meeting as Mr. K.Kasturi Rangan would have retired at this meeting.

Except Mr. Ramesh D Damle, who is interested in the Resolution, as the same relates to his appointment and remuneration, none of the other Directors is in any way concerned or interested in the said Resolution.

The Board recommends the Resolution for approval by the members.

3. Item No. 6 of the Notice

The present term of appointment of Mr.P.S.Malik, Dy.Managing Director will come to an end on 9th October, 2006. The Board of Directors of the Company at their meeting held on 25th July, 2006 have re-appointed Mr.Malik as Dy.Managing Director for a period of three years w.e.f. 10.10.2006. Mr. Malik is also President and Chief Executive Officer of Kaytee Switchgear Limited, a subsidiary of the Company. Mr. Malik will not draw any remuneration in Kirloskar Electric Company Limited and he has been drawing remuneration from Kaytee Switchgear Limited only. Mr. Malik's contribution to the growth of Kirloskar Electric Company Limited is immense and valuable.

Except Mr. P.S.Malik, who is interested in the Resolution, as the same relates to his appointment, none of the other Directors is in any way concerned or interested in the said Resolution.

The Board recommends the Resolutions for approval by the members.

This should be considered as a relevant abstract, as required under section 302 of the Companies Act, 1956.

4. Item No .7 of the Notice

Mr. P.S.Malik, Dy.Managing Director of Kirloskar Electric Company Limited has been appointed as President and Chief Executive Officer of Kaytee Switchgear Limited, a subsidiary of the Company with effect from 1.4.2003, from which date Mr. Malik does not draw any remuneration in Kirloskar Electric Company Limited ("KEC") and he has been drawing remuneration from Kaytee Switchgear Limited only. The remuneration payable to Mr. Malik has been revised by Kaytee Switchgear Limited with effect from 1.4.2006. The revised remuneration payable to Mr. Malik is:

- a. A consolidated salary of Rs. 2,75,000 per month;
- b. Rent free furnished accommodation from the Company;
- c. Explanation: The expenditure incurred by the Company on gas, electricity, water and furnishing shall be valued as per the Income Tax Rules, 1962 which shall be included in computing the remuneration;
- d. Medical Reimbursement : Reimbursement of expenses incurred for the appointee and the family subject to ceiling of the amount admissible under the Income Tax Act for purposes of exemption from time to time which is presently at Rs.15,000 per annum;
- e. Leave Travel Concession : For the appointee and his family, once in a year incurred in accordance with rules specified by the Company or limited to one month's salary viz., Rs. 2,75,000;
- f. Personal Accident Insurance : Premium not exceeding Rs.4,000/- per annum;
- g. Provision of car for use on Company's business and telephone and communication facilities at his residence for Company's business;
- h. Contribution to Provident Fund, Superannuation Fund or Annuity Fund to the extent these either singly or put together are not taxable under the Income Tax Act, 1961;
- i. Gratuity payable at a rate of half-a-month's salary for each completed year of service;
- j. Encashment of leave at the end of the tenure.
- k. Leave and other benefits as admissible to other Executives of the Company from time to time.

The Board has given its approval for Mr. Malik's appointment as President and Chief Executive Officer of Kaytee Switchgear Limited while his working with Kirloskar Electric Company Limited as its Dy. Managing Director.

Except Mr. P.S.Malik, who is interested in the Resolution, none of the other Directors is in any way concerned or interested in the said Resolution.

The Board recommends the Resolution for approval by the members.

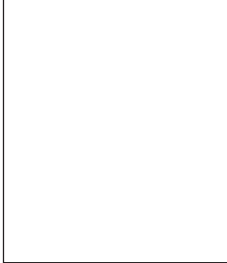
By Order of the Board of Directors,
for **KIRLOSKAR ELECTRIC COMPANY LIMITED**,

Bangalore
Date : 25th July, 2006

P.Y. MAHAJAN
Company Secretary

KIRLOSKAR ELECTRIC COMPANY LTD.

FROM THE CHAIRMAN AND MANAGING DIRECTOR



Dear Shareholders,

The year gone by was a remarkable one for the Country. The Country recorded growth of over 8% in GDP last year. The major contributor to this growth was manufacturing segment which grew by 9%. With large investments planned, Indian Economy is again slated for rapid development and the industry in general and the electrical industry in particular is poised for a robust growth.

Restructuring:

As you would recollect, we had to undergo a severe bad patch during 1999 – 2002 whereafter we decided to restructure all our operations and formulated a Scheme of Arrangement providing for transfer of some of our assets and liabilities to our subsidiary, relocation of our plants and several other measures. The plans for relocation were all fine and looked simple on paper but actually implementing them was a mammoth task. The Govenahalli plant of your Subsidiary, where part of the manufacturing operations of your erstwhile Bangalore Unit have been shifted is fully operational now. The investment that we made by setting up a new unit for Transformers at Mysore last year is also now bearing fruits. The new unit has state of the art machinery and incorporates all modern production systems and will produce large and extra large motors there. The Machine Shop activity of the Subsidiary will be carried out from a separate place near the Govenahalli plant and we expect the manufacturing operations to start there from the beginning of the next calendar year. The manufacturing operations getting stabilised at a time when the industry is witnessing uptrend in demand, bodes well for us.

Electrical Industry – outlook:

The Electrical Industry has been witnessing uptrend in demand on account of the thrust placed by the Government on the power sector and the increasing participation of private sector in power generation. The continued capacity expansions and additional investments in user industries such as power, cement, sugar, steel, telecom, paper, etc. augur well for us. The Company continues to occupy eminent position as supplier of motors and other electrical products to various well known private and public sector undertakings throughout the Country. The demand for the products of the Company is at an all time high. The Company is having orders in hand of Rs. 250 crores. The market share of the Company is increasing in almost all segments. The Company should therefore show impressive growth in the near future.

Growth perspective:

Our problems a few years back have taught us several lessons. We faced stormy seas. But undeterred, we handled the tough situations with confidence and equanimity marshalling all our courage and fortitude. The stormy situations have made us more pragmatic. The strategy that we laid out is bearing fruits now. We are now laying down a process to ensure long term enduring sustained growth with stable revenue growth. We want to enhance our market share in all the areas which we cater to. This can be had only with continuous hard work and by being globally competitive. The Company is setting growth directions with assiduous planning for each of its segments with processes to ensure implementation and monitoring. The operating standards are being set and reset to bring in competitiveness on all fronts and to bring in all round enhancement of efficiency. Every dimension of our operations is being measured.

Human Resources:

The Company recognises the vital role played by Human Resources in growth and development of an organisation and the Company lays stress on talent recognition and retention. The environment and ambience at KEC provides stimulus for individual growth and aspiration at the same time ensuring that all work with utmost harmony and with a fine team spirit subordinating their individual egos. We have congenial productive environment which is mutually beneficial.

Looking back and ahead:

We sowed the seeds of transformation three years back when we took some bold decisions to overcome several hurdles that we were facing then and the results of our efforts are now visible. As you would have seen, the performance of the Company has improved on all fronts. There have been significant operational and financial improvements. We are aware there are still several challenges to meet. But it is always good to know that we are on the right path.

Whereas we can now look back at with some satisfaction based on where we were a few years back, we cannot be complacent. We have to capitalise on the present opportunities and regain our pristine glory. We have to be innovative and proactive. We have to surpass our own earlier achievements and build a Company that offers a great value to all its stakeholders. And I assure you that we will put in all our sincere efforts to succeed in our mission.

Yours truly

VIJAY R. KIRLOSKAR

Chairman & Managing Director

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DIRECTORS' REPORT

TO THE SHAREHOLDERS FOR THE YEAR ENDED 31ST MARCH, 2006

To
The Shareholders

Your Directors present the Company's 59th Annual Report with the Audited Balance Sheet as at 31st March, 2006 and Profit and Loss Account for the year ended 31st March, 2006.

Working Results

	Rs. in million	
	For the year ended 31.3.2006	For the year ended 31.3.2005
Gross Profit /(Loss) amounting to	53.68	17.38
Less / (Add) : Provisions towards Depreciation	8.38	8.10
Taxation (Net)		0.46
Provision for fringe benefit tax	4.00	8.56
	12.38	
Net Profit for the year	<u>41.30</u>	<u>8.82</u>

Operations

During the year under report, your Company has achieved a turnover of Rs.4.28 billion (previous year Rs. 3.20 billion). The operations have resulted in a net profit of Rs. 41.30 million (previous year – Rs.8.82 million)

Outlook

With the continued capacity expansions /newer investments in the user industries, the demand for the Company's products continues to improve. The thrust placed by the Government on the Power Sector and the increasing participation of private sector in power generation augur well for us. In the circumstances, the Company expects to perform better in the current year, barring unforeseen circumstances.

Kaytee Switchgear Limited

Kaytee Switchgear Limited, your subsidiary has achieved a turnover of Rs.2.45 billion as against Rs. 2.06 billion in the previous year, showing a growth of about 18.82%. The operations have resulted in a net profit of Rs. 0.78 million during the year as against a loss of Rs. 54.65 million in the previous year.

Dividend

In view of carried over losses your Directors regret their inability to recommend any dividend for the year under report.

Environment, Safety and Energy Conservation

As required by the Companies (Disclosure of particulars in the Report of Directors) Rules, 1988, the relevant data pertaining to conservation of energy, technology absorption and other details are given in the Annexure to this report.

Subsidiaries

Pursuant to section 212 of the Companies Act, the annual accounts of subsidiary company Kaytee Switchgear Limited for the year ended 31st March, 2006 along with the statements referred to in the said section, are attached with Consolidated Financial Statements as required. The annual accounts of KEC North America Inc. USA are also likewise enclosed.

Permission for Trading of equity shares on BSE IndoNext

The equity shares of the Company have been permitted for trading on the Bombay Stock Exchange on BSE IndoNext under the 'S' Group with effect from Thursday, the 12th January, 2006.

Particulars of Employees

During the year under report there were no employees drawing remuneration in excess of the limits specified under section 217(2A) of the Companies Act, 1956.

KIRLOSKAR ELECTRIC COMPANY LTD.

Corporate Governance

Pursuant to the requirements of the Listing Agreements with Stock Exchanges, your Directors are pleased to annex the following :

1. Management Discussion and Analysis Report
2. A report on Corporate Governance
3. Auditors Certificate regarding compliance of conditions of Corporate Governance
4. CEO & CFO Certificate and
5. CEO Certificate regarding compliance with the Code of Conduct.

These annexures form part of this report.

Directors

Mr. Sarosh J Ghandy retires by rotation and being eligible has offered himself for re-appointment.

Mr. A.S.Lakshmanan who was appointed as Additional Director during the period under review, holds office upto the date of the Annual General Meeting and is proposed for appointment.

Mr.Ramesh D Damle who was appointed by the Board as a Director to fill the casual vacancy caused by the resignation of Mr.K.Kasturi Rangan holds office upto the date of this meeting. He is eligible for appointment.

The Directors at their meeting held on 25th July, 2006 have re-appointed Mr.P.S.Malik as a whole time Director for a period of three years from 10.10.2006, subject to necessary approvals.

Directors' Responsibility Statement

Pursuant to the Section 217 (2AA) of the Companies Act, 1956, the Directors confirm that :

1. In the preparation of the annual accounts, the applicable accounting standards have been generally followed.
2. Appropriate accounting policies have been selected and applied consistently and they have made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31st March, 2006 and of the Profit and Loss Account for the year ended 31st March, 2006.
3. Proper and sufficient care has been taken 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.
4. The annual accounts have been prepared on a going concern basis.

Auditors' Report

The comments/observations of the Auditors are self-explanatory and the Company's explanations thereto have been given in relevant notes in the Notes to Accounts. Further explanation in regard to the reservation/qualification in the Auditors Report are furnished below :

Para 5 of the Auditors' Report and Para 8 of Annexure thereto.

The Transformers Division was shifted from Bangalore to Mysore. System for accounting of inventories is being developed, which will be in place during the year.

Para 8 of the Auditors' Report and Para 2(d) of Annexure thereto.

The Method of valuation of inventory adopted by the Company has been consistent over several years. While AS 2 (Valuation of Inventories) has been implemented in all units except in Transformer Division. Action has been initiated to comply with AS 2. However there is no impact on revenue.

It is Company's policy to account every income/expenditure during the year itself, only exceptional items might have left out. Compared to the volume of the business of the Company, it is insignificant and has no impact on the accounts. Action has been taken to implement AS 5 (Prior Period Items) which will be implemented during the year, irrespective of the value of the prior period income/expenditure.

Para 10 of the Auditors' Report.

- a) Due to some procedural formalities only two Banks have not bifurcated the accounts as per the scheme. The Company is in constant touch with those Banks, and they are expected to give effect during this financial year. The company has, however given effect to the scheme as sanctioned by the Hon'ble High Court.

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- b) The Company has been accounting for interest payment made to Small Scale and Ancillary Industrial Undertakings as and when their accounts are settled. Necessary provision to the extent required has been made in the outstanding liability.
- c) Review and obtaining balance confirmation from creditors and debtors is continuous process. In case discrepancy pointed out while communicating confirmation, the accounts are reconciled and necessary accounting entries are passed. Necessary provisions for doubtful debts/advances has been made to the extent ascertained. We have received confirmation of balances from majority of the debtors/creditors. We have reminded balance debtors/creditors to expedite confirmation of balance and necessary action will be initiated there after.
- d) As mentioned in Notes 21 and 22 the Company is confident of realising the acquisition cost of investments and amounts due from certain companies referred to therein.
- e) The Company went through tight liquidity position during the period. However liquidity position during current financial year has improved, the Company is making all out efforts to put the assets to use referred in the report.

Para 1b of Annexure to the Auditors Report

A renowned firm of Chartered Accountants has been entrusted this job and it is expected to be complete very shortly. Action as may be necessary will be initiated thereafter.

Para 2 a of Annexure to the Auditors Report

We have formed team in each unit to follow up with suppliers/customers for the materials lying with them. The team expected to complete the job very shortly and the action as may be necessary will be initiated thereafter.

Para 2 c of Annexure to the Auditors Report

The Transformers Division has been shifted from Bangalore to Mysore. The new softwares are being developed for this division. The Company is confident that during the year all systems in Transformer Division will be in place.

Para 4 of Annexure to the Auditors Report

As the Transformers division has been shifted, the problem has arisen. The problem is transitory and the controls will get established with stabilization.

Para 9 a) and b) of the Annexure to the Auditors Report

During the year Company has increased its turnover and the working capital requirement has also increased. Hence there were delays in remittance of some of the statutory dues. With improvement in the liquidity position the Company will ensure to pay the statutory dues on due dates.

Auditors

M/s. B.K.Ramadhyan & Co., Chartered Accountants and M/s. Chari & Co., Chartered Accountants are the retiring Auditors in India and Kuala Lumpur respectively. They are eligible for re-appointment. The required certificates to the effect that the re-appointments if made, will be within the limit specified in Section 224(1-B) of the Companies Act, have been received from M/s. B.K.Ramadhyan & Co., and M/s. Chari & Co.

Fixed Deposits

Currently, the Company is not accepting fresh deposits and is also not renewing the existing deposits. 38 persons had not claimed repayment of their matured deposits amounting to Rs. 5.23 lakhs as at 31st March, 2006.

Acknowledgements

The Directors place on record their appreciation of efforts of employees at all levels. They would also like to place on record their sincere appreciation for the continued co-operation and support provided by the Bankers, Financial Institutions, Customers, Suppliers, Depositors and Shareholders.

For and on behalf of the Board of Directors,

Place : Bangalore
Date : 25th July, 2006

VIJAY R. KIRLOSKAR
Chairman & Managing Director

KIRLOSKAR ELECTRIC COMPANY LTD.

ANNEXURE TO THE DIRECTORS' REPORT

Disclosure of particulars regarding conservation of energy and technology absorption.

A. Conservation of Energy

a) Energy conservation measures taken:

The Company continues to conserve energy by

- 1) Use of Solar Energy
- 2) Improving system power factor at Testing Department
- 3) Reduction of maximum demand and restricting the maximum demand to billing demand.
- 4) Constant monitoring of energy consumption and further requisite follow-up

b) Impact of the measures at (a) above for reduction of energy consumption and consequent impact on the cost of production of goods.

The measures taken by the Company for conservation of energy have resulted in optimum usage of energy in terms of units, reducing costs.

c) Total energy consumption and energy consumption per unit of production
- Not Applicable

B. Technology Absorption

1. Research and Development

Research and Development is undertaken for extending the range of the existing products, lowering costs and process improvements. Indigenisation or alternate sourcing of materials, development of energy efficient motors/generators with added features.

2. Benefits derived as a result of the above R & D efforts.

- a. Process improvement resulting in higher production.
- b. Quality improvement.
- c. Development of in-house skills for manufacture of high precision products.
- d. Enhanced design and product capability to achieve customer satisfaction.
- e. Cost reduction.
- f. Product range extension to reach newer markets

3. Future plan of action

To enhance product performance and for better customer satisfaction, the Company will continue in:-

- a. Upgradation of existing technology.
- b. Applied research and value engineering.
- c. Extension of range of inverters.
- d. Development of new processes.

4. Expenditure on R & D	(Rs. in 000's)
Capital	Nil
Recurring	1376
Total	1376
Total R & D Expenditure	1376
as a % of total turnover	0.03

5. Technology Absorption, Adaptation and Innovation

- a. Efforts made in brief for technology absorption, adaptation and innovation.
 - Training of personnel in-house.
 - Indigenisation of Materials, components and processes.
 - Modification of imported technology to suit the prevailing Indian Market.

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- b. Benefits derived as a result of the above efforts
- Enhanced Product Range
 - Import substitution
 - Quality improvement
 - Development of new Products
- c. Future Plan of Action
- Upgradation of existing technology
 - Development of new processes
- d. Technology imported during the last 5 years.
- A. Technology Imported **Nil**
- B. Has the technology been fully absorbed ? If not fully absorbed, areas where this has not taken place, reasons therefor and future plan of action.

- NA -

C. Foreign Exchange earnings and outgo.

1. The details of Foreign Exchange earnings and outgo are given below :

	(Rs. in 000's)
(i) FOB value of goods exported (net) inclusive of sales within India eligible for export incentives.	145,958
(ii) Dividend on shares (net of tax)	Nil
(iii) Repatriation of Profit	Nil
(iv) Others	2,771
2. Value of imports calculated on the CIF basis.	
(i) Raw materials & Components and spare parts.	46,801
(ii) Capital Goods	Nil

For and on behalf of the Board of Directors,

Place : Bangalore
Date : 25th July, 2006

VIJAY R. KIRLOSKAR
Chairman & Managing Director

KIRLOSKAR ELECTRIC COMPANY LTD.

ANNEXURE TO THE DIRECTORS' REPORT

Report on Corporate Governance

Company's Philosophy

The Company firmly believes in good Corporate Governance. It has been the policy of the Company to be fully open and transparent in the matter of management of the Company and reporting to shareholders and all others concerned.

Board of Directors

The Company is presently having nine Directors out of which three are Executive Directors and six Non - Executive – Independent Directors. The percentage of Non-Executive Independent Directors to the total number of Directors is 67%.

The Company did not have any pecuniary relationships in transactions with the Non-Executive Directors during the period under review except payment of sitting fees and reimbursement of expenses incurred for attending the meetings.

The composition of Board of Directors during the year under review and Directors' attendance at the Board Meetings during the year and the number of other directorships and Committee Memberships held by them on the date of Report are given below.

During the financial year, five Board Meetings were held. The meetings were held on 31.5.2005, 1.9.2005, 29.9.2005, 26.10.2005 and 24.2.2006.

Sl. No.	Name of Director	Category of Directorship	No. of Board Meetings Attended	Attendance at last AGM	No. of other directorships #	No. of other committee memberships
1.	Mr. Vijay R Kirloskar	Executive-Chairman and Managing Director Promoter	5	Yes	7	Member -1
2.	Mr. A.S. Lakshmanan*	Non Executive Independent Director	2	NA	5	Chairman - 3 Member - 3
3.	Mr. S.N. Agarwal	Non Executive Independent Director	5	Yes	5	Member - 2
4.	Mr. Anil Kumar Bhandari	Non Executive Independent Director	5	Yes	3	-Nil-
5.	Mr. Sarosh J Ghandy	Non Executive Independent Director	1	No	7	-Nil-
6.	Mrs. Mythili Balasubramanian	Non Executive Independent Director Nominee-IDBI	3	Yes	-	-
7.	Mr. Ramesh D. Damle	Non Executive Independent Director Nominee-LIC	4	Yes	-	-
8.	Mr. P.S. Malik	Executive - Whole-time Director	4	Yes	2	-Nil-
9.	Mr. D.R. Venkatesha Murthy	Executive - Whole-time Director	4	Yes	2	-Nil-

Directorships held in other Public Limited Companies only .

* Appointed w.e.f. 26.10.2005.

Necessary information as mentioned in Annexure 1A to Clause 49 of the Listing Agreement has been placed before the Board for their consideration.

AUDIT COMMITTEE

The Audit Committee consists of four independent Non-Executive Directors.

The terms of reference to the Audit Committee cover the areas mentioned under Clause 49 of the Listing Agreement and Section 292A of the Companies Act, 1956, besides some other functions as referred to it by the Board of Directors.

During the financial year, the Committee met on 25.4.2005, 20.7.2005, 1.9.2005, 26.10.2005, 28.1.2006, 24.2.2006 and 15.3.2006.

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The particulars of meetings attended by the members are as follows :-

Name of Director	No. of Meetings Attended	
Mr. S.N. Agarwal	6	Chairman
Mr. Anil Kumar Bhandari	7	Member
Mr. Sarosh J Ghandy	4	Member
Mr. A.S. Lakshmanan*	4	Member

* Mr. A.S.Lakshmanan joined the Committee from 26.10.2005

Shareholders/Investors Grievances Committee:

The Shareholders/Investors Grievances Committee consists of three Directors. During the year under review, the Committee met on 29.6.2005 and reviewed the status of shareholders' grievances, approved share transfers, etc.

The terms of reference of Shareholders/Investors Grievances Committee include, inter alia, to look into the shareholders and investors complaints like transfer of shares, non receipt of balance sheet, non receipt of declared dividends etc. and redress the same.

The particulars of meetings attended by the members are as follows :-

Name of Director	No. of Meetings Attended	
Mr. Anil Kumar Bhandari	1	Chairman
Mr. Vijay R. Kirloskar	1	Member
Mr. P.S. Malik	1	Member

To expedite the process of share transfers, the Board has delegated the power to approve share transfers upto a limit, to the Company Secretary who attends to the share transfer work periodically, approximately once in fortnight. Mr. P.Y.Mahajan, Company Secretary is the Compliance Officer.

Remuneration Committee

The Remuneration Committee at the beginning of the year consisted of following Directors :-

Mr. S.N.Agarwal - Chairman
Mr. Anil Kumar Bhandari - Member
Mr. Sarosh J Ghandy - Member
Mr. K.Kasturi Rangan* - Member

* Mr K.Kasturi Rangan ceased to be a Member from 1.9.2005 as he ceased to be a Director of the Company from that date.

During the year under review, the Committee met on 31.5.2005

The particulars of meeting attended by the members are as follows :-

Name of Director	No. of Meetings Attended	
Mr. S.N. Agarwal	1	Chairman
Mr. Anil Kumar Bhandari	1	Member
Mr. Saroj J Ghandy	1	Member

The Committee has been reconstituted after the end of the year under review and the Committee now has the following members :-

Mr.S.N. Agarwal - Chairman
Mr. A.S.Lakshmanan - Member
Mr.Anil Kumar Bhandari - Member
Mr.Sarosh J Ghandy - Member
Mr.Ramesh D Damle - Member

Remuneration Policy

The objective of the remuneration policy is to motivate employees to excel in performance, recognition of contribution and retention.

The components of the total remuneration vary for different levels and are governed by industry pattern, qualification and experience of employees and responsibilities.

Remuneration of employees largely consists of basic remuneration, perquisites and performance incentives.

The number of employees working in the organisation as on 31.3.2006 was 334.

KIRLOSKAR ELECTRIC COMPANY LTD.

Details of remuneration paid to the Directors during the period under review :

Executive Directors:

(Rs. in lakhs)

Name	Salary	Contribution to P.F. and other Funds	Total Amount
Mr. Vijay R. Kirloskar Chairman and Managing Director	30.00	8.10	38.10
Mr. P.S. Malik* Dy. Managing Director	-Nil-	-Nil-	-Nil-
Mr. D.R. Venkatesha Murthy Director (Sales & Marketing)	10.63	2.10	12.73

* No remuneration is being paid to Mr. Malik from the Company w.e.f. 1.4.2003 after his appointment in Kaytee Switchgear Limited (Subsidiary Company).

The Managing Director has been appointed for a period of 5 years w.e.f. 17th August, 2005. In case his tenure is determined by the Company prematurely, the Managing Director shall be entitled to compensation as provided under section 318 of the Companies Act, 1956.

Mr. P.S.Malik has been appointed for a period of five years with effect from 10.10.2001 and the appointment is terminable by either party by giving one month's notice to the other.

Mr. D.R.Venkatesha Murthy has been appointed for a period of one year with effect from 10.10.2005 and the appointment is terminable by either party by giving one month's notice to the other.

Severance compensation of one month's salary each is payable to Mr. P.S.Malik and Mr. D.R.Venkatesha Murthy if their office is terminated before the contractual period.

Non Executive Directors :

Name of the Director	Fees paid for attending Board / Committee Meetings Rs.
Mr. S.N Agarwal	46,000
Mr. Anil Kumar Bhandari	52,000
Mr. Sarosh J Ghandy	20,000
Mrs. Mythili Balasubramanian*	15,000
Mr. Ramesh D. Damle	20,000
Mr. A.S. Lakshmanan	22,000

* Fees paid to IDBI

Shareholdings of Non Executive Directors as on 31.03.2006

None Executive Director	Shareholding No. of Shares
Mr. S.N Agarwal	500
Mr. A. S. Lakshmanan	19909
Mr. Anil Kumar Bhandari	500
Mr.Sarosh J Ghandy	615
Mrs. Mythili Balasubramanian	Nil
Mr. Ramesh D Damle	500

None of the non-executive Directors owns any shares on beneficial basis.

Code of Conduct

The Board has laid down a Code of Conduct for Board of Directors and Senior Managers and the Code is posted on the website of the Company.

Declaration pertaining to compliance with the Code of Conduct of the Company

This is to confirm that all the Board Members and Senior Managers have affirmed compliance with the Code of Conduct of the Company, for 2005-06.

Bagalore
Date : 25th July, 2006

Vijay R Kirloskar
Chairman & Managing Director

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General Body Meetings

The details about the last three Annual General Meetings are given below:

AGM	YEAR	VENUE	DATE	TIME
56 th	Oct 2001- Mar 2003	REGISTERED OFFICE OF THE COMPANY at Industrial Suburb, Rajajinagar, Bangalore - 560 010.	26.9.2003	10.00 A.M.
57 th	Apr 2003- Mar 2004	CHOWDIAH MEMORIAL HALL Gayathri Devi Park Extension, Vyalikaval, Bangalore - 560 003.	29.09.2004	10.00 A.M.
58 th	Apr 2004- Mar 2005	CHOWDIAH MEMORIAL HALL Gayathri Devi Park Extension, Vyalikaval, Bangalore - 560 003.	29.09.2005	10.00 A.M.

Special Resolutions Passed in the previous three Annual General Meetings:

Year	Special Resolution
2001-2003	<ol style="list-style-type: none"> 1. Appointment of M/s. B.K.Ramadhyan & Co. Chartered Accountants, Bangalore as Auditors of the Company 2. Appointment of M/s. Chari & Co., Chartered Accountants, Kuala Lumpur, Malaysia as auditors of the Company's Sales Office at Malaysia. 3. Revision of remuneration of Mr.Vijay R Kirloskar w.e.f. 1.4.2003 for the remaining period of his appointment i.e. upto 16.8.2005. 4. Re-appointment of Mr.D.R.Venkatesha Murthy as a wholetime Director for a period of two years w.e.f. 10.10.2003.
2003-2004	<ol style="list-style-type: none"> 1. Appointment of M/s. B.K.Ramadhyan & Co. Chartered Accountants, Bangalore as Auditors of the Company 2. Appointment of M/s. Chari & Co., Chartered Accountants, Kuala Lumpur, Malaysia as auditors of the Company's Sales Office at Malaysia. 3. Appointment of Ms. Janaki Kirloskar, daughter of a Director to hold an office or place of profit under the Company. 4. Approval for appointment of Mr.P.S.Malik, Dy.Managing Director of the Company to hold an office of profit in Kaytee Switchgear Limited, a subsidiary company. 5. Investment in equity capital of Kaytee Switchgear Limited, a subsidiary company.
2004-2005	<ol style="list-style-type: none"> 1. Appointment of M/s. B.K.Ramadhyan & Co. Chartered Accountants, Bangalore as Auditors of the Company. 2. Appointment of M/s. Chari & Co., Chartered Accountants, Kuala Lumpur, Malaysia as auditors of the Company's Sales Office at Malaysia. 3. Re-appointment of Mr.D.R.Venkatesha Murthy as a wholetime Director for a period of one year from 10.10.2005. 4. Re-appointment of Mr. Vijay R Kirloskar as Managing Director for a period of five years w.e.f. 17.8.2005. 5. Appointment of Ms. Janaki Kirloskar, Daughter of a Director to hold an office or place of profit under the Company

No Special Resolution through postal ballot is proposed in the ensuing Annual General Meeting.

Disclosures

Related party transactions

There have been no materially significant related party transactions that would have potential conflict with the interests of the Company at large. Audit Committee reviews periodically related party transactions i.e. transaction of the Company, which are of material nature with related parties and material individual transactions with related parties or others, that may

KIRLOSKAR ELECTRIC COMPANY LTD.

have potential conflict with the interests of the Company at large. Details of related party transactions are provided in Note 29 of the Notes forming part of the Accounts in accordance with provisions of Accounting Standard 18. There were no material individual transactions with related parties which are not in the normal course of business and there were no material individual transactions with related parties or others, which are not on an arm's length basis.

Accounting Treatment

The Company's financial statements are prepared as per the guidelines of Accounting Standards under Indian GAAP.

Risk Management

The Company has laid down procedures to inform Board Members about the risk assessment and minimisation procedures. These are periodically reviewed and to ensure that executive management controls risk through means of a properly defined framework.

Utilisation of Public Issue Proceeds

The Company has not raised any money through any issue.

Details of non-compliance

During the previous three years, there were no strictures or penalties imposed by either SEBI or the Stock Exchanges or any statutory authority for non-compliance of any matter related to the capital markets.

Compliance with non-mandatory requirements of clause 49 of the Listing Agreement

Compliance with Clause 49

All mandatory requirements of Clause 49 of the Listing Agreement have been complied with by the Company and non mandatory requirement have been followed to the following extent : -

Remuneration Committee

A Remuneration Committee has been constituted, the details whereof have been provided earlier in the Report.

Some of the non mandatory requirements are not being followed for the reasons given against the requirements as follows :-

Chairman's Office

As the Chairman of the Company is an Executive Chairman, the provision is not applicable.

Shareholder Rights

The quarterly/ half yearly financial results are published in English in a newspaper having wide circulation all over India and also in a vernacular newspaper and are also displayed on the Company's website and are, therefore, not sent separately to the shareholders.

Training of Board Members

The Board of Directors comprises of well-experienced versatile members and their formal training is considered not necessary.

Whistle Blower Policy

The Company does not have any formal Whistle Blower Policy. But any employee of the Company can approach the Audit Committee if he/she so desires.

Means of Communication

The quarterly/half yearly results are published as per the listing requirements. They are published in English and in Kannada in well known newspapers.

The Company's results are sent to the Stock Exchanges by Fax and Courier. The Company has not given any official news release and has not made any presentation on financial results to institutional investors.

Information about the Company in general and its financial results can be accessed at the Company's website www.vrkec.com.

Management Discussion and Analysis Report forms part of the Annual Report.

Shareholders' Information

Annual General Meeting

Date	:	September 28, 2006
Time	:	10.00 A.M.
Venue	:	Chowdiah Memorial Hall, Gayathri Devi Park Extension Vyalikaval, Bangalore 560 003.
Financial Year	:	1 st April, 2005 to 31 st March 2006

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Financial Calendar

Un-audited Results for the Quarter ended	Approved on	Published in
30.06.2005	20.07.2005	Business Standard Samyuktha Karnataka
30.09.2005	26.10.2005	Business Standard Samyuktha Karnataka
31.12.2005	28.01.2006	Financial Express Samyuktha Karnataka
31.03.2006	26.04.2006	Business Standard Samyuktha Karnataka
30.06.2006	25.07.2006	Business Standard Samyuktha Karnataka

Financial Calendar for the period till 31.3.2007 is as given below :

Un-audited results for the quarter ending September, 2006	:	Last week of October, 2006
Un-audited results for the quarter ending December, 2006	:	Last week of January, 2007
Un-audited results for the quarter ending March, 2007	:	Last week of April , 2007

Date of Book Closure : Thursday, September 14, 2006 to Thursday, September 28, 2006.

Dividend Payment Date : The Company has not declared any dividend for the financial year 2005-06.

Listing on Stock Exchanges : Bangalore Stock Exchange Ltd.
Madras Stock Exchange Ltd.

The shares of the Company are also traded on the IndoNext Platform of Bombay Stock Exchange Ltd.

Stock Code : Bangalore Stock Exchange Ltd. – KIRELECTRI
Madras Stock Exchange Ltd. –KRL
Bombay Stock Exchange Ltd. -590052

ISIN Number : INE 134B01017

The listing fees for 2006-07 have been paid to both the Stock Exchanges where the shares are listed.

Market Price Data

During the year under review there was no trading in the shares of the Company on Bangalore Stock Exchange Limited and Madras Stock Exchange Limited where the shares are listed.

The shares of the Company have been permitted for trading on Bombay Stock Exchange Limited (BSE) on the IndoNext Platform under "S" group with effect from Thursday, January 12, 2006. The shares are being traded on BSE since then regularly.

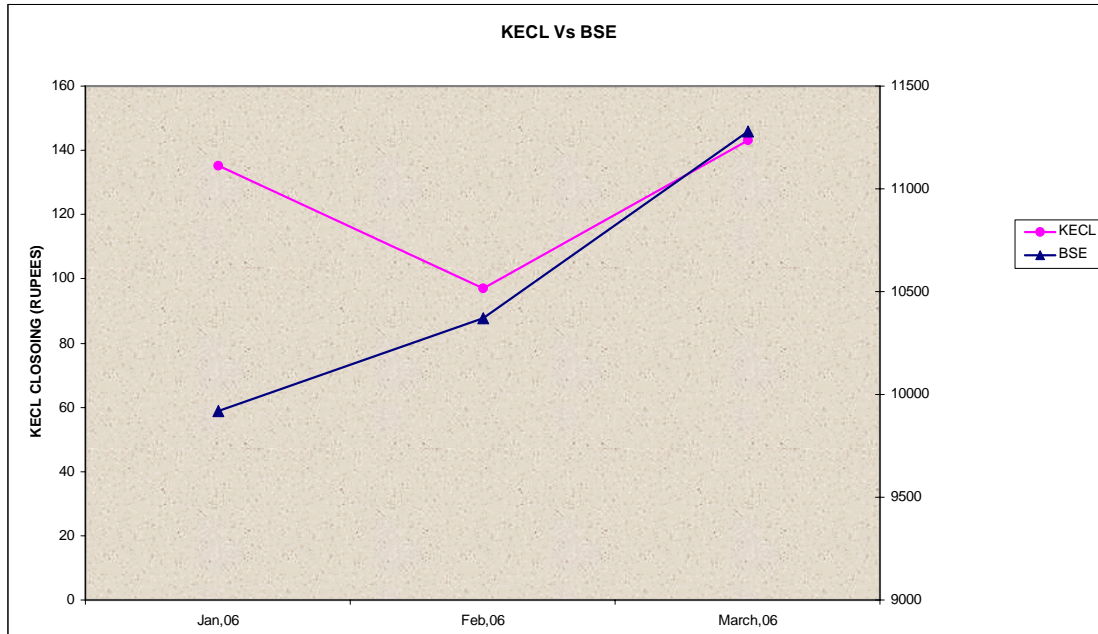
(Rs. in lakhs)

Month	Monthly High (Rs.)	Monthly Low (Rs.)	Monthly Volume (Nos.)
January, 2006	245	90	37,92,564
February, 2006	140.40	90	19,84,621
March, 2006	151.50	95.20	3,02,39,150

KIRLOSKAR ELECTRIC COMPANY LTD.

Share Price Movements :

Share Price Movements for the period 12th January, 2006 to 31st March, 2006 of Kirloskar Electric Company Limited (KECL) vs BSE Sensex



Registrar and Share Transfer Agents

M/s. Kirloskar Computer Services Limited, are the Registrar and Share Transfer Agents of the Company for both the physical and the dematerialised shares. Their address is :

Kirloskar Computer Services Limited

412 and 415 on 10th Cross, 5th Main Road
RMV II Stage
Bangalore 560 094
Telephone No : 23519311, 23519384
Fax No. 23519294
Website :www.kcsl.com

All applications for transfer/dematerialisation may be forwarded to the Registrars at their above address or to the Company at its Registered Office.

The Company's shares are in compulsory demat mode. Investors/Members are requested to note that physical documents, viz. Demat Request Forms (DRF), Share Certificates, etc. should be sent by their DPs' directly to the Transfer Agents of the Company. Investors/Members who purchase/acquire shares of the Company in the physical form should similarly send the physical documents, viz Transfer Deeds, Share Certificates etc. to the Transfer Agents of the Company. In cases of transfer of shares in the physical form, option is given to acquirers to dematerialise their shares as per SEBI guidelines. If the option is not exercised, physical share certificates duly endorsed for transfer are despatched.

The shareholders' complaints received during the year have been resolved with due despatch and no complaints were pending as on 31.3.2006. The number of physical transfers pending as on 31.3.2006 was 8 transfer applications for 1357 shares and the number of dematerialisation requests pending was 25 for 6479 shares. The transfers have been duly dealt with thereafter. The Company rematerialised 125 shares during the year.

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Distribution of Shareholding as on 31.3.2006

Shareholding Range	No. of Share holders in Demat Form	No. of Shares	No. of Share holders in Physical Form	No. of Shares	Total No. of Share-holders	%	No. of Shares	% of Share-holdings
1 - 500	13687	1676947	29696	987441	43383	93.80	2664388	8.52
501-1000	846	674386	559	411278	1405	3.04	1085664	3.47
1001-2000	386	588193	301	418720	687	1.49	1006913	3.22
2001-3000	175	441575	98	236926	273	0.59	678501	2.17
3001-4000	70	252797	57	196074	127	0.27	448871	1.44
4001-5000	81	384086	35	158383	116	0.25	542469	1.73
5001-10000	87	673441	45	316894	132	0.29	990335	3.17
10001 and Above	100	19726140	26	4125536	126	0.27	23851676	76.28
TOTAL	15432	24417565	30817	6851252	46249	100.00	31268817	100.00

Pattern of Equity Shareholding as on 31.3.2006

Category	No. of Shares held	Percentage of shareholding
Promoters	14564464	46.58
Mutual Funds and UTI	58657	0.19
Banks, Financial Institutions	4294079	13.73
Foreign Investment Institutions	850	0.00
Private Corporate Bodies	451342	1.44
Indian Public	9917005	31.72
NRI's/OCBS	1982420	6.34
TOTAL	31268817	100.00

Dematerialisation of Shares

The paid up equity capital of the Company as on 31.3.2006 was Rs. 31,26,88,170 (31268817 shares of Rs.10/- each). Out of the total Equity paid up share capital of Rs.31,26,88,170, 2,44,17,565 equity shares representing 78.09% of the Equity Capital were held in dematerialised form as on 31.3.2006.

Shareholders complaints received during the period 1.4.2005 to 31.3.2006.

Type of Complaint	No. of Complaints received	No. of Complaints Redressed	Redressal under process
Letters of Complaints regarding dividend (Non-receipt of Dividend correction in Bank details etc.)	13	13	—
Letters of Non-receipt of Annual Reports	59	59	—
Change of Address and Bank details	24	24	—
Letters or Complaints regarding shares (Non-receipt of shares after transfer/transmission, deletion of names, consolidation/ sub-division of shares and general transfer correspondence)	32	32	—
Complaints regarding Dematerialisation/Re-materialisation/ Rejection	17	17	—
Miscellaneous letters or complaints received other than above categories.	0	0	—

KIRLOSKAR ELECTRIC COMPANY LTD.

Outstanding GDRs/ADRs/Warrants or any convertible instruments, conversion date and likely impact on equity

The Company has no GDR/ADR/Warrants or any convertible instruments.

Insider Trading

The code of internal procedure of conduct and code of corporate disclosure practices as suggested under the SEBI (Prohibition of Insider Trading) Regulations, 1992 as amended by the Notification of 20th February, 2002 has been approved on 24th September, 2002 and is made effective with effect from 1.10.2002.

Plant Locations

Mysore	Hubli	Tumkur
Belvadi Industrial Area Mysore - 570 018	Gokul Road Hubli - 580 030	Hirehalli Industrial Area Hirehalli Tumkur - 572 168

Address for Correspondence :

Kirloskar Electric Company Limited
Post Box No.5555,
Malleswaram West, Bangalore- 560 055
Telephone : 23374865, 23378735 Fax- 23377706
Web Site Address – www.vrkec.com

Directors' Responsibility Statement

The Directors' Responsibility Statement in conformity with the requirement of the Companies Act, 1956 has been included in the Directors' Report to the Shareholders. A Management Discussion and Analysis Report in terms of item IV (F) of Clause 49 of the Listing Agreement has been annexed to the Directors' Report.

The financial accounts are in full conformity with the requirements of the Companies Act, 1956. These accounts reflect the form and substance of transactions and present a true and fair view of the Company's financial condition and the results of operations.

The Company has a system of internal control which is reviewed, evaluated and updated on an ongoing basis. The Internal Audit Department has conducted periodic audit of systems and procedures to provide reasonable assurance that the activities are conducted in a manner not prejudicial to the interests of the Company.

The financial statements have been audited by M/s B.K.Ramadhyan & Co., Chartered Accountants and have been reviewed by and discussed in the Audit Committee.

Information pursuant to Clause 49 IV(G) (i) (C) of the Listing Agreement

The details required under Clause 49 IV (G) (i) (c) of the Listing Agreement are given in the notice convening the meeting.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Your Company is engaged in Electrical Industry which has various groups such as Rotating Machines Group, Static Equipments Group, Switchgears Group, Cables Group, Transformers Group, Capacitors Group, Transmission Lines Group, etc., Each product group is having its different products within its broad range. The industry is further divided into two segments – Organised Sector and Unorganised Sector.

Your Company manufactures and deals in major products of the industry and the business of the Company can be divided into three major groups i.e. Rotating Machines Group, Power Distribution and Others.

The industry has seen uptrend in demand during last couple of years or so with continued capacity expansions/newer investments in the user industries and the thrust placed by the Government on the power sector and the increasing participation of private sector in electricity generation. The demand for the Company's products continues to improve. The margins however, are low due to rising input costs and intense competition. We are however trying to reduce the impact by improving operational efficiencies. The quality, reliability of our products, and good after sale service and countrywide network of sales and service and with our products having approval of all major consultants and the Kirloskar Electric Brand Equity will help us in continue getting a good share of the industry. The actual performance may however differ as it is dependent on several factors beyond control of the Company.

Performance Overview

During the year the Company has achieved a turnover of Rs. 42,811.27 lakhs as against Rs. 32,036.37 lakhs in the previous year. The profit before tax for the year is Rs.453.00 lakhs as against a profit of Rs. 88.66 lakhs in the previous year.

Segmentwise or productwise performance

The Company has identified the reportable segments as Rotating Machines Group, Power Distribution and Others, taking into account the nature of products and services, the different risks and returns and the internal reporting systems.

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The segment wise turnover of the Company is as follows :-

(Rs.in 000's)

Products	2005-06	2004-05
Rotating Machines Group	2,705,750	2,377,517
Power Distribution	1,209,950	451,774
Others	365,427	374,346
Total	4,281,127	3,203,637

Future Outlook

The thrust placed on the power sector and the improved demand from the user industries, bodes well for us. The margins may however be lower due to increasing raw material costs and intense competition.

Risks & Concerns

Rising input costs are a matter of concern as it may not be possible to pass them on fully to the customers. The industry is turning highly competitive. Timely availability of inputs is also uncertain.

Internal Control System

The Company has in place an adequate system of internal controls commensurate with the size of the Company and the nature of business to ensure efficacy of operations and also to ensure that assets are safeguarded against loss and for compliance with applicable legislation. There exists an adequate management reporting system comprising managerial reporting and analysis on various performance indicators, for corrective action as necessary. The Company has review systems of the performance against agreed financial parameters to assess the strengths and areas of improvement at all the Units.

Human Resources

Industrial relations during the year were cordial and the Company continued to have good support of all its employees at all levels.

Bagalore

Date : 25th July, 2006

For and on behalf of the Board,

Vijay R Kirloskar

Chairman & Managing Director

CEO AND CFO CERTIFICATION

We have reviewed financial statements and the cash flow statement for the year ended 31st March, 2006 and certify, to the best of our knowledge and belief, that:

- i. these statements present a true and fair view of the Company's affairs, and are in compliance with existing accounting standards, applicable laws and regulations;
- ii. these statements do not contain any materially untrue statement, or omit any material fact, or contain statements that might be misleading;
- iii. no transactions entered into by the Company during the year were fraudulent, illegal or violative of the Company's code of conduct ;
- iv. we have accepted the responsibility for establishing & maintaining internal control for financial reporting;
- v. we have evaluated the effectiveness of the internal control systems of the company, and have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of internal controls, of which we are aware and have taken steps to rectify the same, wherever found;
- vi. significant changes in internal control over financial reporting, as well as changes in accounting polices, have been intimated to the auditors and the Audit Committee, and have been disclosed in the notes to the financial statements; There were no instances of fraud of which we have become aware.

Place : Bangalore
Date : 25th July 2006

Vijay R Kirloskar
Chairman & Managing Director

Rakesh Kumar Gupta
VP & CFO

KIRLOSKAR ELECTRIC COMPANY LTD.

**CERTIFICATE OF THE AUDITORS IN RESPECT OF
COMPLIANCE OF CORPORATE GOVERNANCE**

The Members of Kirloskar Electric Company Limited

We have examined the compliance of conditions of corporate governance by Kirloskar Electric Company Limited for the year ended on 31st March 2006, as stipulated in clause 49 of the Listing Agreement of the said Company with Stock Exchanges.

The compliance of conditions of corporate governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

As required by the Guidance Note issued by the Institute of Chartered Accountants of India, we have to state that as per the records maintained by the Company, there were no investor grievances remaining attended/pending for more than 30 days.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

for B.K.RAMADHYANI & CO.
Chartered Accountants

Place : Bangalore
Date : 25th July, 2006

SHYAM RAMADHYANI
Partner

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AUDITORS' REPORT TO THE MEMBERS OF KIRLOSKAR ELECTRIC COMPANY LTD., BANGALORE

We have audited the attached Balance Sheet of Kirloskar Electric Company Limited, Bangalore as at 31ST March 2006, the Profit and Loss Account and also the Cash Flow statement for the year ended on that date annexed thereto.

- 1 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 auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
- 3 As required by the Companies (Auditors' report) Order, 2003, as amended by the Companies (Auditors' Report) (Amendment) Order 2004 issued by the Company Law Board, in terms of subsection 4A of section 227 of the Companies Act, 1956('Order'), we enclose in the annexure a statement on matters specified in paragraphs 4 and 5 of the said order.
Further to our comments in the annexure referred to above, we report that :
- 4 We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit.
- 5 In our opinion, the Company has kept proper books of account as required by law, so far as it appears from our examination of such books, *subject to paragraph 8 of the annexure to this report.*
- 6 The report on the accounts of the Kuala Lumpur office in Malaysia not visited by us but audited by M/s Chari & Company, Chartered Accountants has been forwarded to us and has been dealt with in the manner considered appropriate by us while preparing our report.
- 7 The Balance Sheet, the Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the Books of Account and audited returns received from the Kuala Lumpur Office of the Company.
- 8 In our opinion, the Balance Sheet, the Profit and Loss Account and Cash Flow Statement dealt with by this report comply in all material respects with the mandatory accounting standards (AS) referred to in subsection (3C) of section 211 of the Companies Act, 1956 as applicable, *subject to note 23(N) of schedule N (valuation of inventories of work in progress and finished goods not being in accordance with AS 2) and note 25 of schedule N. (non disclosure of prior period income/expenditure as required by AS 5)*
- 9 On the basis of written representations received from directors as on 31st March 2006 and taken on record by the Board of Directors, we report that none of the directors of the Company are disqualified as on 31st March 2006 from being appointed as a director under clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.
- 10 *Attention of the members is invited to the following:-*
 - a) *Note 16 (b) of schedule N regarding balance with a few banks as per books being subject to reconciliation/confirmation, since such bank has 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 19 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)*
 - c) *Note 20 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 (effect on revenue is not ascertained)*
 - d) *Notes 21 and 22 of schedule N regarding shortfall in the market/fair value of investments in relation to their acquisition cost and amounts due from certain companies of Rs. 92.17 million, which have incurred losses and who's net worth have been partially or wholly eroded. We have relied on the representations of the management that the diminution in the value of investments is temporary in nature and that the debts/advances are good of recovery.*
 - e) *Note 24 of schedule N regarding certain assets where installation has not been completed for several years, which have been carried in the books at their cost (Rs.53.33 million). We have relied on the representations of the management that the said assets are in good condition and that the installation will be completed before long. We are unable to express any opinion in the matter and*
- 11 In our opinion and to the best of our knowledge and according to the information and explanations given to us, the said accounts read with the other notes and schedules give the information as required by the Companies Act, 1956 in the manner so required and subject to *paragraphs 8 & 10 above and paragraphs 1, 2 & 4 of the annexure to this report* give a true and fair view in conformity with the accounting principles generally accepted in India:
 - a. In the case of the balance sheet, of the state of affairs of the Company as at 31st March 2006
 - b. In the case of the profit and loss account, of the profit for the year ended on that date and
 - c. In the case of cash flow statement, of the cash flows for the year ended on that date.

For B.K.RAMADHYANI & CO.

Chartered Accountants

Shyam Ramadhyani

Partner

Membership number 200/19522

Bangalore

Date: 25th July, 2006

KIRLOSKAR ELECTRIC COMPANY LTD.

ANNEXURE TO AUDITORS' REPORT

(AS REFERRED TO IN PARA 3 OF OUR REPORT TO THE MEMBERS OF KIRLOSKAR ELECTRIC COMPANY LIMITED)

1.
 - a. The fixed asset records maintained by the Company need to be updated by interalia incorporating comprehensive description of fixed assets and changes in location in order to show full particulars.
 - b. The management during the year has physically verified a portion of the fixed assets. Reconciliation of a portion of the inventories with book records is under progress. Pending completion of reconciliation, discrepancies, if any cannot be completely ascertained. Fixed assets lying with third parties and at port are subject to confirmation.
 - c. During the year, the Company has not disposed off a substantial part of its fixed assets and as such the provisions of clause 4(i) (c) of the Order are not applicable to the Company.
2.
 - a. Inventories have been physically verified during the year by the management. In our opinion, the frequency of verification is reasonable. Certain stocks lying with third parties and at port are subject to confirmation.
 - b. The procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
 - c. The Company is maintaining proper records of inventory in terms of quantities *except in respect of materials and components at the transformer division and work in progress*. The discrepancies noticed on verification between the physical stocks and the book records were not material.
 - d. *The valuation of work in progress and finished goods as at 31st March 2006 are not in accordance with AS 2 as detailed in note 23 of schedule N. The valuation done by the management have been accepted as such.*
 - e. We have relied on the representation of the management that the consumption of materials and components is in line with the industry norms.
3. The Company has neither taken nor granted any loans from/to companies, firms and other parties covered in the register maintained under section 301 of the Companies Act, 1956. Accordingly, the provisions of clause 4(iii) of the Order are not applicable to the Company. For this purpose, we have relied on the representations of the management that monies due from parties referred to in note 18 & 22 of schedule N are advances and not in the nature of loans.
4. Having regard to the explanations given to us that some of the bought out items/assets are proprietary and/or special and/or are customised to the requirements of the Company and as such comparative quotations are not available, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business with regard to purchases of inventory and fixed assets and for the sale of goods *except at the transformer division where controls in respect of inventory need to be strengthened*. We have not observed during the course of our audit any continuing failur to correct major weaknesses in internal controls.
5.
 - a. According to the information and explanations given to us, we are of the opinion that transactions that need to be entered into the register maintained under section 301 of the Companies Act, 1956 have been so entered.
 - b. No comments can be made on the reasonability of the rates in respect of the transactions so made and exceeding Rs. 500,000 in respect of any one party since there are no similar transactions with third parties at the relevant time.
6. The Company has complied with the provisions of section 58A and 58AA of the Companies Act, 1956 and the Companies (Acceptance of Deposits) Rules, 1975 with regard to deposits accepted from the public. The Company Law Board has not passed an order.
7. In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.
8. We have broadly reviewed the Cost Records maintained by the Company as prescribed by the Central Government under clause (d) of sub section (1) of 209 of the Companies Act, 1956 and are of the opinion that prima facie the prescribed accounts and records have been made and maintained, subject to note 20(a) of schedule L. We have not made a detailed review of the same to ensure their accuracy and completeness.

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9. a. The Company has not been regular in depositing undisputed statutory dues including provident fund, employees' state insurance, income tax, sales tax, customs duty, excise duty, cess and other statutory dues with the appropriate authorities.
- b. According to the information and explanations given to us, undisputed statutory dues as at 31.3.2006 outstanding for a period of more than six months from the date they became payable are detailed below (to the extent identified from the records pending complete reconciliation of the relevant accounts)

Name of the statute	Nature of dues	Amount (Rs.)	Period to which the amount relates	Date of payment
The Income Tax Act, 1961	Tax deducted at source	311,957	April to August 2005	April 2006 to July 2006
Maharashtra Central Sales Tax	Sales Tax	197,748	2003 - 04	
Maharashtra Sales Tax Act	Sales Tax	151,700	2003 - 04	
The Customs Act, 1962.	Material lying at bonded warehouse	4,119,078	September 2000	-
Employees State Insurance Act	ESI on contractors	9,208	August 2005	06.07.2006

- c. According to the information and explanations given to us, the following dues of sales tax, income tax, customs tax, wealth tax, excise duty, service tax and cess had not been deposited as at 31st March 2006 with the relevant authorities on account of disputes.

Name of the statute	Nature of the dues	Amount (Rs.)	Period to which the amount relates	Forum where dispute is pending
Central Sales Tax	Demands at various Branches of the Company	517,134	1985 to 2001	Sales Tax Appellate Tribunal
Local Sales Tax at Various Branches	Demands at Various Branches of the Company	3,903,429	1985 to 2001	Sales Tax Appellate Tribunal
The Customs Act, 1962.	Customs demand	5,188,498	1994 to 1999	Asst. Commissioner of Customs

10. In our opinion, the accumulated losses of the Company are not more than fifty percent of its net worth. The Company has not incurred cash losses during the financial year covered by our audit and the immediately preceding financial year.
11. In our opinion and according to the information and explanations given to us, the Company has defaulted in repayment of interest and instalments to banks to an aggregate extent of Rs.0.94 million and Rs.1.93 million respectively as at 31st March 2006.
12. The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities and as such the provisions of clause 4(xii) of the Order are not applicable to the Company.
13. In our opinion, the Company is not a chit fund or a nidhi /mutual benefit fund/ society. Therefore, the provisions of clause 4(xiii) of the Order are not applicable to the Company.

KIRLOSKAR ELECTRIC COMPANY LTD.

14. In our opinion the Company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Order are not applicable to the Company.
15. In our opinion, the Company has not given any guarantees during the year for loans taken by others from banks and financial institutions. Accordingly, the provisions of clause 4(xv) of the Order are not applicable to the Company.
16. In our opinion, the Company has not taken any term loans during the year. Accordingly, the provisions of clause 4(xvi) of the Order are not applicable to the Company.
17. According to the information and explanations given to us and on an overall examination of the balance sheet of the company, we report that no funds raised on short- term basis have been used for long-term investment. For this purpose, working capital loans and overdue interest to banks and financial institutions converted to term loans pursuant to the scheme of arrangement under sections 391 to 394 of the Companies Act, 1956 have been considered as funds raised on long term basis.
18. The Company has not made any preferential allotment of shares during the year to parties and companies covered in the register maintained under section 301 of the Companies Act. Accordingly, the provisions of clause 4(xviii) of the Order are not applicable to the Company.
19. According to the information and explanations given to us, the Company has issued debentures to the Industrial Development Bank of India to an extent of Rs.49.4 million in terms of the scheme of arrangement approved by the honourable High Court of Karnataka under sections 391 to 394 of the Companies Act, 1956. The Company has created securities in respect of the said debentures.
20. The Company has not raised any monies by public issue during the year. Accordingly, the provisions of clause 4(xx) of the Order are not applicable to the Company.
21. According to the information and explanations given to us, no fraud on or by the Company have been noticed or reported during the year.

B. K. Ramadhyani & Co.,
4B, Chitrapur Bhavan
8th main, 15th cross, Malleswaram,
Bangalore - 560 055

Date: 25th July 2006

For B. K. RAMADHYANI & CO.
Chartered Accountants

Shyam Ramadhyani
Partner

Membership number 200/19522

FIFTY NINTH ANNUAL REPORT 2005-2006

BALANCE SHEET AS AT 31ST MARCH 2006

(Rs in 000's)

	Schedule	As at 31 st March, 2006	As at 31 st March, 2005
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
a) Capital	A	432,688	432,688
b) Reserves & Surplus	B	<u>675,541</u>	<u>675,541</u>
		1,108,229	1,108,229
LOAN FUNDS			
a) Secured Loans	C	176,073	201,001
b) Unsecured Loans	D	<u>17,501</u>	<u>2,120</u>
		193,574	203,121
TOTAL		<u>1,301,803</u>	<u>1,311,350</u>
APPLICATION OF FUNDS			
FIXED ASSETS			
a) Gross Block	E	380,565	389,739
b) Less : Depreciation		<u>261,616</u>	<u>262,273</u>
c) Net Block		118,949	127,466
d) Capital Work in progress (At cost)		56,383	58,666
Less : Provision for dimunition in value		<u>3,056</u>	<u>—</u>
		53,327	58,666
		172,276	186,132
INVESTMENTS	F	600,068	555,951
CURRENT ASSETS, LOANS & ADVANCES			
a) Inventories		217,961	119,590
b) Sundry Debtors		1,126,390	825,008
c) Cash & Bank Balances		139,434	217,773
d) Loans & Advances		<u>253,968</u>	<u>105,053</u>
		1,737,753	1,267,424
Less : CURRENT LIABILITIES & PROVISIONS	H		
a) Current Liabilities		1,555,257	1,128,750
b) Provisions		<u>21,250</u>	<u>12,979</u>
		1,576,507	1,141,729
NET CURRENT ASSETS		161,246	125,695
MISCELLANEOUS EXPENDITURE TO THE EXTENT NOT WRITTEN OFF	I	43,823	77,882
PROFIT & LOSS ACCOUNT		324,390	365,690
TOTAL		<u>1,301,803</u>	<u>1,311,350</u>
NOTES ON ACCOUNTS	N		
BALANCE SHEET ABSTRACT & COMPANY'S GENERAL BUSINESS PROFILE	O		

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

P. S. MALIK
Deputy Managing Director

SHYAM RAMADHYANI
Partner

P.Y. MAHAJAN
Company Secretary

R.K. GUPTA
Vice President &
Chief Financial Officer

Bangalore
Date : 25th July, 2006

KIRLOSKAR ELECTRIC COMPANY LTD.

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH 2006 (Rs in 000's)

	Schedule	Current Year	Previous Year
INCOME			
Sales		4,281,127	3,203,637
Less: Excise Duty		140,881	83,203
Other Income	J	19,717	12,573
Profit on Sale of Long term Investment		2,992	-
Remission of Loan liability		-	23,412
Profit on Sale of Fixed Assets		6,453	91,648
TOTAL		4,169,408	3,248,067
EXPENDITURE			
Consumption of Raw Materials, Stores, Spares parts & Components and purchasing for Trading	K	3,755,750	2,855,858
Operating and Other Expenses	L	259,896	203,968
Restructuring Expenses		26,585	9,153
Interest and Finance Charges			
On Fixed Loans		13,957	18,710
On Other Accounts		4,074	3,832
		18,031	22,542
Loss on Sale of Fixed Assets		246	47,931
Depreciation, Amortisations and Provisions	M	63,822	99,749
		4,124,330	3,239,201
Less : Expenses Capitalised		222	-
TOTAL		4,124,108	3,239,201
PROFIT BEFORE TAXATION		45,300	8,866
Less : Provision for Taxation (net)		-	46
Provision for Fringe Benefit Tax		4,000	-
PROFIT FOR THE YEAR		41,300	8,820
Add : Transfer from General Reserve		-	111,664
		41,300	120,484
Less : Loss brought forward from Previous Year		(365,690)	(486,174)
Balance of Loss Carried to Balance Sheet		(324,390)	(365,690)
Earning per Share (Face Value Rs. 10 per share)			
Basic		1.01	(0.02)
Diluted		0.95	(0.02)

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

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

As per our report of even date
For B.K. RAMADHYANI & CO.
Chartered Accountants

SHYAM RAMADHYANI
Partner

Bangalore
 Date : 25th July, 2006

For and on behalf of Board of Directors

VIJAY R. KIRLOSKAR
Chairman & Managing Director

P.Y. MAHAJAN
Company Secretary

P. S. MALIK
Deputy Managing Director

R.K. GUPTA
Vice President & Chief Financial Officer

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SCHEDULES TO THE BALANCE SHEET AS AT 31ST MARCH 2006

(Rs in 000's)

	As at 31st March, 2006 Rs.	As at 31st March, 2005 Rs.
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	400,000	400,000
TOTAL	700,000	700,000
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	312,688	312,688
TOTAL	432,688	432,688

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 Honourable High Court of Karnataka.
2. The promoter 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

(Rs. in 000's)

Capital Reserve		
As per last Balance Sheet	1,806	1,806
Revaluation Reserve		
As per last Balance Sheet	48,041	159,705
Less: Transferred to General Reserve	-	111,664
	48,041	48,041
Capital Redemption Reserve		
As per last Balance Sheet	2,500	2,500
Share Premium Account		
As per last Balance Sheet	614,194	614,194
General Reserve		
Transfer from Revaluation Reserve	-	111,664
Less : Transfer to P & L Account	-	111,664
	-	-
Reserve for Doubtful Debts		
As per last Balance Sheet	9,000	9,000
TOTAL	675,541	675,541

KIRLOSKAR ELECTRIC COMPANY LTD.

SCHEDULES TO THE BALANCE SHEET AS AT 31ST MARCH 2006

(Rs in 000's)

	As at 31st March, 2006 Rs.	As at 31st March, 2005 Rs.
SCHEDULE "C"		
SECURED LOANS		
a) From Banks	126,673	151,601
b) Zero Coupon Debentures	49,400	49,400
TOTAL	176,073	201,001

SCHEDULE "D"

UNSECURED LOANS

a) Fixed Deposits Unclaimed	523	549
b) Interest accrued and due - FDs	178	272
c) SICOM Sales Tax loan	1,119	1,119
d) HDFC Housing Loan	180	180
e) From a company	15,501	-
TOTAL	17,501	2,120

NOTE : Amount falling due for payment within one year is Rs.2.00 million (Previous year Rs.2.120 million).

SCHEDULE "E"

FIXED ASSETS

(in 000's).

PARTICULARS	Gross Block (at cost)				Depreciation				Net Block	
	As at 1st April 2005	Additions/ Transfers	Deductions/ Transfers	As at 31st March 2006	As at 1st April 2005	For the year	Withdrawals during year	As at 31st March 2006	As at 31st March 2006	As at 31st March 2005
GOODWILL	42,346	-	-	42,346	42,346	-	-	42,346	-	-
LAND (*)	53,150	-	-	53,150	-	-	-	-	53,150	53,150
BUILDINGS (#)	52,420	903	294	53,029	32,384	932	273	33,043	19,986	20,036
PLANT & MACHINERY (Includes Technical knowhow)	182,988	5,022	16,316	171,694	141,728	4,462	7,730	138,460	33,234	41,260
FURNITURE & EQUIPMENT	44,301	1,820	760	45,361	35,839	1,867	595	37,111	8,250	8,462
VEHICLES AND AIRCRAFT	14,534	895	444	14,985	9,976	1,120	440	10,656	4,329	4,558
TOTAL	389,739	8,640	17,814	380,565	262,273	8,381	9,038	261,616	118,949	127,466
PREVIOUS YEAR	612,328	21,094	243,683	389,739	309,444	8,100	55,271	262,273		

(#) Includes Rs. 3.337 million being the cost of ownership premises taken in possession for which Society is to be formed.

(*) Certain land at Bangalore was revalued in the year 1999-2000 on the basis of Chartered Engineers certificate. Incremental amount on revaluation was credited to Revaluation Reserve Rs.48,041 (in 000's).

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SCHEDULES TO THE BALANCE SHEET AS AT 31ST MARCH 2006

(Rs in 000's)

	Nos.	Face Value	As at 31st March, 2006 Rs.	As at 31st March, 2005 Rs.
SCHEDULE "F"				
INVESTMENTS (AT COST)				
{LONG TERM}				
A. TRADE :				
(a) Quoted :				
(i) Equity Shares - Fully Paid-up				
Deepak Insulated Cable Corporation Ltd., (12,000 Bonus Shares)	104,750	10	-	-
Kirloskar Computer Services Ltd.,	200,000	10	2,380	2,380
Karnataka Ball Bearing Corporation Ltd.,	356,000	10	-	-
The Mysore Kirloskar Ltd.,	770,750	10	21,260	21,260
(ii) Debentures - Fully Paid-up				
The Mysore Kirloskar Ltd., @	30,000	44	1,320	1,320
(b) Unquoted :				
(i) Equity Shares - Fully Paid-up				
In Subsidiary Company :				
Kaytee Switchgear Ltd., (\$)	20,619,512 (15,619,512)	10	579,200	529,200
KEC North America Inc	210	-	12,936	12,936
(ii) In Other Companies :				
Best Trading & Agencies Ltd.,	584	10	6	6
Kirloskar Proprietary Ltd., (acquired 25 shares on rights issue)	26	100	128	128
Sangli Bank Limited	10,000	10	100	100
Kirloskar (Malaysia) Sdn. Bhd, Kuala Lumpur, Malaysia	150,000	MR 1	529	529
Kirloskar Kenya Limited, Nairobi, Kenya	1,272	K. Sh 1000	852	852
Kirsons Trading Pte. Ltd	56,250	S \$ 1	1,120	1,120
Kirloskar Power Equipments Ltd., (1,050,000)	340,000	10	2,817	8,700
KEASI Robicosn Industrial Systems Pvt. Ltd., (Formerly Kirloskar Ansaldo Industrial Systems Pvt. Ltd.,)	500,000 s	10	5,000	5,000
Less:				
Provision for diminution in value of Investments			27,580	27,580
TOTAL			600,068	555,951

@ Matured and due for payment.

\$ 15,619,512 shares acquired pursuant to the order of the Hon'ble High Court of Karnataka on the Company's petition under Sections 391-394 of the Companies Act, 1956

NOTES :

	Rs in 000's	Rs in 000's
1) Aggregate value of quoted investments		
Cost	24,960	24,960
Market Value	Not Available	Not Available
2) Aggregate value of unquoted investments		
Cost	602,688	558,571

KIRLOSKAR ELECTRIC COMPANY LTD.

SCHEDULES TO THE BALANCE SHEET AS AT 31ST MARCH 2006

(Rs in 000's)

	As at 31st March, 2006 Rs.	As at 31st March, 2005 Rs.
SCHEDULE "G"		
CURRENT ASSETS, LOANS & ADVANCES		
A. Current Assets		
1. Inventories - as certified by the Managing Director		
i. Raw Materials, Stores, Spares Parts, Components etc.,	56,562	32,982
ii. Stock in Trade		
Finished Goods (including Trading Stocks)	118,107	28,335
Process Stock	57,091	57,299
iii. Others-Including Material at Port and Scrap	16,909	16,913
	<u>248,669</u>	135,529
Less: Provision for Non-moving Stocks	30,708	15,939
	<u>217,961</u>	119,590
2. Sundry Debtors		
(Unsecured, considered good except doubtful debts of Rs. 114.61 million, previous year Rs. 12.553 million)		
i. Debts outstanding for a period exceeding six months	363,429	312,406
ii. Other Debts	774,422	525,155
	<u>1,137,851</u>	837,561
Less : Provision for doubtful debts	11,461	12,553
	<u>1,126,390</u>	825,008
3. Cash and Bank Balances		
a. Cash on Hand	18	11
b. Cheques in hand	338	336
c. Amount in transit	3,000	2,248
d. Balances with Scheduled Banks		
- On Current Account	56,999	70,247
- Unclaimed / Unpaid Dividends in Current Account	-	349
- On Short term deposit accounts	79,079	144,582
	<u>139,434</u>	217,773
B. Loans and Advances		
(Unsecured, considered good except doubtful advances of Rs. 14.968 million, previous year Rs. 14.968 million)		
Advances Recoverable in Cash or in kind or for value to be received		
Sundry Advances (***)	253,213	107,277
Less : Provision for Doubtful Advances	14,968	14,968
	<u>238,245</u>	92,309
Central Excise Deposits	7,900	7,435
Advance payment of tax (Including FBT)	7,823	5,309
	<u>253,968</u>	105,053
TOTAL	<u><u>1,737,753</u></u>	<u><u>1,267,424</u></u>

*** Includes balances due with customs **Rs. 2.71** million (Previous year Rs.2.61 million).

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SCHEDULES TO THE BALANCE SHEET AS AT 31ST MARCH 2006

(Rs in 000's)

	As at 31st March, 2006	As at 31st March, 2005
	Rs.	Rs.
SCHEDULE "H"		
CURRENT LIABILITIES & PROVISIONS		
A. Current Liabilities		
Sundry Creditors	501,081	343,027
Trade Advances	27,336	28,163
Unclaimed / Unpaid Dividends (*)	–	349
Other liabilities (@)	303,572	277,408
Due to subsidiary company	723,268	479,295
Interest accrued but not due on loans and deposits	–	508
	1,555,257	1,128,750
B. Provisions		
For Taxation (Including FBT)	10,557	6,492
For Earned Leave Encashment	3,331	2,682
For Warranty claim	7,362	3,805
	21,250	12,979
TOTAL	1,576,507	1,141,729

(*) Unclaimed for less than 7 years.

(@) Includes **Rs.0.309** million due to Directors (Previous year Rs.0.309 million).

SCHEDULE "I"

MISCELLANEOUS EXPENDITURE TO THE EXTENT NOT WRITTEN-OFF

1 Deferred Revenue Expenditure		
Voluntary Retirement Scheme	43,823	77,882
TOTAL	43,823	77,882

KIRLOSKAR ELECTRIC COMPANY LTD.

SCHEDULES TO THE PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH 2006

(Rs in 000's)

	Current Year Rs.	Previous Year Rs.
SCHEDULE "J"		
OTHER INCOME		
Interest :		
On Fixed Deposits	3,903	5,695
Others	775	654
(Tax deducted at source Rs.0.15 million previous year Rs.0.26 million)	4,678	6,349
Dividend from Long term		
Investments :		
Trade	-	10
Rent Received	4,047	5,286
(Tax deducted at source Rs.0.54 million previous year Rs.0.50 million)		
Miscellaneous*	10,992	928
TOTAL	19,717	12,573
* Includes provision no longer required Rs. 5,138 (Rs. 218)		
SCHEDULE "K"		
CONSUMPTION OF RAW MATERIALS, STORES, SPARE		
PARTS & COMPONENTS AND PURCHASES FOR TRADING		
Raw material, stores and Components	859,539	484,278
Purchases for Trading	2,985,775	2,380,003
	3,845,314	2,864,281
Deduct : Increase in stocks		
Stocks at Close		
Process stocks	57,091	57,299
Trading and finished goods	118,107	28,335
	175,198	85,634
Less : Stocks at commencement		
Process stocks	57,299	33,574
Trading and finished goods	28,335	43,637
	85,634	77,211
	(89,564)	(8,423)
TOTAL	3,755,750	2,855,858

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SCHEDULES TO THE PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH 2006

(Rs in 000's)

	Current Year Rs.	Previous Year Rs.
SCHEDULE "L"		
OPERATING & OTHER EXPENSES		
Power & Fuel	11,714	6,808
Expenses relating to Employees :		
Salaries, Wages & Bonus	77,842	73,170
Contribution to Employees PF, Family Pension Scheme and Superannuation Fund	7,232	5,307
Gratuity as per actuarial valuation	6,865	5,649
Workmen and Staff Welfare Expenses (includes contribution to employees' State insurance & PF Administration Charges	8,868	8,357
	100,807	92,483
Rent	6,664	5,677
Repairs		
Buildings	2,837	3,129
Machinery	6,502	1,517
Others	14,079	2,811
	23,418	7,457
Selling Expenses	24,548	7,720
Commission	315	298
Cash Discount	-	6
Additional Sales Tax	-	5,061
Maintenance of Vehicles	1,337	988
Insurance	1,595	2,109
Rates and Taxes	9,977	5,789
Advertisement	3,671	2,051
Printing & Stationery	3,941	3,274
Travelling Expenses	29,780	23,272
Postage, Telegrams and Telephones	9,864	9,270
Auditors Remuneration	1,699	1,308
Tech. Consultancy & Professional Charges	11,102	13,503
Royalty	-	23
Bank Charges (Net off exchange fluctuation difference of Rs. 0.19 million Cr previous year Rs.0.039 million Cr.)	7,614	3,164
Subscription to Technical Associations, Journals and Magazines	1,131	2,183
Computer hire, Software development and data preparation charges	240	-
Manufacturing expenses and sundries	2,593	6,519
Bad debts & disallowance written off	3,710	1,349
Less : Provision for Doubtful debts withdrawn	1,092	1,333
	2,618	16
Donations	10	35
Directors' sitting fees	175	157
Remuneration to Whole-time Directors	5,083	4,797
	259,896	203,968
SCHEDULE "M"		
DEPRECIATION, AMORTISATION AND PROVISIONS		
1. Depreciation	8,381	8,100
2. Amortisation of Voluntary Retirement Scheme	34,059	54,569
3. Diminution in value of investment	-	27,580
4. Diminution in the value of Inventories / assets	17,825	8,000
5. Warranty claim	3,557	1,500
	63,822	99,749

KIRLOSKAR ELECTRIC COMPANY LTD.

SCHEDULES TO THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

SCHEDULE "N"

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

1. SIGNIFICANT ACCOUNTING POLICIES

1.1 ACCRUAL SYSTEM OF ACCOUNTING:

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

1.2 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.

1.3 INVESTMENTS:

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

1.4 INVENTORIES:

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

1.5 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.

1.6 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 amortized 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 amortized over 5 years.

1.7 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.

1.8 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.

1.9 REVENUE RECOGNITION:

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

1.10 RETIREMENT BENEFITS:

Contribution to Gratuity and Superannuation funds has been computed for the Company based on actuarial valuation/ assessment of liability.

1.11 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.

1.12 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.

1.13 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.

1.14 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.

1.15 USE OF ESTIMATES:

The preparation of financial statements in conformity with generally accepted accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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SCHEDULES TO THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT (Contd.,)

SCHEDULE "N" (Contd.,)

Notes attached to and forming part of the Balance Sheet and Profit and Loss Account (Contd.,) Rs. in 000's

	As at 31st March, 2006	As at 31st March 2005
2. CONTINGENT LIABILITIES ETC		
i) Guarantees / Counter guarantees given on Import and Sale contracts etc.	45,044	42,507
ii) Bills discounted with bank	33,744	14,854
iii) 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	5,188	5,938
iv) Sales tax demanded under appeal in branches of the Company	8,173	8,855
v) 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)		
vi) 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.128.50 million (Previous year: Rs.152.55 million) interest and other costs to Kirloskar Batteries Pvt. Limited (KBTL) 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 is liability. The Company does not acknowledge this liability.	217,559	219,618
vii) Sales tax liability in respect of pending assessments	Not Ascertainable	Not Ascertainable
viii) Interest and penalty if any, on account of delays/defaults in payment of statutory/ suppliers dues not ascertainable. The Company has made waiver petition where ever such interest / penalty has been levied.	Not Ascertainable	Not Ascertainable
ix) 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.	Not Ascertainable	Not Ascertainable
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, 2001 are payable cumulatively out of the profits of the company and the said dividend for the period from October 1, 2001 to September 30, 2003 are to be funded and converted to Zero Coupon Debentures (ZCDs). The Board of Directors vide their meeting held on September 26, 2003 allotted ZCD's to an extent of Rs. 2.345 crores representing dividends on the said Preference Shares from October 1, 2001 to September 30, 2003. However, on subsequent re-examination 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, 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, 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.	50,684	41,106

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.

KIRLOSKAR ELECTRIC COMPANY LTD.

SCHEDULES TO THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT (Contd.,)

SCHEDULE "N" (Contd.,)

Notes attached to and forming part of the Balance Sheet and Profit and Loss Account (Contd.,) Rs. in 000's

	As at 31st March, 2006	As at 31st March 2005
3. SECURED LOANS		
A Loans and Advances from banks :		
i) 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.	410 RM 35	1,556 RM 136
ii) a) Working capital Term Loan & funded interest term loans from consortium banks are secured by first pari passu charge on fixed assets along with the holders of zero coupon debentures and second pari passu charge on current assets and the said credit facilities have been guaranteed by the Chairman & Managing Director.		
b) Other working capital facilities - First pari passu charge on all current assets and second pari passu charge on fixed assets) along with the holders of zero coupon debentures and the said credit facilities have been guaranteed by the Chairman & Managing Director of the Company.		
B Loans and Advances from Financial Institutions :		
Zero Coupon Debentures (IDBI) - First pari passu charge on fixed assets pari passu along with banks referred to in para A (ii) above :	49,400	49,400
4. Balances with Foreign banks		
i) With Bank of Commerce (M) Bhd., Kuala Lumpur : On Short term deposits	10,903 RM 946	10,381 RM 918
Maximum Balance at any time during the year	10,903 RM 946	10,381 RM 918
ii) With HSBC, Dubai On Current Accounts	415 AED 34	193 AED 16
Maximum balance at any time during the year	415 AED 34	234 AED 20
iii) With HSBC Dubai On Current Account	840 \$ 19	535 \$ 12
Maximum balance at any time during the year	840 \$ 19	603 \$ 14
5. Net dividend remitted in Foreign Currency during the year 2005-2006		
Number of Non-resident shareholders (exclusive of Shareholders whose dividends are credited to their Accounts in India)	3 (Three)	3 (Three)
Number of Equity Shareholdings	1,905,401	1,905,401
6. Earning in Foreign Exchange		
	Current Year	Previous Year
i) F.O.B. value of Goods exported (Net) (inclusive of Sales within India eligible for export incentives)	145,958	98,044
ii) Remittances from overseas offices (Net)	2,771	14,188

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SCHEDULES TO THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT (Contd.,)

SCHEDULE "N" (Contd.,)

Notes attached to and forming part of the Balance Sheet and Profit and Loss Account (Contd.,) Rs. in 000's

	As at 31st March, 2006	As at 31st March 2005
7. Value of Imports calculated on CIF basis:		
i) Raw Materials	15,792	5,437
ii) Components and Spare parts	31,009	20,565
iii) Capital items	Nil	2,837
8. Expenditure in foreign currency during the financial year	8,876	6,719
9. Remuneration to Auditors:		
a) IN INDIA		
i) for Audit	500	350
ii) for Taxation matters / tax audit	450	350
iii) for Certification work etc.	350	205
iv) for S.A.F. & P.F. Audit	125	75
v) for Management Services / service tax	259	203
vi) Cost Audit Fees	-	50
b) IN MALAYSIA		
i) for Audit	10	46
ii) for Taxation matters	5	29
TOTAL	1,699	1,308

Excludes out of pocket expenses of **Rs.0.121 million** (Previous Year 0.07 million)

10. Expenditure on Research and Development during the year:

Revenue	1,376	1,535
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11. Value of imported and indigenous raw materials, stores, spare parts and components consumed and percentage of each to the total consumption:

Value of imported raw materials, stores, spare parts & components consumed	5.89%	50,624	5.12%	24,775
Value of indigenous raw materials, stores, spare parts & components consumed	94.11%	808,915	94.88%	459,503
	100%	859,539	100%	484,278

12. Consumption of major raw materials and components during the year:

	Unit	Quantity	Value	Quantity	Value
1. Copper (wires, strips, rods, sheets, etc)	MT	499	133,538	250	45,322
2. Iron and steel (pig iron, rounds, plates, sheets, etc.,) Stampings and Laminations	MT	1,777	193,150	814	78,236
3. Others		(*)	532,851	(*)	360,720
TOTAL			859,539		484,278

Notes: 1. In the presentation of data, necessary adjustments have been made for normal shortages and excesses in stock including process losses during conversion of raw material.

2. (*) Only value furnished as the items are numerous and it is not possible to furnish quantitative particulars thereof.

KIRLOSKAR ELECTRIC COMPANY LTD.

SCHEDULES TO THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT (Contd.,)

SCHEDULE "N" (Contd.,)

Notes attached to and forming part of the Balance Sheet and Profit and Loss Account (Contd.,)

13. Capacities and Production

Item No.	Class of Goods		Capacities		
			Licensed	Installed@	Production
1.	Motors/ Alternators/ Generators	MW	2,806*	2,806*	– (35)
2.	Transformers	Kva	Not Applicable	Not Ascertained	1,161,825 (611.670)
3.	Arc Welding & Resistance Welding Equipments with Welding Aids and Accessories	Nos	1,800+	1,800+	Nil
4.	Controls for Alternators/ Generating sets, Variable Speed Drive Controls, Static Exciters and Inverters, Electronic Controls for Machine Tools, HV testers, Coolers, stud Welders, Thermister Protection units and RF Induction Generators	Units	3,000*	3,000*	769 (1,558)
5.	Induction Heating Equipment such as Induction Heaters and Welders, Die Electric Heaters & Plastic Welders with associated handling equipment	Nos	150*	50*	Nil
6.	Vertical Mechanical Comparator, Sigmasize Electronic Gauging Indicator, Sigmaflash electronic column guage, Sigmaster fixturing systems.	Nos.	1,400	200	Nil
7.	Micro and Mini Computers	Rs. In million	100*	80	Nil
8.	Industrial Electronic Voltage Regulators	Nos.	20,000	8,000	1,206 (2242)
9.	Uninterruptible Power Systems	Nos.	5,000*	500	777 (314)
10.	Metal Cutting including Grinding Machines (**)	Nos.	300*	150	Nil (Nil)
11.	Machine tool accessories including digital readouts (**)	Nos.	550*	550	57 (126)
12.	Printed Circuit Boards (**)	Sq. Mtrs	2,500*	2,500*	Nil
13.	Alternators	Nos.	191,500	78,000	Nil
14.	D.G. Sets	Nos.			14 (161)
15.	Circuit Breakers/ Starters/ Contactors/ Switchboard*	Nos	\$		696 (404)

Notes:

* as per letter No. 3/24/2000-PAB-IL from Department of Industrial Policy and Promotion, New Delhi dt: 01/12/2004.

- (**) Registered with DGTD (*) on maximum utilization (+) On single shift.
- There is no change in installed capacity as compared to the previous year.
- (@) As certified by the Managing Director.
- \$ Standing in the name of Kirloskar Systems Ltd., whose switchgear business is taken over by the Company.
- The Licenses relating to the rotating machines group transferred to Kaytee Switchgear Limited, stand in the name of the Company.

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SCHEDULES TO THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT (Contd.,)

SCHEDULE "N" (Contd.,)

Notes attached to and forming part of the Balance Sheet and Profit and Loss Account (Contd.,)

14. Opening and Closing Stock of Finished & Trading Goods:

Item No.	Class of Goods	Opening Stocks		Closing Stocks	
		Qty. Nos.	Value Rs. In 000's	Qty. Nos.	Value Rs. In 000's
1.	Motors/ Alternators/ Generators	184 (644)	12,008 (12,756)	244 (184)	77,909 (12,008)
2.	Transformers	Nil (3)	Nil (753)	Nil (-)	Nil (-)
3.	Controls for Alternators/ Generating sets, Variable Speed Drive Controls, Static Exciters and Inverters, Electronic Controls for Machine Tools, HV testers, Coolers, stud Welders, Thermister Protection units and RF Induction Generators	61 (26)	2,152 (3,018)	38 (61)	1,720 (2,152)
4.	Micro and Mini Computers	Nil (-)	Nil (-)	Nil (-)	Nil (-)
5.	Uninterruptible Power Systems	40 (20)	1,051 (623)	57 (40)	1,362 (1,051)
6.	Metal Cutting including Grinding Machines (**)	Nil (-)	Nil (-)	Nil (-)	Nil (-)
7.	Machine tool accessories including digital readouts (**)	21 (-)	264 (-)	- (21)	- (264)
8.	Switchgears	1 (-)	814 (-)	- (1)	- (814)
9.	D G Sets	39 (20)	1,444 (661)	24 (39)	862 (1,444)
10.	Industrial Electronic Voltage Regulators	43 (-)	48 (-)	- (43)	- (48)
11.	Others		10,554 (22,164)		36,254 (10,554)
	AT KUALA LUMPUR				
	Electric Motors	Nil (176)	Nil (818)	Nil (Nil)	Nil (Nil)
	Sluice Valves	Nil (9)	Nil (187)	Nil (Nil)	Nil (Nil)
	Diesel Engines	Nil (-)	Nil (-)	Nil (-)	Nil (-)
	Centrifugal Pumps	Nil (165)	Nil (2,657)	Nil (Nil)	Nil (Nil)
	Others	Nil	Nil	Nil	Nil
	TOTAL		28,335 (43,637)		118,107 (28,335)

KIRLOSKAR ELECTRIC COMPANY LTD.

SCHEDULES TO THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT (Contd.,)

SCHEDULE "N" (Contd.,)

Notes attached to and forming part of the Balance Sheet and Profit and Loss Account (Contd.,)

15. a) Details of Sale of Manufactured / Trading goods during the year:

Item No.	Class of Goods	Turnover of Finished Goods *			
		Current Year		Previous Year	
		Qty. Nos.	Value Rs. In 000's	Qty. Nos.	Value Rs. In 000's
1.	Motors/ Alternators/ Generators	104,786	2,768,205	93,014	2,354,947
2.	Transformers	452	646,939	462	262,459
3.	Controls for Alternators/ Generating sets, Variable Speed Drive Controls, Static Exciters and Inverters, Electronic Controls for Machine Tools, HV testers, Coolers, stud Welders, Thermister Protection units and RF Induction Generators	792	117,286	1,523	113,388
4.	Uninterruptible Power Systems	760	32,824	294	12,112
5.	Metal Cutting including Grinding Machines (**)	Nil	Nil	Nil	442
6.	Machine tool accessories including digital readouts (**)	78	7,904	105	1,401
7.	Industrial Electronic Voltage Regulators	1,249	Nil	2,199	Nil
8.	Circuit Breakers/ Starters/ Contactors/ Switchboard*	697	332,580	403	173,992
9.	D G Sets	29	1,162	142	11,666
10.	Others	-	374,227	-	269,171
b)	AT OVERSEAS OFFICES				
	Sluice Valves	Nil	Nil	9	92
	Diesel Engines	Nil	Nil	Nil	Nil
	Centrifugal Pumps	Nil	Nil	165	2,780
	Others	Nil	Nil		1,187
	TOTAL		4,281,127		3,203,637

15. b) Details of Purchases of Trading goods during the year:

Item No.	Class of Goods	Current Year		Previous Year	
		QTY NOS.	VALUE Rs. IN 000's	Qty Nos.	Value Rs. in 000's
a)	INLAND: Motors/ Alternators Transformers Others	104,846 Nil	2,657,024 Nil 328,751	85,703 Nil	2,236,816 Nil 143,090
b)	AT KUALA LUMPUR Electronic Motors Sluice Valves Diesel Engines Centrifugal Pumps Others	Nil Nil Nil Nil Nil	Nil Nil Nil Nil Nil	Nil Nil Nil Nil	Nil Nil Nil Nil 97
	TOTAL		2,985,775		2,380,003

* Includes own manufactured goods sold at Kuala Lumpur office.

NOTE: Quantity in numbers includes transfers to divisions for further manufacture of and free replacements.

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SCHEDULES TO THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT (Contd.,)

SCHEDULE "N" (Contd.,)

Notes attached to and forming part of the Balance Sheet and Profit and Loss Account (Contd.,)

16. a. The order of the Honorable 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. Few banks that had advanced monies to the Company have not yet bifurcated the transactions of and the amounts owed by the Company, KSL and Best Trading & Agencies Limited, the special purpose vehicle for holding certain assets and liabilities as per the orders of the Honorable Court. However, the Company has given effect to the scheme as approved by the Honorable Court. Accordingly, the balances owed to such banks and institutions as at 31st March 2006 are as per books and are subject to confirmation.
 - c. Certain assets and liabilities of KSL/Best Trading & 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.
 - d. Operating and other expenses vide Schedule 'L' includes Rs.4.80 million representing common expenses apportioned by KSL on a mutually agreed basis.
 - e. Motors, Alternators and components thereof manufactured by KSL are purchased by / manufactured for the Company under contract manufacturing/ subcontracting arrangements entered into. The arrangements entered into envisages a sale price for KSL based on the ultimate sales value of the Company for sale of motors and alternators from its customers minus a mark down to take care of estimated branch and distribution network costs. In respect of sale of spare parts supplied, a mutually agreed price is charged by KSL to Company. Company also has back to back claims against KSL for all shortfalls in realization from its customers (liquidated damages, freight, disallowances, warranty claims, other losses etc..)
 - f. Sundry Debtors of KSL as on April 1st, 2003 were taken over by the Company at their book values. However the Company has back-to-back claims against KSL for all short falls thereof (Bad debts, liquidated damages, disallowances, warranty claims etc).
17. 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.
18. Sundry Advances includes Rs. 7.94 million (previous year Rs.7.42 million) due from private limited company in which a director is interested.
19. Sundry Creditors include Rs.74.12 million (Previous Year: Rs. 50.85 million) to small-scale industrial undertakings to the extent identified from the records of the company. Parties to whom amounts outstanding for more than 30 days are enclosed in the annexure. 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.
20. a. Confirmation of balances from sundry debtors, deposit accounts, loans and advances, creditors and a subsidiary are awaited. Accounts of certain sundry debtors, loans and advances, deposits/ margin money with banks, a subsidiary, collector of customs and creditors, are under review and reconciliation. Adjustments if any, will be made on completion of review/reconciliation. Effect on revenue is not ascertainable.
 - b. In respect of debts arising out of sale of motors, alternators and components manufactured by KSL (vide note 16 (e) above), no provision has been made for doubtful debts/ disallowances since the company has corresponding claims against KSL. These will be accounted as and when matters are finalized, by debit to KSL.

KIRLOSKAR ELECTRIC COMPANY LTD.

SCHEDULES TO THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT (Contd.,)

SCHEDULE "N" (Contd.,)

Notes attached to and forming part of the Balance Sheet and Profit and Loss Account (Contd.,)

21. 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.
22. a) The Company holds unquoted investments with book value of Rs. 594.11 million in KEC North America Inc., USA (Subsidiary), Kirsons Trading Pte. Ltd, Kirloskar Kenya Limited, and KSL. Current Assets, Loans & Advances include Rs 92.17 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.
23. Inventories of work in progress and finished goods continue to be valued as per the method consistently followed in the past. Accounting Standard 2 prescribed by the Institute of Chartered Accountants of India has not been followed in certain respects.
24. Capital work in progress Rs 53.33.million representing value of assets at port/ under installation for periods exceeding several years. The Management is hopeful that it will be in a position to put the said assets to use before long. The management has identified a team who is studying the matter and assess the further investment required in the matter.
25. 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.
26. Loans & Advances include **Rs.96.794 million** (Rs.16.242 million) due to KSL
27. The Company has various operating leases for office facilities, guesthouse 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.6,664** (Rs.5,677).
28. 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

Particulars		(Rs. In 000's)	
		Current Year	Previous year
a)	Managing Director		
	Salary	3,000	3,000
	Contribution to Provident & Other Funds	810	810
	TOTAL	3,810	3,810
b)	Other Whole Time Directors		
	Salary	1,063	828
	Contribution to Provident & Other Funds	210	159
	TOTAL	1,273	987
	GRAND TOTAL	5,083	4,797

Liability in respect of accrued gratuity is not ascertainable separately.

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SCHEDULES TO THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT (Contd.,)

SCHEDULE "N" (Contd.,)

Notes attached to and forming part of the Balance Sheet and Profit and Loss Account (Contd.,)

29. Related Parties Disclosure:

Sl. No.	Name of the related party	Relationship
1	KEC North America Inc, USA Kaytee Switchgear Limited	Subsidiaries
2	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.
3	KEASI Robicon Industrial Systems Limited Kirloskar (Malaysia) Sdn. Bhd Kirloskar Power Equipments Limited (for part of the year)	Associates and joint ventures
4	Kirloskar Computer Services Limited Kirloskar Batteries Private Limited Ravindu Motors Private Limited Vijay Farms Private Limited Sri Vijayadurga Investments & Agencies Private Limited Vijayjyothi Investments & Agencies Private Limited Abhiman Trading Company Private Limited Vimraj Investments Private Limited Vijaykirti Investment and Agencies Private Limited Kirloskar Software Services,	Enterprises over which key management personnel and their relatives are able to exercise significant influence

DETAILS OF TRANSACTIONS

(Rs. in 000's)

Nature of transaction	Subsidiaries	Key management personnel and their Relatives	Associates and joint ventures	Enterprises over which key management personnel and their relatives are able to exercise significant influence	Total
Purchases of goods/services	2,728,558 (2,236,817)	Nil	4,516 (3,143)	591 (2,715)	2,733,665 (2,242,675)
Sale of goods	5,774* (9,914)	Nil	16,258 (12,972)	2,925 (1,334)	24,957 (24,220)
Rent received	Nil	Nil	Nil	2,443 (2,442)	2,443 (2,442)
Common expenses paid	4,800 (4,800)	Nil	Nil	Nil	4,800 (4,800)
Investments as on 31.03.2006	592,136 (542,136)	Nil	8,346 (14,229)	2,380 (2,380)	602,862 (558,745)
Amount due to Company as at 31.3.2006	128,183 (49,397)	Nil (-)	39,458 (22,484)	14,080 (13,448)	150,690 (52,175)
Amount due from Company as at 31.3.2006	723,268 (479,295)	Nil	1,243 (1,364)	77 (-)	724,588 (480,659)
Remuneration	Nil	5,692 (4,651)	Nil	Nil	5,692 (4,651)
Purchase of Fixed Asset	Nil (-)	Nil (-)	Nil (-)	Nil (1,239)	Nil (1,239)
Sales of Fixed Assets	Nil	Nil	13,809	Nil	13,809

KIRLOSKAR ELECTRIC COMPANY LTD.

SCHEDULES TO THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT (Contd.,)

SCHEDULE "N" (Contd.,)

Notes attached to and forming part of the Balance Sheet and Profit and Loss Account (Contd.,)

30. Segment Reporting:

The Company has identified the reportable segments as Power Distribution, 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. In 000's)

Sl. No.	Particulars	Primary Segment			Total
		Power Distribution	Rotating Machines Group	Others	
1	Segment Revenues				
	SALES	1,209,950 (451,774)	2,705,750 (2,377,517)	365,427 (374,346)	4,281,127 (3,203,637)
	Total	1,209,950 (451,774)	2,705,750 (2,377,517)	365,427 (374,346)	4,281,127 (3,203,637)
	Less: Inter segment revenues				
	Net Sales / Income from operations	1,209,950 (451,774)	2,705,750 (2,377,517)	365,427 (374,346)	4,281,127 (3,203,637)
2	Segment Results: Profit (+) / Loss (-)				
	Before Taxation and Interest	114,400 (33,109)	68,559 (-)	74,768 (89,610)	257,727 (122,719)
	Less: Interest				18,031 (22,542)
	Less: Depreciation & Amortizations				63,822 (99,749)
3	Unallocable Expenditure				161,136 (71,264)
4	Unallocable & Other Income				29,163 (79,702)
5	Less: Tax (including F B T)				4,000 (46)
	Total Profit / (Loss)				41,300 (8,820)
6	Segment Assets	409,454 (590,236)	793,778 (226,399)	202,761 (190,638)	1,405,993 (1,007,273)
7	Unallocable Assets				1,147,927 (1,146,608)
8	Segment Liabilities	272,650 (138,644)	134,687 (271,774)	92,235 (70,839)	499,572 (515,808)
9	Unallocable Liabilities				1,270,509 (973,416)
10	Capital Expenditure	2,421 (475)	(-)	6,219 (17,926)	8,640 (18,438)

Note: The exports of the company are not a significant portion of its turnover. Accordingly, secondary segment information not been furnished.

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SCHEDULES TO THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT (Contd.,)

SCHEDULE "N" (Contd.,)

Notes attached to and forming part of the Balance Sheet and Profit and Loss Account (Contd.,)

31. Earnings per share :

(Rs. In 000's)

Particulars	31.03.2006 Rs. in 000's	31.03.2005 Rs. in 000's
BASIC E.P.S:		
Profit for the Reporting Period after Tax	41,300	8,820
Less: Preference Dividend including dividend tax	9,578	9,578
	31,722	(758)
Weighted No. of Equity Shares for Basic EPS	31,268,817	31,268,817
Basic EPS (Rs.)	1.01	(0.02)
DILUTED E.P.S:		
Profit for the Reporting Period after Tax	41,300	8,820
Less: Preference Dividend including dividend tax	9,578	9,578
	31,722	(759)
No. of Equity Shares for Diluted EPS	33,268,817	33,268,817
Diluted EPS (Rs.)	0.95	(0.02)

32. Deferred Tax Calculation:

Rs in 000's

	As at 31.03.2006	As at 31.03.2005
Liability relating to value of fixed assets	16,994	18,270@
Asset relating to Disallowance and Unabsorbed depreciation under the Income Tax Act, 1961 (recognized only to the extent of net liability)	16,994	18,270@
Net amount	Nil	Nil

@ Recast

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

Particulars	Leave Encashment	Warranty Claims
Balance outstanding at the beginning of the year	2,682	3,805
Provision for the year (net)	649	3,557
Balance outstanding at the end of the year	3,331	7,362

34. 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.

35. Corresponding figures for the previous year have been regrouped and recast in order to be in conformity with current year's figures wherever necessary.

As per our report of even date

For B.K. RAMADHYANI & CO.
Chartered Accountants

SHYAM RAMADHYANI
Partner

Bangalore
Date : 25th July, 2006

For and on behalf of Board of Directors

VIJAY R. KIRLOS KAR
Chairman & Managing Director

P.Y. MAHAJAN
Company Secretary

P. S. MALIK
Deputy Managing Director

R.K. GUPTA
Vice President &
Chief Financial Officer

KIRLOSKAR ELECTRIC COMPANY LTD.**SCHEDULE FOR SSI AND ANCILLARY INDUSTRIES TO WHOM AMOUNTS IS OUTSTANDING
FOR MORE THAN 30 DAYS**

AB INDUSTRIES	KAMAKSHI ELECTROCOMP	SANGEET PRINTERS
ACETECH MACHINERY COMPONENTS	KAMAKSHI FABRICATORS	SCR WIRE PRODUCTS
ADRIOT SYSTEMS	KAPPA ELECTRICALS (MADRAS)	SEQRONICS PVT. LTD.
ADVANCE COMPONENTS & INSTRUM	KARANTAKA FURNITURE WORKS	SHANKUNTALA ENGINEERING
ADVANCE DIE CAST	KARANTAKA FOUNDRY	SHREE GRAPHICS.
ARCHAN INDUSTRIES	KARANTAKA METAL PRESSING	SHREE MOOKAMBIKA ENGG INDUS
ASHOK ENGINEERING WORKS	KAYNES TECHNOLOGY	SHREYAS ENTERPRISES
ASHWINI ENTERPRISES	KHEDDA INSULATIONS SYSTEMS P	SHRI BANASHANKARI ENG INDST
BALAJI ENTERPRISES	KINTECH ENTERPRISES	SHRI MARUTHI ENG WORKS
BENAKA ELECTRONICS	KPC FLEXI TUBES	SIDDARTH FILTERS
BP ENGINEERING	KRIMPWELL ELECTRICALS	SINDHUMECH
BRITE ENGINEERING	LACHMAN ELETRONICS	SMV ENTERPRISES
BT SOLDERS	LAXMI ENTERPRISES	SNEHA INDUSTRIES
BYRESHWARA ENGINEERS	LEOTECH	SOSALE ENGINEERING
C P INDUSTRIES	LOTUS POWERGEAR PRIVATE LTD	SPECIAL INSULATORS MFG CO.
C S INDUSTRIES	MANJUNATH ELECTRONICS	SREE KRISHNA WOOD INDUSTRIES
CC ENTERPRISES	MARUTHI ELECTRIC CO	SREE VISHNU INDUSTRIES
CHAMUNDI ELECTRICAL STAMPINGS	MECHPROS	SRI SS INDUSTRIES
COUSIN CORPN	METAL ARTS	SUJAYA INDUSTRIES.
CUROVO ELECTRONICS	METAL CRAFTS	SUMAN ENGINEERING COMPANY
DELTA ELECTRONICS	METALICA FABRICATORS	SUNSHINE CONTROLS
DEPROCON ENGG PVT LTD	MKB PACKING	SUNVIR INDUSTRIES
DHARM FABRICATORS	MODERN LIGHT INDUSTRIES	SVI BRUSH GEAR
ELECTRA ENGG AGENCIES	MYSORE NAILS & FASTNERS	SWARNIGIRI WIRE INSULATIONS P
ELTEK INSTRUMENTS & DEVICES	NIKITECH ELECTRONIC PVT LTD	T.V.K.RUBBER PRODUCTS
ENGINEERING PLASTICS	OMEGA ENGINEERS	TECHNO TOOLS
ESS VEE ENGINEERING	ORVEEM INDUSTRIES	TECHNOPOLYMERS.
ESWARI ELCTRICALS PVT LTD	P N ENGG WORKS	TEKNOFABS
FABWEL METAL CONTAINERS	PATIL ELECTRIC COMPANY	TEXPERTECH INSULATIONS.
FIB TECK	PATIL INSUTLATING CO P L	TRIMURTHY TOOLINGS
FIBREGLASS MOULDING COMPANY	PM ELECTRIC SERIVES	UNIVERSAL PLATERS
FORTORN CIRKIT ELECTRONICS P L	POOJA PRINTERS	UNIVERSAL PLATERS
GANESH ENGG INDUSTRIES	PRAGATHI ENGINEERS	UNIVERSEA.
GARITHA ENTERPRISES	PRAKASH ENGINEERING & MFG	V R ENGINEERING WORKS
GLASTRONIX	PRECISE SMALL MOTORS PVT LTD	VAIBHAV ENTERPRISES
HINDUSTAN ELECTRONICS P LTD	PRECISION PRESSINGS	VARSHA CABLES PVT LTD
HI-POWER CONTROLS	PREMIER INDUSTIRES	VIGNESHWARA ANODISERS
INDUSTRIAL PLASTICS	PROTECH SYSTEM	VIJAYALAKSHMI ENTERPRISES
INDIA AUTO PINS	QUATLITY METAL WORKS	VIJITECH
INSTRANS ENGINEERING & MFG PVT.	R R METAL PRODUCTS	VIMAN MULTI PLUG PVT LTD
INTEGRATED MACHINE TOOLS	REI COMPANY	VISHORA INDUSTRIES
JOY INDUSTRIES	ROLEX ENGINEERING	VIVEK INDUSTRIES
JUPITER ENGINEERING WORKS	S P TECH	XIMAX ENGINEERING & SYSTEMS
JUPITER INDUSTRIES	SAGAON ENERGY EQUIPMENT P LTD	Y S S K.
JYOTHI ENGG	SAMRAJ ENGG CONTROLS PVT LTD	YASHASVI INDUSTRIES
KALPA ELECTRICALS	SANALEC EXCITATION P LTD	ZEE SHAN PRECISION ENGINEERING

FIFTY NINTH ANNUAL REPORT 2005-2006

SCHEDULES TO THE BALANCE SHEET AS AT 31ST MARCH 2006

SCHEDULE "O"

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I. REGISTRATION DETAILS

REGISTRATION NUMBER C 4 1 5 / 4 6 - 4 7

STATE CODE 0 8

BALANCE SHEET DATE 3 1 - 0 3 - 2 0 0 6

II. CAPITAL RAISED DURING THE YEAR (Rupees in Thousands)

PUBLIC ISSUE

N I L

RIGHTS ISSUE

N I L

BONUS ISSUE

N I L

PRIVATE PLACEMENT

N I L

III. POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS (Rupees in Thousands)

TOTAL LIABILITIES

1 3 0 1 8 0 3

TOTAL ASSETS

1 3 0 1 8 0 3

SOURCE OF FUNDS

PAID UP CAPITAL

4 3 2 6 8 8

RESERVES & SURPLUS

6 7 5 5 4 1

SECURED LOANS

1 7 6 0 7 3

UNSECURED LOANS

1 7 5 0 1

APPLICATION OF FUNDS

NET FIXED ASSETS

1 1 8 9 4 9

CAPITAL IN PROGRESS

5 3 3 2 7

INVESTMENTS

6 0 0 0 6 8

NET CURRENT ASSETS

1 6 1 2 4 6

MISCELLANEOUS EXPENDITURE

4 3 8 2 3

ACCUMULATED LOSSES

3 2 4 3 9 0

IV. PERFORMANCE OF COMPANY (AMOUNT IN RS. THOUSANDS)

TURNOVER(Including other income)

4 1 6 9 4 0 8

TOTAL EXPENDITURE

4 1 2 4 1 0 8

PROFIT BEFORE TAX

4 5 3 0 0

PROFIT AFTER TAX

4 1 3 0 0

EARNING PER SHARE IN RS. (After Tax)

1 . 0 1

DIVIDEND RATE %

N I L

V. GENERIC NAMES OF PRINCIPLE PRODUCTS/SERVICES OF COMPANY

ITEM CODE NO. (ITC CODE)

8 5 . 0 1

PRODUCT DESCRIPTION

E L E C T R I C M O T O R S

ITEM CODE NO. (ITC CODE)

8 5 . 0 1

PRODUCT DESCRIPTION

A C M A C H I N E S

ITEM CODE NO. (ITC CODE)

8 5 . 0 1

PRODUCT DESCRIPTION

D C M A C H I N E S

ITEM CODE NO. (ITC CODE)

8 5 . 0 4

PRODUCT DESCRIPTION

T R A N S F O R M E R S

KIRLOSKAR ELECTRIC COMPANY LTD.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH 2006

(Rs in 000's)

	Current Year Rs.	Previous Year Rs.
A CASH FLOW FROM OPERATION ACTIVITIES		
NET PROFIT BEFORE TAX AND EXTRAORDINARY ITEMS	45,300	8,866
DEPRECIATION (INCLUDING GOODWILL)	8,381	8,100
PROVISION FOR INVESTMENTS	-	(27,580)
AMORTISATION & PROVISIONS	38,265	84,150
PROFIT FROM SALE OF FIXED ASSETS (NET)	(6,207)	(43,717)
PROFIT ON SALE OF INVESTMENTS	(2,992)	-
REMISSION OF LIABILITY	-	(23,412)
INTEREST AND DIVIDEND (NET)	13,353	16,183
	<u>50,800</u>	<u>13,724</u>
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	96,100	22,590
ADJUSTMENT FOR		
TRADE & OTHER RECEIVABLES	(447,783)	(247,283)
INVENTORIES	(98,371)	(800)
TRADE & OTHER PAYABLES	427,364	(45,313)
	<u>(118,790)</u>	<u>(293,396)</u>
	<u>(22,690)</u>	<u>(270,806)</u>
CASH GENERATED FROM OPERATIONS		
INTEREST PAID	(18,539)	(22,898)
DIRECT TAXES PAID	(2,449)	(2,029)
	<u>(20,988)</u>	<u>(24,927)</u>
NET CASH FROM OPERATING ACTIVITIES	<u>(43,678)</u>	<u>(295,733)</u>
B CASH FLOW FROM INVESTING ACTIVITIES		
PURCHASE OF FIXED ASSETS	(8,640)	(21,094)
PURCHASE OF INVESTMENTS	(50,000)	-
SALE OF FIXED ASSETS	14,983	232,129
CWIP	5,339	845
SALE OF INVESTMENTS	8,875	27,580
INTEREST RECEIVED	4,678	6,349
DIVIDEND RECEIVED	-	10
NET CASH USED IN INVESTING ACTIVITIES	<u>(24,765)</u>	<u>245,819</u>
C CASH FLOW FROM FINANCING ACTIVITIES		
PROCEEDS FROM TERM BORROWING		23,412
REPAYMENT OF TERM BORROWINGS	(9,547)	(103,299)
DIVIDEND PAID	(349)	(801)
NET CASH USED IN FINANCING ACTIVITIES	<u>(9,896)</u>	<u>(80,688)</u>
D NET INCREASE IN CASH	<u>(78,339)</u>	<u>(130,602)</u>
CASH & CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	217,773	348,375
CASH & CASH EQUIVALENTS AT THE END OF THE YEAR	<u>139,434</u>	<u>217,773</u>
	<u>(78,339)</u>	<u>(130,602)</u>

As per our report of even date

For B.K. RAMADHYANI & CO.

Chartered Accountants

SHYAM RAMADHYANI

Partner

Bangalore

Date : 25th July, 2006

For and on behalf of Board of Directors

VIJAY R. KIRLOSKAR

Chairman & Managing Director

P.Y. MAHAJAN

Company Secretary

P. S. MALIK

Deputy Managing Director

R.K. GUPTA

*Vice President &
Chief Financial Officer*

**CONSOLIDATED
FINANCIAL STATEMENTS**

CONSOLIDATED FINANCIAL STATEMENTS

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, 2006, 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 accounts 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 financial statements of KEC North America Inc subsidiary, for the year ended 31st December 2005 adopted for the purpose of consideration is unaudited. Further, in the absence of necessary information, effect of significant transactions or other events that have occurred from the date of the last balance sheet in respect of the said company upto 31.3.2006 has not been given. Effect on revenue is not ascertainable.*
 - b. *Unaudited financial statements of KEASI ROBICON Industrial Systems Pvt. Limited for the financial year ended 31st March 2006 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 Equipment Limited for the year ended 31st 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 31st March 2006, notes forming part of the accounts, related party transactions etc of KEC North America Inc, KEASI ROBICON Industrial Systems Pvt. Limited 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 Switchgears Limited, unaudited Balance Sheet as at 31st December 2005 of KEC North America Inc, audited financial statements of an associate and unaudited financial statements of a jointly controlled entity and an associate.*

KIRLOSKAR ELECTRIC COMPANY LTD.

5. *Attention is invited to the following: -*
- a) *Note 5 of schedule N regarding balances with certain banks and financial institutions as per books being subject to reconciliation/confirmation, since few banks 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 5 (b) of schedule L regarding difference between interest charged by certain banks and financial institutions and that accounted by company (effect on revenue is not ascertained).*
 - c) *Note 8 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 9 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 11 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 (expect Tumkur Unit)*
 - f) *Notes 7 (b), 10, 12 and 13 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 of Rs. 143.83 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 14 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 of Rs. 87.524 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 Company and its subsidiaries as at 31st March 2006
 - b. In the case of the profit and loss account, of the profits of the Company and its subsidiaries for the year ended on that date and
 - c. In case of the cash flow statement, of the Company and its subsidiaries as at 31st March 2006.

Date: 25th July, 2006
B.K.Ramadhyan & Co.,
4B, Chitrapur Bhavan
8th main, 15th Cross
Malleswaram, Bangalore - 560 055

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

(Shyam Ramadhyan)
Partner
Membership number 200/19522

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH 2006

Rs in 000's

	Schedule	As at 31st March, 2006		As at 31st March 2005
SOURCES OF FUNDS				
SHAREHOLDERS' FUNDS				
a) Capital	A	432,688		432,688
b) Reserves & Surplus	B	<u>675,540</u>	1,108,228	<u>675,540</u> 1,108,228
LOAN FUNDS				
a) Secured Loans	C	1,259,840		1,596,511
b) Unsecured Loans	D	<u>69,717</u>	1,329,557	<u>41,526</u> 1,638,037
MINORITY INTEREST				
			13,557	-
REFERENCE SHARE CAPITAL OF SUBSIDIARY				
			<u>117,675</u>	-
TOTAL			<u>2,569,017</u>	<u>2,746,265</u>
APPLICATION OF FUNDS				
FIXED ASSETS				
a) Gross Block	E	2,026,335		1,878,599
b) Less : Depreciation		<u>598,722</u>		522,183
c) Net Block			1,427,613	1,356,416
d) Capital Work in progress (At cost)		111,776		175,780
Less : Provision for Dimuntion value		<u>3,056</u>		-
			<u>108,720</u>	175,780
			<u>1,536,333</u>	1,532,196
INVESTMENTS				
			13,391	17,172
CURRENT ASSETS, LOANS & ADVANCES				
a) Inventories	G	529,495		395,805
b) Sundry Debtors		1,049,338		724,394
c) Cash & Bank Balances		171,549		235,746
d) Loans & Advances		<u>297,343</u>		287,135
			<u>2,047,725</u>	1,643,080
Less : CURRENT LIABILITIES & PROVISIONS				
a) Current Liabilities	H	1,933,590		1,409,750
b) Provisions		<u>52,138</u>		64,065
			<u>1,985,728</u>	1,473,815
NET CURRENT ASSETS			61,997	169,265
MISCELLANEOUS EXPENDITURE TO THE EXTENT NOT WRITTEN OFF				
			43,823	77,882
GOODWILL ON CONSOLIDATION (NET)				
			66,766	55,315
MINORITY INTEREST				
			-	13,679
PROFIT & LOSS ACCOUNT				
			846,707	880,756
TOTAL			<u>2,569,017</u>	<u>2,746,265</u>
NOTES ON ACCOUNTS				
		N		
BALANCE SHEET ABSTRACT & COMPANY'S GENERAL BUSINESS PROFILE				
		O		

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

SHYAM RAMADHYANI

Partner

Bangalore

Date : 25th July, 2006

VIJAY R. KIRLOSKAR

Chairman & Managing Director

P.Y. MAHAJAN

Company Secretary

P. S. MALIK

Deputy Managing Director

R.K. GUPTA

Vice President & Chief Financial Officer

KIRLOSKAR ELECTRIC COMPANY LTD.

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH 2006

Rs in 000's

	Schedule	Current Year	Previous Year
INCOME			
Sales		4,373,378	3,339,066
Less: Excise Duty		514,805	403,413
Other Income	J	33,398	37,346
Remission of Loan Liability		-	41,687
Profit on Sale of Fixed Assets		7,071	93,348
TOTAL		3,899,042	3,108,034
EXPENDITURE			
Consumption of Raw Materials, Stores, Spares parts & Components and purchasing for Trading	K	2,759,596	2,078,767
Operating and Other Expenses	L	761,614	692,952
Restructuring Expenses		67,667	19,119
Interest and Finance Charges			
On Fixed Loans		85,622	81,932
On Other Accounts		30,658	54,339
Loss on sale of investments in associate		5,791	-
Loss on Sale of Fixed Assets		246	47,931
Depreciation, Amortisations and Provisions	M	144,624	173,656
		3,855,818	3,148,696
Less: Expenses Capitalised		4,216	-
TOTAL		3,851,602	3,148,696
PROFIT / (LOSS) BEFORE TAXATION		47,440	(40,662)
Less: Transfer of Loss for the year - Minority Interest-Subsidiaries		17,051	15,866
		30,389	(24,796)
Add: Share of Profits of Associates		10,886	5,598
		41,275	(19,198)
Less : Provision for Taxation (net)		-	46
Provision for Fringe Benefit Tax		6,800	46
PROFIT / (LOSS) FOR THE YEAR		34,475	(19,244)
Less : Preference dividend of subsidiary Company including dividend tax		426	-
		34,049	(19,244)
Less : Transfer from General Reserve		-	111,664
		34,049	92,420
Less: Loss Brought Forward from previous year		880,756	973,176
Balance of Loss Carried to Balance Sheet		846,707	880,756
Earning per Share (Face Value Rs. 10 per share)			
Basic		0.78	(1.14)
Diluted		0.74	(1.07)

NOTES ON ACCOUNTS

N

BALANCE SHEET ABSTRACT &

COMPANY'S GENERAL BUSINESS PROFILE

O

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

P. S. MALIK

Deputy Managing Director

SHYAM RAMADHYANI

Partner

P.Y. MAHAJAN

Company Secretary

R.K. GUPTA

Vice President & Chief Financial Officer

Bangalore

Date : 25th July, 2006

CONSOLIDATED FINANCIAL STATEMENTS

SCHEDULES TO THE CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH 2006

Rs in 000's

	As at 31st March, 2006	As at 31st March, 2005
SCHEDULE "A"		
Authorised :		
3,000,000	Preference Shares of Rs. 100/- each	300,000
40,000,000	Equity Shares of Rs. 10/- each	400,000
	TOTAL	700,000
Issued, Subscribed and Paid-up :		
1,200,000	Preference Shares of Rs. 100/- each	120,000
31,268,817	Equity Shares of Rs. 10/- each	312,688
	TOTAL	432,688

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 Honorable 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.
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 1,806 1,806

Revaluation Reserve

As per last balance sheet 48,040 159,704
 Less: Trasfered to General Reserve - 111,664
48,040 48,040

Capital Redemption Reserve

As per last balance sheet 2,500 2,500

Share Premium Account

As per last balance sheet 614,194 614,194

General Reserve

Add: Transfer from Revaluation Reserve - 111,664
 Less : Transfer to P & L Account - 111,664
- -

Reserve for Doubtful Debts

As per last balance sheet 9,000 9,000

TOTAL

675,540 **675,540**

SCHEDULE "C"

SECURED LOANS

a) From Banks 1,011,526 1,285,749
 b) From Financial Institutions 178,496 231,416
 c) Zero Coupon Debentures 69,818 79,346

TOTAL

1,259,840 **1,596,511**

KIRLOSKAR ELECTRIC COMPANY LTD.

SCHEDULES TO THE CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH 2006

Rs in 000's

As at 31st March, 2006 **As at 31st March, 2005**

SCHEDULE "D"

UNSECURED LOANS

a) Fixed Deposits Unclaimed	523	549
b) Interest Accrued and due -FDs	178	272
c) From a bank	12,810	-
d) From companies	54,907	39,406
e) Sicom Sales Tax Loan	1,119	1,119
f) HDFC Housing Loan	180	180
TOTAL	69,717	41,526

Note : Amount falling due for payment within one year is Rs.2.00 million (previous year Rs.2.120 million)

SCHEDULE "E" :FIXED ASSETS

PARTICULARS	Gross Block (at cost)				Depreciation				Net Block	
	As at 1st April 2005	Additions/Transfers	Deductions/Transfers	As at 31st March 2006	As at 1st April 2005	Additions for the Year	deductions for the Year	As at 31st March 2006	As at 31st March 2005	
Goodwill	42,346	-	-	42,346	42,346	-	-	42,346	-	
Land (*)	94,410	-	-	94,410	-	-	-	-	94,410	
Lease Hold Land (@)	6,627	-	-	6,627	-	-	-	-	6,627	
Buildings (#)	194,271	136,718	294	330,695	46,533	8,821	274	55,080	147,738	
Plant & Machinery (including technical know-how)	1,467,836	31,369	22,973	1,476,232	382,594	74,523	9,787	447,330	1,085,242	
Furniture Equipment	56,382	3,414	760	59,036	39,445	3,025	596	41,874	16,937	
Vehicles and Aircraft	15,703	895	633	15,965	10,369	1,224	525	11,068	5,334	
Proportionate Share of Jointly Controlled Entity	1,024	-	-	1,024	896	128	-	1,024	128	
TOTAL	1,878,599	172,396	24,660	2,026,335	522,183	87,721	11,182	598,722	1,427,613	
PREVIOUS YEAR	2,088,709	34,075	244,185	1,878,599	493,759	83,816	55,392	522,183		

(*) Certain land at Bangalore was revalued in the year 1999-2000 on the basis of Chartered Engineers certificate. Incremental amount on revaluation was credited to Revaluation Reserve Rs.48,041 (in 000's).

(@) Leasehold land represents land taken on lease from KIADB. On expiry of the lease period payment of balance consideration if any, and execution of sale deed the title will pass to the company.

(#) Includes Rs. 3.337 million being the cost of ownership premises taken in possession for which Society is to be formed.

SCHEDULE "F"

Rs in 000's

Details of Investment	Name of the Company	Nos.	Face Value	As at 31st March 2006	As at 31st March, 2005
INVESTMENTS (AT COST) {LONG TERM}					
A. TRADE:					
(a) Quoted : (i) Equity Shares - Fully Paid-up					
Kirloskar Computer Services Ltd., (#~)		200,000	10	2,380	2,380
The Mysore Kirloskar Ltd., (#)		770,750	10	21,260	21,260
(ii) Debentures - Fully Paid-up					
The Mysore Kirloskar Ltd., @		30,000	44	1,320	1,320
(b) Unquoted : (i) Equity Shares - Fully Paid-up					
Investments in Associates & Joint Venture					
Kirloskar Power Equipments Ltd.,		340,000	10	5,909	10,213
		(1,050,000)			
KEASI ROBICON Industrial Systems Pvt. Limited		500,000	10	-	
Kirloskar (Malaysia) Sdn. Bhd.		150,000	MR1	2,896	2,373
Investment in Other Equity Shares Fully paid-up:					
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
				35,971	39,752
Less: Provision for diminution in value of Investments				22,580	22,580
TOTAL				13,391	17,172

@ Matured and due for payment.

Notes: 1) Aggregate value of quoted investments cost	Rs. in 000's	Rs. in 000's
	24,960	24,960
2) Aggregate value of unquoted investments cost	Not Available	Not Available
	11,011	14,792

CONSOLIDATED FINANCIAL STATEMENTS

SCHEDULES TO THE CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH 2006 Rs in 000's

SCHEDULE "G"	As at 31st March, 2006	As at 31st March, 2005
CURRENT ASSETS, LOANS & ADVANCES		
A. Current Assets		
1. Inventories - as certified by the Managing Director		
i. Raw Materials, Stores, Spares Parts, Components etc.,	111,277	123,800
ii. Stock in Trade		
Finished Goods (including Trading Stocks)	170,463	76,763
Process Stock	283,493	212,417
iii. Others-Including Material at Port and Scrap	25,426	29,220
	<u>590,659</u>	442,200
Less: Provision for Non-moving Stock	61,164	46,395
	<u>529,495</u>	395,805
2. Sundry Debtors (Unsecured, Considered Good except doubtful debts of Rs. 63.937 Million, previous year Rs.88.086 million)		
i. Debts outstanding for a period exceeding six months	334,151	477,524
ii. Other Debts	779,124	334,956
	<u>1,113,275</u>	812,480
Less : Provision for doubtful debts	63,937	88,086
	<u>1,049,338</u>	724,394
3. Cash and Bank Balances		
a. Cash on Hand	107	220
b. Cheques in hand	338	336
c. Amount in transit	3,000	2,248
d. Balances with Scheduled Banks		
- On Current Account	68,383	77,271
- Unclaimed / Unpaid Dividends On Current Account	-	349
- On Short term deposit accounts	99,172	154,780
Proportionate Share in Jointly controlled entity	549	542
	<u>171,549</u>	235,746
B. Loans and Advances (Unsecured, Considered Good except doubtful advances of Rs. 40.236 Million, previous year Rs.40.236 million)		
Advances Recoverable in Cash or in kind or for value to be received		
Sundry Advances	319,242	311,550
Less : Provision for Doubtful Advances	40,236	40,236
	<u>279,006</u>	271,314
Central Excise Deposits	8,923	9,035
Advance payment of tax	9,075	6,619
Proportionate Share in Jointly controlled entity	339	167
	<u>297,343</u>	287,135
TOTAL	<u><u>2,047,725</u></u>	<u><u>1,643,080</u></u>
SCHEDULE "H"		
CURRENT LIABILITIES & PROVISIONS		
A. Current Liabilities		
Sundry Creditors	1,241,300	965,100
Acceptances	193,662	76,391
Trade Advances	27,802	28,619
Unclaimed / Unpaid Dividends (*)	-	349
Other liabilities (@)	469,953	338,186
Interest accrued but not due on loans and deposits	-	508
Proportionate Share in Jointly controlled entity	873	597
	<u>1,933,590</u>	1,409,750
B. Provisions		
For Taxation	13,357	6,492
For Earned Leave Encashment	19,137	13,304
For Warranty claim	19,218	14,199
Preference dividend of the subsidiary	426	-
Others	-	30,000
Proportionate Share in Jointly controlled entity	-	70
	<u>52,138</u>	64,065
TOTAL	<u><u>1,985,728</u></u>	<u><u>1,473,815</u></u>
(*) Unclaimed for less than 7 years.		
(@) Includes Rs. 0.309 million due to directors (Previous year Rs.0.309 million)		
SCHEDULE "I"		
MISCELLANEOUS EXPENDITURE TO THE EXTENT NOT WRITTEN-OFF		
1. Deferred Revenue Expenditure		
Voluntary Retirement Scheme	43,823	77,882
TOTAL	<u><u>43,823</u></u>	<u><u>77,882</u></u>

KIRLOSKAR ELECTRIC COMPANY LTD.

SCHEDULES TO THE CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH 2006

Rs in 000's

	Current Year	Previous Year
SCHEDULE "J"		
OTHER INCOME		
Interest:		
On Fixed Deposits	5,082	6,525
Others	869	837
(Tax deducted at source Rs.0.26 million previous year Rs.0.1 Million)	<u>5,951</u>	7,362
Dividend from Long term Investments:		
Trade	-	10
Rent Received	4,134	5,368
(Tax deducted at source Rs. 0.50 million previous year Rs.0.49 million)		
Miscellaneous*	23,295	24,295
Proportionate Share in Jointly Controlled Entity	18	311
TOTAL	<u><u>33,398</u></u>	<u><u>37,346</u></u>
*Includes provision no longer required Rs.20,704(Rs.29,474)		
SCHEDULE "K"		
CONSUMPTION OF RAW MATERIALS, STORES, SPARE PARTS & COMPONENTS & PURCHASES FOR TRADING		
Raw material and Components	2,388,566	1,931,876
Stores, Spares Parts etc.,	31,535	25,069
	<u>2,420,101</u>	<u>1,956,945</u>
Purchases for Trading	502,812	143,187
	<u>2,922,913</u>	2,100,132
<i>deduct</i> : Increase in Stocks		
Stock at close		
Process Stock	283,493	212,417
Trading and Finished Goods	170,463	76,763
Scrap	1,678	3,137
	<u>455,634</u>	<u>292,317</u>
<i>Less</i> : Stock at commencement		
Process Stock	212,417	172,801
Trading and Finished Goods	76,763	93,522
Scrap	3,137	4,629
	<u>292,317</u>	<u>270,952</u>
	<u>(163,317)</u>	(21,365)
	<u><u>2,759,596</u></u>	<u><u>2,078,767</u></u>

CONSOLIDATED FINANCIAL STATEMENTS

SCHEDULES TO THE CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH 2006
Rs in 000's

SCHEDULE "L"	Current Year	Previous Year
OPERATING & OTHER EXPENSES		
Power & Fuel	52,912	59,256
Expenses relating to Employees :		
Salaries, Wages & Bonuses	333,978	340,721
Contribution to Employees PF, Family Pension Scheme and Superannuation Fund	34,339	33,556
Gratuity as per actuarial valuation	20,458	20,176
Workmen and Staff Welfare Expenses (includes contribution to employees' State insurance & PF Administration Charges)	39,916	35,529
Rent	428,691	429,982
Repairs	15,549	6,788
Buildings	6,574	4,497
Machinery	22,269	14,425
Others	18,487	7,360
	47,330	26,282
Selling Expenses	57,176	37,050
Commission	1,282	3,586
Cash Discount	5,335	7,679
Additional Sales Tax	-	5,068
Maintenance of Vehicles	1,597	1,917
Insurance	6,006	5,877
Rates and Taxes	15,267	5,574
Advertisement	3,719	2,050
Printing & Stationery	7,499	7,109
Travelling Expenses	39,817	31,857
Postage, Telegrams and Telephones	14,069	12,955
Auditors Remuneration	3,439	2,709
Tech. Consultancy & Professional Charges	21,288	17,439
Royalty	-	23
Bank Charges (Includes difference in exchange of Rs. 0.39 Million Cr. previous year Rs.2.068 million)	26,192	14,008
Subscription to Technical Associations, Journals and Magazines	1,319	2,252
Computer hire, Software development and data preparation charges	566	635
Manufacturing expenses and sundries	4,454	8,161
Bad debts written off	26,767	10,553
Less : Provision for Doubtful debts withdrawn	24,149	10,537
	2,618	16
Donations	10	36
Directors' sitting fees	350	239
Remuneration to Whole-time Directors	5,083	4,266
Proportionate Share of Income of Jointly Controlled Entity	46	138
TOTAL	761,614	692,952
SCHEDULE "M"		
DEPRECIATION, AMORTISATION AND PROVISIONS		
1. Depreciation	87,594	83,814
2. Amortisation of Voluntary Retirement Scheme	34,059	54,569
3. Provision for Inventories	17,825	8,000
4. Diminution in value of Investment	-	22,580
5. Warranty Claim	5,019	4,691
6. Proportionate Share of depreciation of Jointly Controlled Entity	127	2
TOTAL	144,624	173,656

KIRLOSKAR ELECTRIC COMPANY LTD.

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 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 31st, 2006. In respect of KEC North America Inc, a subsidiary, the unaudited financial statements for the calendar year ended 31st December 2005 has been adopted. The financial statements of KEASI Robicon Industrial System Pvt., Ltd and Kirloskar Power Equipments 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. The accounting policies adopted by KEC North America Inc, KEASI Robicon 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 Robicon Industrial 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 actuarial valuation 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 Statements (CFS) presents the consolidated accounts of Kirloskar Electric Company Limited with its following Subsidiaries, Joint Venture and Associates:

Name of the Company	Ownership Percentage	Country of Incorporation
Subsidiaries:		
Kaytee Switchgear Limited	76.34 % (70.96%)	India
KEC North America Inc. USA	70.00 %	North America
Associates:		
Kirloskar Power Equipments Limited (upto 28-03-2006)	30.00 %	India
Kirloskar (Malaysia) Sdn. Bhd	40.00 %	Malaysia
Joint Venture:		
KEASI Robicon Industrial Systems Pvt. Limited	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 31.03.2006 Rs. (000's)	As at 31.03.2005 Rs. (000's)
i) Guarantees / Counter guarantees given on Import and Sale contracts etc.	74,004	71,086
ii) Certain industrial disputes are pending before various judicial authorities – not acknowledged by the Company.	Not Ascertainable	Not Ascertainable
iii) 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	6,076	6,758
iv) Bill discounted with bank	33,744	14,854
v) Sales tax demanded under appeal in branches of the Company	8,173	8,855
vi) 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)	2,47,318	2,49,377
vii) Interest and penalty if any, on account of delays/default in payment of statutory / suppliers dues. The Company has made waiver petition where ever such interest / penalty has been levied.	Not Ascertainable	Not Ascertainable
viii) 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.128.50 million (Previous year: Rs.152.55 million) interest and other costs to Kirloskar Batteries Pvt. Limited 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.		
ix) Arrears of dividend on cumulative preference shares (including tax thereon). In terms of the Scheme of arrangement approved by the Honorable High Court of Karnataka, dividend on the said preference shares with effect from October 1 st , 2001 are payable cumulatively out of the profits of the company and the said dividend for the period from October 1 st , 2001 to September 30 th , 2003 are to be funded and converted to Zero Coupon Debentures (ZCDs). The Board of Directors vide their meeting held on September 26 th , 2003 allotted ZCD's to an extent of Rs. 2.345 crores representing dividends on the said Preference Shares from October 1 st , 2001 to September 30 th , 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 st , 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 th , 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.	50,684	41,106
x) 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 st March 2006 in relation to commitments is Rs.3,644.99 million.	182,722	182,722
xi) Sales tax liability in respect of pending assessments	Not Ascertainable	Not Ascertainable
xii) 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.	Not Ascertainable	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

	As at 31.03.2006	As at 31.03.2005
	Rs. (000's)	Rs. (000's)
xiii) Penal damages levied by the Regional Provident Fund Commissioner and subject to write before the High Court of Karnataka, Bangalore. An amount of Rs.4.618 million paid has been included in loans and advances.	9154	9154
xiv) 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.	Nil	139,945
<p>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.</p>		
<p>3. (b) Estimated amount of contracts remaining to be executed on Capital Account and not provided for (Net of advances) Rs. 20.284 million (Rs.29,415 million)</p>		
<p>4. SECURED LOANS OF THE COMPANY AND KAYTEE SWITCHGEAR LIMITED :</p>		
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.	410 RM 53	1,556 RM 136
<p>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.</p> <p>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.</p> <p>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.</p>		
<p>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 above.</p>		
<p>5. a. The order of the Honorable 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).</p> <p>b. Few banks that had advanced monies to the Company have not yet bifurcated the transactions of and the amounts owed by the Company, KSL and Best Trading & Agencies Limited, the special purpose vehicle for holding certain assets and liabilities as per the orders of the Honorable Court. However, the Company has given effect to the scheme as approved by the Honorable Court. There are also differences between interest charged by certain banks and institutions and that accounted by the company. Accordingly, the balances owed to such banks/institutions as at 31st March 2006 are as per books and are subject to confirmation/reconciliation</p> <p>c. Certain assets and liabilities of KSL / Best Trading & 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.</p>		
<p>6. 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.</p>		

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

7. **Sundry Advances include: -**
- a) Rs. 24.877 million (Rs.24.987 million) due from private limited companies in which the directors are interested.
 - b) Rs.50.658 million (Rs.50.239 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
8. Sundry creditors include Rs.318.745 million (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.
9. 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.
10. 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 7 and 18.
11. 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 except in case of Tumkur unit of Kaytee Switchgear Limited.
12. 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.
13. 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.142.828 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, 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.
14. Capital work in progress Rs. 87.524 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.
15. 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.
16. 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. 15.55 million (Rs.6.788 million).

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

17. 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

Particulars	(Rs. In 000's)	
	Current Year	Previous Year
Salary	4,063	3,828
Contribution to Provident & Other Funds	1,020	969
TOTAL	5,083	4,797

Liability in respect of accrued gratuity is not ascertainable separately.

18. Related Parties Disclosure:

Sl.No.	Name of the related party	Relationship
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 Vijaya Farms Private Limited Sri Vijaydurga Investments and Agencies Private Limited Vijayjyothi Investments & Gencies Private Limited Abhiman Trading Company Private Limited Vimraj Investments Private Limited Vijaykirti Investments & Agencies Private Limited	Enterprises over which key management personnel and their relatives are able to exercise significant influence

DETAILS OF TRANSACTIONS :

Nature of transactions	Key management personnel and their Relatives	Enterprises over which key management personnel and their relatives are able to exercise significant influence	Total
Purchases of goods/services	Nil	39,782 (12,049)	39,782 (12,049)
Sale of goods	Nil	2,925 (1,334)	2,925 (1,334)
Rent received	Nil	2,443 (2,442)	2,443 (2,442)
Investments as on 31.03.2006	Nil	2,380 (2,380)	2,380 (2,380)
Amount due to Company as at 31.3.2006	2,700 (2,700)	65,679 (62,951)	68,379 (65,651)
Amount due from Company as at 31.3.2005	45 (90)	223 (731)	268 (821)
Rent Paid	540 (540)	Nil	540 (540)
Remuneration	9,338 (8,125)	Nil	9,338 (8,125)

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

19. 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. in 000's)

	Particulars	Primary Segment		Others	Total
		Rotating Machines Group	Power Distribution		
1.	Segment Revenues				
	SALES	1,209,950 (2,512,946)	2,798,000 (451,774)	365,427 (374,346)	4,373,377 (3,339,066)
	Total	1,209,950 (2,512,946)	2,798,000 (451,774)	365,427 (374,346)	4,373,377 (3,339,066)
	Less: Inter segment revenues	-	-	-	-
	Net Sales / Income from operations	1,209,950 (2,512,946)	2,798,000 (451,774)	365,427 (374,346)	4,373,377 (3,339,066)
2.	Segment Results: Profit / (Loss) Before Taxation and Interest	114,400 (103,422)	139,179 (33,109)	74,768 (89,609)	328,347 (224,275)
	Less: Interest				116,280 (136,271)
	Less: Depreciation & Amortisations				144,624 (173,656)
3.	Unallocable Expenditure				60,299 (81,325)
4.	Other Income				40,451 (124,277)
5.	Share of Profits/ (Losses) in associates (Net)				10,886 (5,598)
6.	Share of (Loss) in Joint Venture				155 (-173)
7.	Minority Interest share in Profits / (Losses)				17,051 (-15,866)
	Less: Provision for Tax (Net)				6,800 (46)
	Total Profits/(Loss) After Taxation				34,475 (-19,244)
8.	Segment Assets	300,420 (1,400,451)	905,683 (217,298)	202,761 (199,739)	1,408,864 (1,817,488)
9.	Unallocable Assets				2,299,174 (2,414,142)
10.	Segment Liabilities	196,593 (454,690)	685,366 (138,644)	92,235 (105,390)	974,194 (698,724)
11.	Unallocable Liabilities				2,472,323 (822,435)
12.	Capital Expenditure	2,421 (63,735)	163,757 (17,926)	6,218 (512)	172,396 (82,173)

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. Earnings per share:

Particulars	31.03.2006 Rs. (000's)	31.03.2005 Rs. (000's)
BASIC E.P.S:		
Profit/(Loss) for the Reporting Period after Tax	34,475	(19,244)
Less: Preference Dividend including dividend tax	10,004	9,872
	24,471	(28,822)
Weighted No. of Equity Shares for Basic EPS	31,268,817	31,268,817
Basic EPS (Rs.)	0.78	(0.92)
DILUTED E.P.S:		
Profit/(Loss) for the Reporting Period after Tax	34,475	(19,244)
Less: Preference Dividend including dividend tax	10,004	9,872
	24,471	(28,822)
No. of Equity Shares for Diluted EPS	33,268,817	33,268,817
Diluted EPS (Rs.)	0.74	(0.87)

21. Deferred Tax Calculation:

	As At 31.03.2006	As At 31.03.2005
Liability relating to depreciation	249,612	248,231
Asset relating to Disallowance and Unabsorbed depreciation under the Income Tax Act, 1961 (recognized only to the extent of net liability)	249,612	248,231
Net amount	Nil	Nil

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

22. 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	14,199	30,000	13,304
Provision for the year (net)	5,019	2,500	5,833
Balance outstanding at the end of the year	19,218	27,500	19,137

23. The Company has incurred losses and a 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 of rephasing of dues by banks and financial institutions, 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 is a going concern and that no adjustments to the carrying value of the assets and liabilities are necessary.

24. 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.

25. Corresponding figures for the previous year have been regrouped and recast in order to be in conformity with current year's figures wherever necessary.

KIRLOSKAR ELECTRIC COMPANY LTD.

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH 2006 (Rs. in 000's)

Particulars	Current Year Rs.		
A CASH FLOW FROM OPERATION ACTIVITIES			
PROFIT/ (LOSS) BEFORE TAX AND EXTRAORDINARY ITEMS	41,275		(19,198)
DEPRECIATION (INCLUDING GOODWILL)	87,721	83,816	
AMORTISATION & PROVISIONS	44,911	62,518	
DIMINUTION IN VALUE OF INVESTMENT	-	22,580	
PROFIT FROM SALE OF FIXED ASSETS (NET)	(6,825)	(45,417)	
REMISSION OF LOAN LIABILITY	-	(41,687)	
INTEREST AND DIVIDEND NET (NET)	<u>110,329</u>	<u>128,899</u>	
	<u>236,136</u>		210,709
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	277,411		191,511
ADJUSTMENT FOR			
TRADE & OTHER RECEIVABLES	(332,696)	(313,761)	
INVENTORIES	(133,690)	(41,225)	
TRADE & OTHER PAYABLES	<u>494,627</u>	<u>151,075</u>	
	<u>28,241</u>		(203,911)
	305,652		(12,400)
CASH GENERATED FROM OPERATIONS			
INTEREST PAID	(116,788)	(136,627)	
DIRECT TAXES PAID	<u>(2,391)</u>	<u>(3,294)</u>	
	(119,179)		(139,921)
NET CASH FROM OPERATING ACTIVITIES	186,473		(152,321)
B CASH FLOW FROM INVESTING ACTIVITIES			
PURCHASE OF FIXED ASSETS	(172,396)	(34,075)	
DECREASE IN THE VALUE OF INVESTMENT	3,781	16,982	
DIMINUTION IN THE VALUE OF INVESTMENT	-	(22,580)	
SALE OF FIXED ASSETS	20,303	234,210	
INCREASE IN CWIP	67,060	(78,699)	
INCREASE IN MINORITY INTEREST	144,911	(15,866)	
GOODWILL ON CONSOLIDATION	(11,451)	-	
REDUCTION IN CAPITAL RESERVE	-		
INTEREST RECEIVED	5,951	7,362	
DIVIDEND RECEIVED	-	10	
NET CASH USED IN INVESTING ACTIVITIES	58,159		107,344
C CASH FLOW FROM FINANCING ACTIVITIES			
REMISSION OF LOAN LIABILITY	-	41,687	
REPAYMENT OF TERM BORROWINGS	(308,480)	(151,721)	
DIVIDEND PAID	<u>(349)</u>	<u>(801)</u>	(110,835)
NET CASH USED IN FINANCING ACTIVITIES	(64,197)		(155,812)
D NET INCREASE IN CASH			
CASH & CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	235,746	391,558	
CASH & CASH EQUIVALENTS AT THE END OF THE YEAR	<u>171,549</u>	<u>(64,197)</u>	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

VIJAY R. KIRLOSKAR
Chairman & Managing Director

P.S. MALIK
Deputy Managing Director

SHYAM RAMADHYANI
Partner

P.Y. MAHAJAN
Company Secretary

R.K. GUPTA
Vice President &
Chief Financial Officer

Bangalore
Date : 25th July, 2006

CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT REGARDING SUBSIDIARY COMPANIES

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

1. Name of the Subsidiary Company	KEC North America Inc. USA	Kaytee Switchgear Limited
2. Financial year of the subsidiary ended on	31.12.2004	31.03.2006
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 and 50,00,000 Equity Shares of Rs.10/- each at par.
	85%	76.34%
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 31.12.2004 @ / 31.3.2006	USD 221555 @ INR 97,99,378	786
(ii) Profits/(Losses) for its Previous financial years	USD (9193)@ INR 29,73,816	(588,935)
Net Aggregate of Subsidiary's Profit/(Losses) Dealt with in the Holding Company's Accounts:	NIL	NIL
(i) Profit/(Loss) for the Subsidiary's financial Year ended 31.12.2004 / 31.3.2006	NIL	NIL
(ii) Profits/(Losses) for its Previous financial Years	NIL	NIL
5. Change 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

P.S. MALIK
Deputy Managing Director

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

Bangalore
Date : 25th July, 2006

KAYTEE SWITCHGEAR LIMITED

BOARD OF DIRECTORS

Vijay R. Kirloskar
Chairman & Whole-time Director

A.S. Lakshmanan

S. Doreswamy
Nominee ICICI Bank Ltd.,

V.S. Raju

M.S. Arun Kumar
(upto 30/06/2006)

L.G. Madhusudhan

PRESIDENT & CEO

P.S. Malik

COMPANY SECRETARY

Y. Venkatesh

AUDITORS

M/s. B.K. Ramadhyani & Co.,
Bangalore

BANKERS

Bank of Baroda
Bank of India
Hongkong & Shanghai Banking Corporation Ltd.
State Bank of India
State Bank of Mysore
State Bank of Travancore

REGISTERED OFFICE

Industrial Subrub,
Rajajinagar,
Bangalore - 560 010

FACTORIES

Survey No. 16, Govenahalli, Thyamagondlu
Hobli, Nelamangala Taluk,
Bangalore Rural District

Gokul Road, Hubli

Hirehalli Industrial Area, Hirehalli, Tumkur

Jalahalli, Bangalore

TWENTY SECOND ANNUAL REPORT 2005 - 2006

DIRECTORS' REPORT TO THE SHAREHOLDERS FOR THE YEAR ENDING 31ST MARCH, 2006.

To

The Shareholders

Your Directors present the Twenty second Annual Report of the Company with the Audited Accounts for the year ending 31st March 2006.

Working Results:

The Company's working has resulted in

	for the year ended 31.3.2006 Rs. in million	for the year ended 31.3.2005 Rs. in million
Gross profit/ (loss) amounting to	84.260	24.258
Less : Provision towards:		
- Deprecation	80.674	78.905
- Taxation	2.800	Nil
Profit / (Loss) for the year	0.786	<u>(54.647)</u>

Operations:

During the year under report your Company achieved a turnover of Rs. 2445.42 million (Previous year Rs. 2058.14 million). the turnover has increased by 19% as compared to previous year. The Company has made a profit of 0.78 million

Change in Capital Structure

Issue of Equity shares on preferential basis

Pursuant to the approval granted by the shareholders at the Annual General Meeting held on 28th September, 2005, 50 lakhs equity shares of Rs 10/- each has been issued at par to Kirloskar Electric Company Limited (Holding Company) on preferential basis. The Allotment was made on 22nd October, 2005.

Authorised Share Capital

Pursuant to approval granted by the shareholders at the Extra ordinary General Meeting held on 15th March, 2006, the Authorised Share Capital of the Company has been increased from Rs. 28,00,00,000 to Rs. 42,00,00,000. By addition of 14,00,000 Preference Shares of Rs, 100/- each.

Issue of Preference Shares.

The Company has allotted 11,76,746 Cumulative Redeemable Preference Shares of Rs.100/- each to Banks/ Financial Institutions. The Allotment was made on 15th March, 2006.

Outlook:

Your Company will achieve a better performance during the current year. The current market scenario for the Company's business is positive linked to the overall industrial growth in the Indian Economy. All sectors where the Company's products find application such as steel, agriculture, sugar, paper, cement, textile, automobile, mining, power generation, petrochemical plants, oil & gas, telecom, railways, defence etc are witnessing robust growth which is likely to result in an enhanced demand for the Company's products in the current year.

Your Company is having orders in hand valued at Rs. 2000 million.

Fixed Deposits :

The Company has not invited any fixed deposits.

Particulars of Employees:

As required under Section 217 (2A) of the Companies Act, 1956, a statement of employees is given in the Annexure which forms a part of this Report.

Environment, Safe

In accordance with Company's Articles of Association Prof V.S. Raju retires by rotation and being eligible offers himself for re-appointment.

Mr. M.S. Arun Kumar resigned from the Board on 30th June, 2006. Your directors have placed on record their appreciation of his valuable services to the Company during his tenure.

Corporate Governance:

A brief report on Corporate Governance is as under :

Board of Directors

Composition

The Board comprises of five Directors, including three Independent Directors, one Non Executive Director and an Executive Chairman.

Name of the Director	Category	No. of Directorships held in other companies	No of Board Committee Memberships held in other companies..
Mr Vijay R. Kirloskar Chairman	Executive	7	1
Mr A.S.Lakshmanan	Independent	5	6
Mr. S.Doreswamy	Independent	6	7
Prof V.S.Raju	Independent	2	4
Mr L.G.Madhusudhan	Non-Executive	1	-
Mr M.S.Arun Kumar *	Non-Executive	-	-

* Mr.M.S.Arun Kumar resigned as a Director of the Company on June 30,2006.

KAYTEE SWITCHGEAR LIMITED

The Company did not have any pecuniary relationships in transactions with the non- executive Directors during the year under review except for payment of sitting fees for meetings of Board/ Committee attended by them and reimbursement of expenses incurred, if any, for attending the said meetings.

During the year under review, six Board Meetings were held. The meetings were held on 27/05/05,23/08/05,28/09/05, 22/10/05,28/01/06 and 15/03/06.

Attendance of Directors at Board Meetings and at the Annual General Meetings.

Name of the Director	No. of Board Meetings attended	Whether attended the AGM held on September 28,2005
Mr. Vijay R. Kirloskar	6	Yes
Mr. A.S.Lakshmanan	6	Yes
Mr S.Doreswamy	5	Yes
Prof .V.S.Raju	3	-
Mr. M.S. Arun Kumar *	6	Yes
Mr. L.G.Madhusudhan	5	Yes

* Mr.M.S.Arun Kumar resigned as a Director of the Company on June 30,2006.

Committees of the Board

(i) Audit Committee:

The Audit Committee has been constituted as per section 292 A of the Companies Act, 1956. The terms of reference include:

- * Overseeing financial reporting process.
 - * Reviewing periodic financial results, financial statements and adequacy of internal control systems.
 - * Approving internal audit plans and reviewing efficacy of the function.
 - * Discussion and review of periodic audit reports ,and
 - * Discussions with external auditors about the scope of audit including the observations of the auditors.
 - * To have full access to information contained in the records of the Company and external professional advice if any.
- Minutes of the meetings of the Audit Committee are circulated to members of the committee and the Board is kept apprised.

Composition and Attendance:

During the year 2005-06, three meetings of the Audit Committee were held on 23rd August, 2005, 22nd October, 2005 and 28th January 2006.

Name of the Member	No. of Meetings attended
Mr A.S.Lakshmanan	3
Mr Vijay R. Kirloskar	3
Mr. S.Doreswamy	3
Prof. V.S.Raju	1
Mr L.G.Madhusudhan	3

Members of the Audit Committee have requisite financial and management expertise and have held or hold similar positions in other reputed organisations.

The Statutory Auditors, Internal Auditor and Chief Financial Officer are invited to attend and participate at meetings of the Committee. The Company Secretary acts as the Secretary to the Committee.

Remuneration Committee:

Your Company has reconstituted the Remuneration Committee in the Board Meeting held on 15th March, 2006 and the Committee consists of following members :

1. Mr. A.S.Lakshmanan - Chairman
2. Mr. Vijay R.Kirloskar - Member
3. Mr S.Doreswamy - Member
4. Prof V.S.Raju - Member

Terms of Reference of the Remuneration Committee include:

- * To recommend to Board the remuneration of executive/non executive directors;
- * All elements of remuneration package of all the directors i.e salary, benefits, bonuses, stock options, pension etc.;
- * Details of fixed components and performance linked incentives, along with the performance criteria;
- * Service contracts, notice period, severance fees;
- * To decide on the remuneration of Senior Executives i.e. General Managers and above;
- * The quorum for the meetings of the remuneration committee will be 3 (three) members personally present.
- * The Chairman of the Remuneration Committee should be present at the Annual General Meeting.

Pattern of Equity Shareholding as on 31.3.2006

Category	No of Shares	Percentage of shareholding
Kirloskar Electric Company Limited (Holding Company)	2,06,19,512	76.34
Directors & others (Individuals)	10,200	0.04
Banks	41,87,580	15.50
Financial Institutions, Mutual Fund, Insurance Companies	21,92,908	8.12
Total	2,70,10,200	100.00

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General Body Meetings

The last three meetings (AGMs) of the Company were held on the following dates, time and venue.

	Date	Time	Venue
19 th Annual General Meeting	Tuesday September 30,2003	11.00 AM	Corporate Office of Kirloskar Electric Company Limited, Malleswaram (West). Bangalore- 560 055
20 th Annual General Meeting	Wednesday, September 29 ,2004	3.00 PM	Corporate Office of Kirloskar Electric Company Limited, Malleswaram (West). Bangalore- 560 055
21 st Annual General Meeting	Wednesday September 28,2005	3.00 PM	No. 80/A, Industrial Suburb, 2 nd Stage, Yeshwanthpur, Bangalore – 560 022.

Plant Location:

Unit- I

Survey No. 16, Govenahalli,
Thyamagondlu Hobli,
Nelamangala Taluk,
Bangalore Rural Distirct 562 123

Address for correspondence :

Post Box. No. 5554, Malleswaram West,
Bangalore 560 055

Phone: 23374865, 23376727

Fax: 91-80-23377706

Unit II

Gokul Road,
Hubli – 580 030

Unit III

Hirehalli Industrial Area,
Hirehalli, Tumkur - 572 168

Unit IV

Jalahalli,
Bangalore –560 031.

Management Discussion and Analysis Report :

Overview

Your Company is one of the leading manufacturers of AC Motors, AC Generators, DC Machines and Traction equipment. The Company's products find application in various sectors such as Power Generation, Steel, Cement, Sugar, Textile, Mining, Paper, Petro Chemicals, Railways and Defence. Hence, the growth of the Company is substantially related to the growth of the above industries.

Performance

During the year the Company has achieved a turnover of Rs. 24454.17 Lacs as against Rs. 20581.14 Lacs in the previous year. The profit before tax for the year is Rs. 35.86 Lacs as against a loss of Rs. 546.47 Lacs. In the previous year.

Economy and Business Outlook

The economic scenario in India continues to be positive, with GDP growth around 8% in 2005-06 and Industry has grown at the rate of 9%. The outlook for the Financial Year 2006-07 continues to be positive. The demand for the products is growing rapidly. Barring unforeseen circumstances, the Company's performance is expected to show continued progress. The Company's order book shows more than Rs. 200 crores.

Opportunities

With the announcement of Power Ministry "Power for all by 2012" and the speed for implementation, all user industries have drawn their new programmes and there is steady and robust growth. The demand for the products continues to be on the increase.

Key strengths

The Company's products are reputed in the market for their technology, reliability, service & quality. The main strengths are;

- * Exhaustive product portfolio – one of the widest ranges of AC Motors, DC motors and AC Generators.
- * Strong engineering capability.
- * State of the art manufacturing facilities & continuous up gradation of products and manufacturing process.
- * Skilled manpower & Engineering Skills.
- * ISO 9001 certificate for the entire range of machines.
- * First electrical company to have obtained "CE" mark for AC Motors, DC Machines and AC Generators.
- * One among 18 in the world to have the unique certified facility for efficiency testing of induction motors up to 50 hp. The laboratory has been certified by NVLAP, USA.

Risks and Concerns

The growth of Electric Industry is primarily determined by the fluctuations in demand for user industry goods for which the Company supplies its products. These fluctuations are mainly caused by the economic growth, effectiveness of monsoon (power generation industry) entry of global players, introduction of new products and on several unforeseen factors, such as copper and steel prices.

Internal Control System

The Company has adequate internal control systems commensurate with the size of the Company and the nature of business to ensure efficacy of operations and also to ensure that assets are safeguarded against loss and for compliance

KAYTEE SWITCHGEAR LIMITED

with applicable legislation. The adequacy of the internal control systems is reviewed by the Audit Committee of the Board of Directors.

Human Resources/ Industrial Relations

The Company's Human Resource philosophy is to work towards building a strong performance driven culture with focus on accountability and responsibility at all levels. Enough independence is given to the employees to show higher level of motivation and inculcate new and modern methodology of work and systems. Training and development of employees continues to be an area of prime focus for the Company.

The Industrial relations climate of the Company remained cordial during the year and continues to be focussed towards improving productivity, quality and safety.

Directors' Responsibility Statement:

Pursuant to Section 217 (2AA) of the Companies Act, 1956, the Directors confirm that:

- (i) In the preparation of the annual accounts, the applicable accounting standards have been generally followed.
- (ii) Appropriate accounting policies have been selected and applied consistently and they have made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31st March 2006 and of the Profit and Loss Account for the year ended 31st March, 2006.
- (iii) Proper and sufficient care has been taken 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.
- (iv) The annual accounts have been prepared on a going concern basis.

Auditors' Report:

The comments and /observations of the Auditors are self-explanatory and the Company's explanations thereto have been given in relevant Notes to the Accounts. Further explanations in regard to the reservations/qualifications in the Auditors' Report are furnished below: -

Para 5 of Auditors' Report:

The SAP R/3 is an integrated system for materials, production, sales and financial accounting. Some mistakes have crept in while implementing the system. Most of the mistakes have been identified and the rectification is in progress. However, as the opening and closing stock of inventory is based on physical verification, the deficiency as apprehended on account of errors in SAP R/3 System will not have any impact on the accounts.

Para No.7 of the Auditors' Report:

The Company has initiated steps for implementation AS-2 (valuation of Inventory) for work-in-progress and finished goods. However, this has no impact on the accounts. In respect of valuation raw materials, stores and components the Company has followed AS -2.

Appropriate action has been taken to implement AS - 5 (disclosure of prior period income and expenditure). However, prior period income/expenditure is insignificant and has no impact on the accounts.

Para No. 9 of the Auditors' Report:

- (A&B) All the Banks/Financial Institutions have given effect to the Scheme and the documentation in this regard has been completed. Few Banks/Institutions are yet to bifurcate the accounts. However, the Company has given effect to the Scheme of arrangement and the balances owed to such Banks/ Financial Institutions as at 31st March, 2006 are as per the books of the Company. The Company has taken up the matter with the respective Banks/Financial Institutions. The rectification is in progress.
- C) The Company has been accounting for the interest payment made to Small Scale and Ancillary Industrial Undertakings as and when their accounts are settled.
- D & E). Review and obtaining balance confirmation from creditors and debtors/advances is a continuous process. In case of discrepancies the accounts are reconciled and necessary accounting entries are passed.
- F) The Management has initiated Measures for installation of machinery.

Para 1 (a) of the Annexure to the Auditors' Report

The fixed asset register is maintained, updation of the same is under progress

Para 9 (a), (b) and (c) of the Annexure to the Auditors Report

Due to tight liquidity position there were some delays in remittance of statutory dues. However subsequently the same has been paid.

Auditors:

Messrs. B.K.Ramadhyani & Co. Chartered Accountants are the retiring Auditors. They are eligible for re-appointment. The required certificate to the effect that the re-appointment, if made, will be within the limit specified in Section 224 (1-B) of the Companies Act, 1956 has been received from M/s. B.K.Ramadhyani & Co.

Acknowledgement:

The Directors place on record their appreciation of efforts of employees at all levels in contributing to the performance of the Company in these difficult times. They would also like to place on record their sincere appreciation for the continued co-operation and support provided by the Bankers, Financial Institutions, Customers, Suppliers and Shareholders.

For and on behalf of the Board of Directors

Bangalore
Dated: 24th July, 2006

VIJAY R. KIRLOSKAR
Chairman

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ANNEXURE TO THE DIRECTORS' REPORT

Disclosure of particulars regarding conservation of energy and technology absorption

A. Conservation of Energy:

(a) Energy conservation measures taken:

1. Use of Solar energy.
2. Installed energy efficient motors to Lathes, Compressors & Grinding machines.
3. Running of single Compressor for two shops by inter connecting air lines.
4. Feed back method of testing upto 1000 kW.

(b). Impact of the measures at (a) above for reduction of energy consumption and consequent impact on the cost of production of goods.

The measures taken by the Company for conservation of energy have resulted in optimum usage of energy in terms of units, reducing costs.

(c). Total energy consumption and energy consumption per unit of production

Not applicable

B. Technology Absorption:

1. Research and Development (R&D)

- a. Research and Development is undertaken for extending the range of the existing products, lowering costs and process improvements, indigenisation or alternate sourcing of materials, development of energy efficient motors/generators with added features.
- b. A C Motor for REVA electric car
- c. CANNED pump motor 100 kW / 20 kW 2 pole / 6 pole.
- d. 500 kW Wind Generator.
- e. New series of A C Motors for variable speed applications.

2. Benefits derived as a result of the above R & D

- (a) Quality improvement.
- (b) Process improvement resulting in higher production.
- (c) Enhanced design and product capability to achieve customer satisfaction.
- (d) Development of in-house skills for manufacture of high precision products.
- (e) Solution to critical problems.
- (f) Cost reduction.

3. Future plan of action

- (a) Applied research and value engineering.
- (b) Development of new processes.

4. Expenditure on R & D

(Rs. in million)

- | | |
|---------------|----------|
| (a) Capital | Rs. Nil |
| (b) Recurring | Rs. 1.58 |
| (c) Total | Rs. 1.58 |

(d) Total R & D expenditure as a percentage of total turnover 0.06 %

5. Technology absorption, adaptation and innovation

- a. Efforts, in brief, made towards technology absorption, adaptation and innovation
 - Training of personnel in –house
 - Indigenisation of materials, components and processes.
 - Modification of imported technology to suit the prevailing Indian market.
- b. Benefits derived as a result of the above efforts,
 - Enhanced Product range.
 - Import substitution.

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- Quality improvement.
 - Product performance improvement and reliability.
 - Better acceptability of products by customers.
- c. Future Plan of action
- Upgradation of existing technology.
 - Development of new processes.
- d. Technology imported during the last 5 years.
- (a) Technology imported
Nil
- (b) Has technology been fully absorbed? If not fully absorbed, areas where this has not taken place, reasons therefor and future plans of action.
NA

C. Foreign exchange earnings and outgo

- a. The details of foreign exchange earnings and outgo are given below
- | | (Rs. in million) |
|---|------------------|
| (i) FOB value of goods exported (net) inclusive of sales within India eligible of export incentives | Nil |
| (ii) Dividend on shares (net of tax) | Nil |
| (iii) Repatriation of Profit | Nil |
| (iv) Others | Nil |
- b. Value of imports calculated on the CIF basis
- | | (Rs. In million) |
|---------------------------------|------------------|
| (i) Raw materials | 9.97 |
| (ii) Components and spare parts | 145.18 |
| (iii) Capital goods | Nil |

For and on behalf of the Board of Directors

Bangalore
Dated: 24th July, 2006

VIJAY R. KIRLOSKAR
Chairman

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Statement as per Section 217 (2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the year ended 31st March, 2006

- (i) Persons employed throughout the year under review who were in receipt of remuneration for the year which, in the aggregate, was not less than Rs. 24,00,000/-

Name: Mr. P.S.Malik, President and CEO

- | | |
|--|------------------------------|
| (a) Age (Years) | : 59 years |
| (b) Designation and Nature of Duties | : President & CEO |
| (c) Nature of employment | : Contractual |
| (d) Remuneration Gross (Rs.) | : Rs. 44,61,786.00 |
| (e) Net (Rs.) | : Rs. 34,28,485.00 |
| (f) Qualification | : P.U. |
| (g) Experience (Years) | : 35 years |
| (h) Date of commencement of employment | : 2003.12.23 |
| (i) Last employment held | : Indian Lead Limited, Thane |

- (ii) Persons employed for a part of the financial year under review who were in receipt of remuneration for any part of the financial year, at a rate which, in aggregate, was not less than Rs. 2,00,000/- per month

NIL

NOTES:

- a) Gross Remuneration includes salary, leave travel assistance, encashment of leave, if any, house rent allowance/ house rent paid, Company's contribution to Provident Fund and Superannuation Fund for the period and value of perquisites wherever applicable.
- b) Net Remuneration is after income tax and professional tax deducted at source.
2. Nature of employment is contractual. Other terms and conditions are as per the Rules and Regulations of the Company.
3. He is not a relative of any director of the Company.
4. There is no other employee who comes under the purview of above sub section.

For and on behalf of the Board of Directors

Bangalore
Dated: 24th July, 2006

VIJAY R. KIRLOSKAR
Chairman

KAYTEE SWITCHGEAR LIMITED

AUDITORS' REPORT TO THE MEMBERS OF KAYTEE SWITCHGEAR LIMITED, BANGALORE.

We have audited the attached Balance Sheet of Kaytee Switchgear Limited, Bangalore as at 31ST March 2006, the Profit and Loss Account and also the Cash Flow statement for the year ended on that date annexed thereto.

1. 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 auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's report) Order, 2003, as amended by the Companies (Auditor's Report) (Amendment) Order 2004 issued by the Company Law Board, in terms of subsection 4A of section 227 of the Companies Act, 1956('Order'), we enclose in the annexure a statement on matters specified in paragraphs 4 and 5 of the said order.
Further to our comments in the annexure referred to above, we report that:
4. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit.
5. *Subject to note 20(a) of schedule L*, proper Books of Account as required by law have been maintained by the Company so far as it appears from our examination of those books.
6. The Balance Sheet, the Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the Books of Account.
7. In our opinion, the Balance Sheet, the Profit and Loss Account and Cash Flow Statement dealt with by this report comply in all material respects with the mandatory accounting standards (AS) referred to in subsection (3C) of section 211 of the Companies Act, 1956 as applicable, *subject to note 20(b) of schedule L (valuation of inventories of work in progress and finished goods not being in accordance with AS 2) and note 22 of schedule L. (non disclosure of prior period income/expenditure as required by AS 5)*
8. On the basis of written representations received from directors as on 31st March 2006 and taken on record by the Board of Directors, we report that none of the directors of the Company are disqualified as on 31st March 2006 from being appointed as a director under clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.
9. *Attention of the members is invited to the following:-*
 - A. *Note 14 (b) of schedule L regarding balances with few banks as per books being subject to reconciliation/ confirmation, since such banks have not yet given proper 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 14 (b) of schedule L regarding difference between interest charged by certain banks and that accounted by company (effect on revenue is not ascertained).*
 - C. *Note 17 of schedule L 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 18 of schedule L 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). Debts outstanding for a period exceeding 2 years and not provided for are estimated at Rs. 70.76 million.*
 - E. *Notes 15 (a) and 19 of schedule L regarding debts/ advances from certain companies of Rs.86.75 million where there are no regular recoveries/adjustments. We have relied on the representations of the management that the same is good of recovery. We cannot express any independent opinion in the matter and*
 - F. *Note 21 of schedule L regarding certain assets where installation has not been completed for several years, which have been carried in the books at their cost (Rs.34.194 million). We have relied on the representations of the management that the said assets are in good condition and that the installation will be completed before long. We cannot express any independent opinion in the matter.*
10. In our opinion and to the best of our knowledge and according to the information and explanations given to us, the said accounts read with the other notes and schedules give the information as required by the Companies Act, 1956 in the manner so required and subject to paragraphs 7 & 9 above and paragraphs 1, 2 & 4 of the annexure to this report and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - A. In the case of the balance sheet, of the state of affairs of the Company as at 31st March 2006
 - B. In the case of the profit and loss account, of the profit for the year ended on that date and
 - C. In the case of cash flow statement, of the cash flows for the year ended on that date.

for **B.K. RAMADHYANI & CO.**
Chartered Accountants
(Shyam Ramadhyani)
Partner
Membership Number 200/19522

Bangalore

Date: 24th July, 2006

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ANNEXURE TO AUDITORS' REPORT

(AS REFERRED TO IN PARA 3 OF OUR REPORT TO THE MEMBERS OF KAYTEE SWITCHGEAR LIMITED)

1. a. The fixed asset records maintained by the Company need to be updated by interalia incorporating comprehensive description of fixed assets and changes in location in order to show full particulars.
- b. The management during the year has physically verified a portion of the fixed assets. *Reconciliation of a portion of the inventories with book records is under progress. Pending completion of reconciliation, discrepancies, if any cannot be completely ascertained. Fixed assets lying with third parties and at port are subject to confirmation.*
- c. During the year, the Company has not disposed off a substantial part of its fixed assets and as such the provisions of clause 4(i) (c) of the Order are not applicable to the Company.
2. a. Inventories have been physically verified during the year by the management. In our opinion, the frequency of verification is reasonable. *Certain stocks lying with third parties and at port are subject to confirmation.*
- b. The procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
- c. The Company is maintaining proper records of inventory in terms of quantities *except in respect of all inventories at Bangalore unit and work in progress* except in Tumkur unit. The discrepancies noticed on verification between the physical stocks and the book records were not material.
- d. *The valuation of work in progress and finished goods as at 31st March 2006 are not in accordance with AS 2 except for Tumkur unit as detailed in note 20(b) of schedule L.*
- e. We have relied on the representation of the management that the consumption of materials and components is in line with the industry norms.
3. The Company has neither taken nor granted any loans from/to companies, firms and other parties covered in the register maintained under section 301 of the Companies Act, 1956. Accordingly, the provisions of clause 4(iii) of the Order are not applicable to the Company. For this purpose, we have relied on the representations of the management that monies due from parties referred to in note 15 of schedule L are advances and not in the nature of loans.
4. *Subject to note 20 (a) of schedule L* and having regard to the explanations given to us that some of the bought out items/assets are proprietary and/or special and/or are customised to the requirements of the Company and as such comparative quotations are not available, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business with regard to purchases of inventory and fixed assets and for the sale of goods. *Except in respect of matters outlined in note 20(a) of schedule L, we have not observed during the course of our audit any continuing failure to correct major weaknesses in internal controls.*
5. a. According to the information and explanations given to us, we are of the opinion that transactions that need to be entered into the register maintained under section 301 of the Companies Act, 1956 have been so entered.
- b. No comments can be made on the reasonability of the rates in respect of the transactions so made and exceeding Rs. 500,000 in respect of any one party since there are no similar transactions with third parties at the relevant time.
6. The Company has not accepted any deposits from the public and as such the provisions of clause 4(vi) of the Order are not applicable to the Company.
7. The Company has an internal audit system commensurate with the size and nature of its business.
8. We have broadly reviewed the Cost Records maintained by the Company as prescribed by the Central Government under clause (d) of sub section (1) of 209 of the Companies Act, 1956 and are of the opinion that prima facie the prescribed accounts and records have been made and maintained, *subject to note 20(a) of schedule L.* We have not made a detailed review of the same to ensure their accuracy and completeness.
9. a. *The Company has not been regular in depositing undisputed statutory dues including provident fund, employees' state insurance, income tax, sales tax, customs duty, excise duty, cess and other statutory dues with the appropriate authorities.*
- b. *According to the information and explanations given to us, undisputed statutory dues as at 31.3.2006 outstanding for a period of more than six months from the date they became payable are detailed below (to the extent identified from the records pending complete reconciliation of the relevant accounts)*

Name of the statute	Nature of dues	Amount (Rs.)	Period to which the amount relates	Date of payment
<i>The Income Tax Act, 1961</i>	<i>Tax deducted at source</i>	<i>2,252,510</i>	<i>April 2005 to August 2006</i>	<i>30.05.2006 & 03.07.2006</i>
<i>The Payment of Gratuity Act, 1972</i>	<i>Contributions to trust</i>	<i>30,990,126</i>	<i>Up to 31.3.2005</i>	-
<i>The Customs Act, 1962</i>	<i>Material lying at bonded warehouse</i>	<i>3,347,630</i>	<i>Up to August 2005</i>	-

KAYTEE SWITCHGEAR LIMITED

- c. According to the information and explanations given to us, the following dues of sales tax, income tax, customs tax, wealth tax, excise duty, service tax and cess had not been deposited as at 31st March 2006 with the relevant authorities on account of disputes.

Name of the statute	Nature of the dues	Amount (Rs.)	Period to which the amount relates	Forum where dispute is pending
The Central Excise and Salt Act, 1944	Excise Demand	255,652	Nov 2004 to March 2005	Central Excise and Service Tax Appellate Tribunal
The Central Excise and Salt Act, 1944	Excise Demand	30,112	April 1993	High Court of Karnataka
The Service Tax Act	Service Tax demanded	602,500	September 2001	Central Excise and Service Tax Appellate Tribunal

10. In our opinion, the accumulated losses of the Company are more than fifty percent of its net worth. In terms of Profit & Loss account prepared by the company, it has not incurred any cash losses during the year covered by our audit and the immediately preceding financial year.
11. In our opinion and according to the information and explanations given to us, the Company has defaulted in repayment of interest and instalments to banks and financial institutions. The aggregate overdues to banks & financial institutions as at 31.03.2006 was of Rs.12.68 million and Rs.15.90 million respectively.
12. The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities and as such the provisions of clause 4(xii) of the Order are not applicable to the Company.
13. In our opinion, the Company is not a chit fund or a nidhi /mutual benefit fund/ society. Therefore, the provisions of clause 4(xiii) of the Order are not applicable to the Company.
14. In our opinion the Company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Order are not applicable to the Company.
15. In our opinion the guarantees given by the Company for loans taken by others from banks and financial institutions is not prima facie prejudicial to its interest since the same was given pursuant to the scheme of arrangement under sections 391 to 394 of the Companies Act, 1956 approved by the Honourable High Court of Karnataka. The guarantee since stands discharged.
16. In our opinion, the Company has not taken any term loans during the year. Accordingly, the provisions of clause 4(xvi) of the Order are not applicable to the Company.
17. According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that funds of Rs.319.36 million raised on short-term basis have been used for long term investment. For this purpose, working capital loans and overdue interest to banks and financial institutions converted to term loans pursuant to the scheme of arrangement under sections 391 to 394 of the Companies Act, 1956 and accrued interest which is to be converted to preference shares in terms of the restructuring scheme submitted by the company to banks and institutions has been considered as funds raised on long-term basis.
18. According to the information and explanations given to us, the company has made preferential allotment of shares to a company covered in the register maintained under section 301 of the Act. In our opinion, the price at which shares have been issued is not prejudicial to the interest of the company.
19. According to the information and explanations given to us, the Company has created securities in respect of issue of debentures to Sundaram Finance Limited to an extent of Rs. 40.84 million in terms of the scheme of arrangement approved by the honourable High Court of Karnataka under sections 391-394 of the Companies Act 1956.
20. The Company has not raised any monies by public issue during the year. Accordingly, the provisions of clause 4(xx) of the Order are not applicable to the Company.
21. According to the information and explanations given to us, no fraud on or by the Company have been noticed or reported during the year.

B.K. Ramadhyani & Co.,
4B, Chitrapur Bhavan
8th main, 15th Cross
Malleswaram, Bangalore - 560 055
Date: 24th July, 2006

for **B.K. RAMADHYANI & CO.**
Chartered Accountants
(Shyam Ramadhyani)
Partner
Membership Number 200/19522

TWENTY SECOND ANNUAL REPORT 2005 - 2006

BALANCE SHEET AS AT 31ST MARCH 2006

(Rs in 000's)

	Schedule	As at 31 st March 2006 Rs.	As at 31 st March 2005 Rs.
SOURCES OF FUNDS			
SHARE HOLDERS' FUNDS:			
a) Capital	A	387,777	220,102
b) Reserves & Surplus	B	<u>440,000</u>	<u>440,000</u>
		827,777	660,102
LOAN FUNDS			
a) Secured Loans	C	1,083,767	1,395,510
b) Unsecured Loans	D	<u>52,216</u>	<u>39,406</u>
		<u>1,135,983</u>	<u>1,434,916</u>
TOTAL		<u>1,963,760</u>	<u>2,095,018</u>
APPLICATION OF FUNDS			
FIXED ASSETS			
a) Gross Block	E	1,644,746	1,487,835
b) Less : Depreciation		<u>336,084</u>	<u>259,013</u>
c) Net Block		1,308,662	1,228,822
d) Capital Work in progress (At cost) / machinery at port		<u>55,393</u>	<u>117,212</u>
		<u>1,364,055</u>	<u>1,346,034</u>
CURRENT ASSETS, LOANS & ADVANCES	F		
a) Inventories		311,533	276,215
b) Sundry Debtors		676,820	371,188
c) Cash & Bank Balances		31,510	17,247
d) Loans & Advances		<u>139,830</u>	<u>238,796</u>
		1,159,693	903,446
Less : CURRENT LIABILITIES & PROVISIONS	G		
a) Current Liabilities		1,182,322	757,028
b) Provisions		<u>30,462</u>	<u>51,016</u>
		<u>1,212,784</u>	<u>808,044</u>
NET CURRENT ASSETS		(53,091)	95,402
PROFIT & LOSS ACCOUNT		<u>652,796</u>	<u>653,582</u>
TOTAL		<u>1,963,760</u>	<u>2,095,018</u>
NOTES ON ACCOUNTS	L		
BALANCE SHEET ABSTRACT & COMPANY'S GENERAL BUSINESS PROFILE	M		
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 the Board of Directors

FOR B.K.RAMADHYANI & CO
Chartered Accountants

VIJAY R. KIRLOSKAR
Chairman & Whole- time Director

P. S. MALIK **L.G. MADHUSUDHAN**
President & CEO Director

SHYAM RAMADHYANI
Partner

Y. VENKATESH
Company Secretary

PRALHAD P. KATTI
Deputy General Manager (Finance)

Bangalore
Date : 24.07.2006

KAYTEE SWITCHGEAR LIMITED**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH 2006**

(Rs in 000's)

	Schedule	Current Year Rs.	Previous Year Rs.
INCOME			
Sales		2,819,340	2,378,352
Excise Duty		<u>373,923</u>	<u>320,210</u>
		2,445,417	2,058,142
Other Income	H	3,952	42,737
Profit on Sale of Fixed Assets		618	1,700
TOTAL		<u><u>2,449,987</u></u>	<u><u>2,102,579</u></u>
EXPENDITURE			
Consumption of Raw Materials, Stores, Spares parts & Components and purchasing for Trading	I	1,728,102	1,465,733
Operating and Other Expenses	J	498,294	488,892
Plant relocation expenses		41,082	9,967
Interest and Finance Charges			
On Fixed Loans		71,665	85,944
On Other Accounts		<u>26,584</u>	<u>27,785</u>
		98,249	113,729
Depreciation and Provisions	K	80,674	78,905
TOTAL		<u><u>2,446,401</u></u>	<u><u>2,157,226</u></u>
PROFIT/ (LOSS) FOR THE YEAR		3,586	(54,647)
Less: Provision for Fringe Benefit Tax		2,800	—
PROFIT/ (LOSS) FOR THE YEAR		786	(54,647)
Add: Loss brought forward from Previous Year		653,582	598,935
Balance of Loss Carried to Balance Sheet		<u><u>652,796</u></u>	<u><u>653,582</u></u>
Basic and Diluted Earnings Per Share (face value Rs 10/- per share) - Rupees		0.01	(2.48)
Number of Weighted Average Equity Shares		24,510,200	22,010,200
NOTES ON ACCOUNTS	L		
BALANCE SHEET ABSTRACT & COMPANY'S GENERAL BUSINESS PROFILE	M		

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

As per our report of even date

For and on behalf of the Board of Directors

FOR B.K.RAMADHYANI & CO
Chartered Accountants**VIJAY R. KIRLOSKAR**
Chairman & Whole- time Director**P. S. MALIK** **L.G. MADHUSUDHAN**
President & CEO Director**SHYAM RAMADHYANI**
Partner**Y. VENKATESH**
Company Secretary**PRALHAD P. KATTI**
Deputy General Manager (Finance)Bangalore
Date : 24.07.2006

TWENTY SECOND ANNUAL REPORT 2005 - 2006

SCHEDULES TO THE BALANCE SHEET AS AT 31ST MARCH 2006

(Rs in 000's)

	As at 31 st March 2006 Rs.	As at 31 st March 2005 Rs.
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SCHEDULE 'A'

AUTHORISED:

28,000,000 Equity Shares of Rs. 10/- each	280,000	280,000
1,400,000 Preference Shares of Rs. 100/- each	140,000	-
TOTAL	420,000	280,000

Issued, Subscribed and Paid-up :

27,010,200 (22,010,200) Equity Shares of Rs. 10/- each	270,102	220,102
1,176,746 Preference Shares of Rs. 100/- each	117,675	-
TOTAL:	387,777	220,102

NOTES : Equity Shares include :

- (a) 15,619,512 shares issued to Kirloskar Electric Co Ltd., as fully paid pursuant to order of the Karnataka High Court under sec 391-394 of Companies Act 1956 without payment received in cash & 63,80,488 shares to certain banks & financial institutions in part conversion of their outstanding dues.
- (b) 5,000,000 equity shares issued to Kirloskar Electric Company Limited on preferential basis during the year at par.
- (c) 20,619,512 (15,619,512) shares are held by the holding Company.
- (e) 1,176,746 cumulative redeemable preference shares were allotted during the year to certain banks & financial institutions by converting part of their outstanding interest dues in terms of the reschedulement proposal approved by them.
- (d) The cumulative redeemable preference shares shall be redeemed in 3 equal annual installments commencing from 2009-10

SCHEDULE 'B'

RESERVES AND SURPLUS

Share Premium Account	440,000	440,000
TOTAL	440,000	440,000

SCHEDULE 'C'

SECURED LOANS

a) From Banks	884,853	1,134,148
b) From financial institutions	178,496	231,416
c) Zero coupon debentures to Sundaram Finance Limited	20,418	29,946
TOTAL	1,083,767	1,395,510

SCHEDULE 'D'

UNSECURED LOANS

a) From Banks	12,810	-
b) From Sundaram Finance Limited	39,406	39,406
TOTAL	52,216	39,406

SECCHEDULE 'E'

FIXED ASSETS

Particulars	Gross Block (at cost)			Depreciation			Net Block			
	As at 01.04.2005	Additions/ Transfers during the year	Deletions/ Transfers during the year	As at 31.03.2006	As at 01.04.2005	Deprciation for the year	Withdrawals during the year	As at 31.03.2006	As at 31.03.2006	As at 31.03.2005
Land	41,259	-	-	41,259	-	-	-	41,259	41,259	41,259
Leasehold Land	6,627	-	-	6,627	-	-	-	6,627	6,627	6,627
Buildings	141,851	135,815	-	277,666	14,148	9,431	-	23,579	254,087	127,704
Plant & Machinery	1,284,848	26,348	6,657	1,304,539	240,867	68,504	2,057	307,314	997,225	1,043,983
Furniture & Equipment	12,081	1,594	-	13,675	3,605	1,165	-	4,770	8,905	8,474
Vehicles	1,169	-	189	980	393	113	85	421	559	775
TOTAL	1,487,835	163,757	6,846	1,644,746	259,013	79,213	2,142	336,084	1,308,662	1,228,822
Previous Year	1,475,356	12,981	502	1,487,835	183,421	75,714	122	259,013		

Note:

Leasehold land represents land taken on lease from KIADB . On expiry of lease period, payment of balance consideration if any, and execution of sale deed, the title will pass to the Company.

KAYTEE SWITCHGEAR LIMITED

SCHEDULES TO THE BALANCE SHEET AS AT 31ST MARCH 2006

(Rs in 000's)

	As at 31st March 2006 Rs.	As at 31st March 2005 Rs.
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SCHEDULE 'F'

CURRENT ASSETS, LOANS & ADVANCES

A. Current Assets

1. Inventories - as certified by the Whole-time Director

i. Raw Materials, Stores, Spares Parts, Components etc.,	54,715	90,818
ii. Stock in Trade		
Finished Goods (including Trading Stocks)	52,356	48,428
Process Stock	226,401	155,118
iii. Others-Including Material at Port and Scrap	8,517	12,307
	341,989	306,671
Less: Provision for Non-moving Stock	30,456	30,456
	311,533	276,215

2. Sundry Debtors

(Unsecured, Considered Good except doubtful debts of Rs.52.476 Million (previous year Rs.75.533 million))		
i. Debts outstanding for a period exceeding six months	241,346	191,754
ii. Other Debts	487,950	254,967
	729,296	446,721
Less : Provision for doubtful debts	52,476	75,533
	676,820	371,188

3. Cash and Bank Balances

a. Cash on Hand	32	25
b. Balances with scheduled banks		
- On Current Accounts	11,384	7,024
- On Short term deposit accounts	20,094	10,198
	31,510	17,247

B. Loans and Advances

(Unsecured, Considered Good except doubtful advances of Rs. 25.268 Millions (Previous year Rs. 25.268 Millions) Advances Recoverable in Cash or in kind or for value to be received Sundry Advances		
Less : Provision for Doubtful Advances	162,823	261,154
	25,268	25,268
	137,555	235,886
Balances with Central Excise in current accounts	1,023	1,600
Advance payment of tax	1,252	1,310
	139,830	238,796
	1,159,693	903,446

SCHEDULE 'G'

CURRENT LIABILITIES & PROVISIONS

A. Current Liabilities

(a) Sundry Creditors (Refer Note 17 of Schedule "N")	725,018	613,639
(b) Acceptances	193,662	76,391
(c) Trade Advances	466	456
(d) Other Liabilities	263,176	66,542
	1,182,322	757,028

B. Provisions

(a) Earned Leave Encashment	15,806	10,622
(b) Warranty claim	11,856	10,394
(c) Taxation (including F B T)	2,800	-
(d) Others	-	30,000
	30,462	51,016
	1,212,784	808,044

TWENTY SECOND ANNUAL REPORT 2005 - 2006

SCHEDULES TO THE PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2006 (Rs in 000's)

	Current Year Rs.	Previous Year Rs.
SCHEDULES 'H'		
OTHER INCOME		
Interest :		
(a) On Fixed Deposits	1,180	830
(b) Others	93	183
	<u>1,273</u>	<u>1,013</u>
Others:		
(a) Rent Received	86	82
(b) Miscellaneous	93	2,881
(c) Remission of liability on settlement	-	18,275
(d) Provision no longer required/unclaimed credit balance written back	2,500	20,486
	<u>3,952</u>	<u>42,737</u>
SCHEDULE 'I'		
CONSUMPTION OF RAW MATERIALS, STORES, SPARE PARTS & COMPONENTS AND PURCHASES FOR TRADING		
Raw material and Components	1,770,320	1,453,604
Stores, Spare Parts etc	31,535	25,069
	<u>1,801,855</u>	<u>1,478,673</u>
Decrease / (Increase) in Stocks		
Stock at Close		
Process Stock	226,401	155,118
Trading and Finished Goods	52,356	48,428
Scrap	1,678	3,136
	<u>280,435</u>	<u>206,682</u>
Less : Stock at commencement		
Process Stock	155,118	139,227
Trading and Finished Goods	48,428	49,886
Scrap	3,136	4,629
	<u>206,682</u>	<u>193,742</u>
	<u>(73,753)</u>	<u>(12,940)</u>
	<u><u>1,728,102</u></u>	<u><u>1,465,733</u></u>

KAYTEE SWITCHGEAR LIMITED

SCHEDULES TO THE PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2006 (Rs in 000's)

	Current Year Rs.	Previous Year Rs.
SCHEDULE 'J'		
OPERATING & OTHER EXPENSES		
Power & Fuel	41,198	52,448
Expenses relating to Employees :		
Salaries, Wages & Bonus	256,135	271,220
Contribution to Employees PF, Family Pension Scheme and Superannuation Fund	27,108	23,405
Gratuity as per actuarial valuation	13,593	14,527
Workmen and Staff Welfare Expenses (includes contribution to employee's state insurance & PF Administration charges)	<u>31,049</u>	<u>18,474</u>
	327,885	327,626
Rent	8,876	1,111
Repairs		
Buildings	3,737	3,678
Machinery	15,767	12,908
Others	<u>4,409</u>	<u>4,549</u>
	23,913	21,135
Selling Expenses	32,628	29,330
Commission	967	3,288
Cash Discount	5,335	7,673
Additional Sales Tax	-	7
Maintenance of Vehicles	260	929
Insurance	4,412	3,768
Rates and Taxes	5,288	4,098
Advertisement	48	
Printing & Stationery	3,558	3,835
Travelling Expenses	10,037	8,585
Postage, Telegrams and Telephones	4,205	3,684
Auditors Remuneration	1,740	1,402
Tech. Consultancy & Professional Charges	9,761	6,653
Bank Charges	15,632	10,892
Subscription to Technical Associations, Journal & Magazines	189	69
Computer hire, Software development & Data preparation Charges	326	635
Manufacturing expenses and sundries	1,861	1,642
Bad debts and other disallowances written off	23,057	9,204
Less : Provision for Doubtful debts withdrawn	<u>23,057</u>	<u>9,204</u>
	-	-
Directors' sitting fees	175	82
TOTAL:	<u>498,294</u>	<u>488,892</u>
SCHEDULE 'K'		
DEPRECIATION, AMORTISATION AND PROVISIONS		
1 Depreciation	79,213	75,714
2 Warranty claim	1,461	3,191
	<u>80,674</u>	<u>78,905</u>

TWENTY SECOND ANNUAL REPORT 2005 - 2006

SCHEDULES TO THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

SCHEDULE 'L'

A. SIGNIFICANT ACCOUNTING POLICIES

1.1 Accrual System of Accounting

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

1.2 Fixed Assets

Fixed Assets are stated at cost of acquisition inclusive of freight, duties, taxes and incidental expenses relating to the acquisition, installation, erection and commissioning less depreciation. Internally manufactured assets are valued at works cost.

1.3 Inventories

Raw Materials, Stores, Spare Parts and Components are valued at cost determined on FIFO basis or net realizable values whichever is lower. Work in progress is valued at works cost. Finished goods are valued at cost or market price whichever is lower.

1.4 Depreciation

- a. Depreciation is charged on Straight Line Method at the rates specified in schedule XIV to the Companies Act, 1956.
- 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. 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.

1.5 Research And Development Expenses

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 capitalized as Fixed Assets and depreciation provided as detailed above.

1.6 Revenue Recognition

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

1.7 Retirement Benefits

Contribution to gratuity and superannuation funds has been computed based on actuarial valuation / assessment of liability.

1.8 Taxes On Income

Provision for current tax 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.

1.9 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 use. Other interest and borrowing costs are charged to Profit & Loss Account.

1.10 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.

1.11 USE OF ESTIMATES:

The preparation of financial statements in conformity with generally accepted accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

KAYTEE SWITCHGEAR LIMITED

SCHEDULES TO THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT SCHEDULE 'L' (Contd.)

	As at 31.03.2006 (Rs. in 000's)	As at 31.03.2005 (Rs. in 000's)
B. NOTES FORMING PART OF ACCOUNTS		
2 (a). Contingent Liabilities		
i. Guarantees / Counter guarantees given on Import and Sale contracts etc.	28,960	28,579
ii. Certain industrial disputes are pending before various judicial authorities – not acknowledged by the Company*	Amount not ascertainable	Amount not ascertainable
iii. 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.	888	820
iv. Claims against the Company not acknowledged as debt.	29,759	29,759
v. Sales tax liability in respect of pending assessments	Amount not ascertainable	Amount not ascertainable
vi. Interest and penalty if any, on account of delays in payment of statutory/ suppliers dues. The Company has made waiver petition wherever such interest or penalty has been levied.	Amount not ascertainable	Amount not ascertainable
vii. 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 st March 2006 in relation to commitments is Rs.3644.99 million. This obligation is to be honoured by the Company.	182,722	182,722
viii. 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.	9,154	9,154
ix. By virtue of the scheme of arrangement, referred to in note 14 (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.	–	139,945
x. Arrears of dividend on cumulative preference shares (including tax thereon)	426	–
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.		
2.(b) Estimated amount of contracts remaining to be executed on Capital Account and not provided for (Net of advances) Rs.20.284 million (Rs.68.194 million).		
3. Secured loans:		
A. 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 & Whole - time 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.		
B. From Sundaram Finance Ltd. - Zero Coupon Debentures - First pari passu charge on fixed assets along with amount due on account of term loans to Banks & Financial Institutions.		

TWENTY SECOND ANNUAL REPORT 2005 - 2006

SCHEDULES TO THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

SCHEDULE 'L' (Contd..)

	Current Year (Rs. In 000's)	Previous Year (Rs. In 000's)
4. Earnings in foreign exchange		
F.O.B. value of Goods exported (Net) (inclusive of Sales within India eligible for export incentives)	Nil	Nil
However, Kirloskar Electric Company Limited has effected exports to a tune of Rs.59,778/- (Rs.60,238) out of purchases of motors & alternators produced by the Company.		

5. Value of imports calculated on CIF basis

I.	Raw Materials	9,974	16,419
II.	Components and Spare parts	145,179	102,429
III.	Capital Goods	Nil	Nil

6. Expenditure in foreign currency

On account of Foreign travel and others	360	889
---	-----	-----

7. Remuneration to auditors*

I	For Audit	673	551
II	For Taxation matters	449	386
III	For Certification work etc.	334	248
IV	For Management Services	228	162
V	Cost Audit Fees	56	55
TOTAL		1,740	1,402

* Excludes out of pocket expenses of Rs.0.10 million (Rs. 0.08 million)

8. Expenditure on research and development expenses

I	Revenue	1,576	1,798
II	Capital	-	-

9. Value of imported and indigenous raw materials, stores, spares parts and components consumed and percentage of each to the total consumption:

	Current Year (Rs. In 000's)		Previous Year (Rs. in 000's)	
Value of imported raw materials, stores, spares parts & components consumed	9.24%	166,436	7.85%	116,204
Value of indigenous raw materials, stores, spares parts & components consumed	90.76%	1,635,419	92.15%	1,362,469
TOTAL	100%	1,801,855	100%	1,478,673

10. Consumption of major raw materials and components

			Current Year	Previous Year	
	Unit	Qty	Value (Rs. In 000's)	Qty	Value (Rs. In 000's)
Copper (Wires, strips, rods, sheets, etc.)	MT	1,259	297,240	1,082	224,587
Iron and steel (pig iron, rounds, plates, sheets, etc.) stampings and laminations	MT	5,535	328,836	4,891 (*)	282,936
Others			1,175,779	(**)	971,150
TOTAL			1,801,855		1,478,673

KAYTEE SWITCHGEAR LIMITED

SCHEDULES TO THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT SCHEDULE 'L' (Contd..)

Notes:

1. In the presentation of data, necessary adjustments have been made for normal shortages and excesses in stock including process losses during conversion of raw material.
2. (*) Recast
3. (**) Only money value furnished, as the items are numerous and it is not possible to furnish quantitative particulars thereof.

11. Capacities and Production

Item No.	Class of Goods		Capacities		
			Licensed	Installed #	Production @
01	Motors/Alternators/Generators	MW	2,806 *	2,806 *	1,523 (1,321)
02	F.H.P. Motors	No.	21,600 +	21,600 +	9,171 (9,704)
03	Electricity generated using wind energy	Units			750,000 (1,770,000)
04	Traction Equipment *	No.			51 (17)

Notes:

- @ As certified by a Director
- # Standing in the name of KECL from whom the running business of RMG has been taken over
- * On maximum utilization
- + On single shift

12. Opening and Closing stock of Finished goods

Item No.	Class of Goods	Opening Stock		Closing Stock	
		Qty. No.	Value Rs. In 000's	Qty. No.	Value Rs. In 000's
01	Motors/Alternators/Generators (Including FHP Motors)	4,249 (961)	46,985 (47,335)	2,827 (4,249)	50,373 (46,985)
02	Others		1,443 (2,551)		1,983 (1,443)
	TOTAL		48,428 (49,886)		52,356 (48,428)

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SCHEDULES TO THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT **SCHEDULE 'L' (Contd..)**

13. Details of Sales

Item No.	Class of Goods	Turnover of Finished Goods *			
		Current Year		Previous Year	
		Qty. No.	Value Rs. In 000's	Qty. No.	Value Rs. In 000's
01	Motors/Generators/Alternators (Including FHP Motors)	104,846	2,629,883	85,686	2,240,352
02	Traction Equipment	51	23,503	17	11,242
03	Electricity (In Units)	750,000	3,251	1,770,000	9,419
04	Others (Including Components of alternators)		162,703		117,339
	TOTAL		2,819,340		2,378,352

Note: * Quantity in numbers includes transfers to divisions for further manufacture and free replacements.

14. a. The order of the Honorable High Court of Karnataka according approval for the scheme of arrangement of Kirloskar Electric Company Limited (KECL) under sections 391 to 394 of the Companies Act 1956 was received in February 2003 with effect from September 30, 2001 as the appointed date. This scheme of arrangement interalia involved restructuring of its liabilities to banks and financial institutions and transfer of the rotating machines group (RMG) to the Company.
- b. Few banks that had advanced monies to KECL have not yet properly bifurcated the transactions of and the amounts owed by KECL, the Company and Best Trading and Agencies Limited, the special purpose vehicle for holding certain assets and liabilities as per the orders of the honorable court. However, the Company has given effect to the scheme as approved by the honorable court. There are also differences between interest charged by certain banks and institutions and that accounted by the Company. Accordingly, the balances owed to such banks/institutions as at 31st March 2006 are as per books and are subject to confirmation/reconciliation.
- c. Certain assets and liabilities of the Company including consents/approvals from various regulatory authorities continue to remain in the name of KECL. Necessary action is being taken in the matter.
- d. Operating and other expenses vide Schedule L is net of Rs.4.80 million representing common expenses apportioned to Kirloskar Electric Company Limited on a mutually agreed basis.
- e. All motors, alternators and components thereof manufactured by the Company are sold to/ manufactured for KECL under contract manufacturing/ subcontracting arrangements entered into. The arrangements entered into envisages a sale price for the company based on the ultimate sales value of KECL for sale of motors and alternators from its customers minus a mark down to take care of its estimated branch and distribution network costs. In respect of sale of spare parts supplied a mutually agreed price is charged by KSL to KECL. KECL also has back to back claims against the company for all shortfalls in realization from its customers (liquidated damages, freight, disallowances, warranty claims and other losses etc).
- f. Outstandings from customers as per the books of the company as at 1st April 2003 on account of motors / alternators and accessories thereof sold were assigned to KECL at their book value. However, KECL has back to back claims against the company for all shortfalls thereof (bad debts, liquidated damages, disallowances, warranty claims etc).
15. Sundry Advances include: -
- a. Rs.50.658 million (previous year Rs.50.239 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 and their net worth has been eroded.
- b. Rs. Nil (previous year Rs.40.639 million) million due from KECL
- c. Rs 16.937 million (previous year Rs. 17.567 million) due from a private limited company in which a director is interested.

SCHEDULES TO THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT
SCHEDULE 'L' (Contd..)

16. a. Sundry debtors include Rs.723.268 million (Rs. 438.656 million) due from KECL.
b. Other Liabilities include Rs.96.794 million (Rs.16.242 million) due to KECL
17. Sundry creditors include Rs.244.625 million (previous year Rs. 220.691 million) to small-scale industrial undertakings to the extent identified from the records of the company. Parties to whom amounts are outstanding for more than 30 days are enclosed in the annexure. Interest payable, if any, under Interest on delayed payments to Small Scale and Ancillary Industrial Undertakings Act, 1993 will be accounted on settlement. All the data as per this clause is as certified by the management.
18. a. Confirmation of balances from sundry creditors, debtors, deposit accounts, loans and advances, borrowings is awaited from certain parties. Accounts of certain loans and advances, deposits / margin money with banks, collector of customs, fellow subsidiaries, creditors, etc are under review and reconciliation. Adjustments if any, will be made on completion of review / reconciliation. Effect on revenue is not ascertainable.
b. In view of the back to back claims available to KECL in respect of shortfall in realizations as detailed in Note 14 above, provision for doubtful debts / disallowances have been made based on advices received from KECL. Further provision required, if any will be made as and when advices are so received from KECL/ completion of review and reconciliation by it.
19. a. Sundry debtors include Rs.30.89 million (Previous Year Rs.33.16 million) from KEC North America Inc., a fellow subsidiary through KECL. The said company has incurred losses and its net worth is fully eroded. Having regard to the long term association with this company, the potential of the power sector & the North American market, its revival plans as communicated to the Company and other factors, no provision is considered necessary.
b. The Company has taken over certain dues from Best Trading and 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 notes 15 (c) and 24.
20. a. The accounts of one of the units of the Company have 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 KECL in prior years with the unit referred to above, balances in finished goods inventory without any quantities being held 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 except in case of Tumkur unit.
21. Capital work in progress includes Rs.34.194 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 the further investments that are required.

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22. Prior period income / expenditure (including those relating to the period when the units of the Company were part of KECL) has not been separately ascertained and disclosed in terms of Accounting Standard - 5 of 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.
23. The company has not paid any remuneration to its Whole-time Director during the year since same is drawn in the holding company Kirloskar Electric Company Limited.

24. Related Party Disclosure:

Name of the related party	Relationship
Kirloskar Electric Company Limited KEC North America Inc, USA Mr. Vijay R. Kirloskar Mr. P.S. Malik Mr. D.R. Venkatesha Murthy Mr. L.G. Madhusudhan Mr. M.S. Arun Kumar Ms. Janaki Kirloskar Mrs. Meena Kirloskar	Holding Company Fellow Subsidiary Key management personnel of Company and/or its parent company and relatives of Key management personnel.
KEASI Robicon Industrial Systems Private Limited Kirloskar (Malaysia) Sdn. Bhd Kirloskar Power Equipments Limited (for part of the year)	Associates and joint ventures of Holding company
Kirloskar Computer Services Limited Kirloskar Batteries Private Limited Ravindu Motors Private Limited Vijaya Farms Private Limited Sri Vijaydurga Investments and Agencies Private Limited Vijayjyothi Investments & Agencies Private Limited Abhiman Trading Company Private Limited Vimraj Investments Private Limited Vijaykirti Investments & Agencies Private Limited	Enterprises over which key management personnel and their relatives are able to exercise significant influence

KAYTEE SWITCHGEAR LIMITED

SCHEDULES TO THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT SCHEDULE 'L' (Contd.)

Details of transactions:

(Rs. In 000's)

Nature of transactions	Holding company	Fel low subsidiary	Key management personnel and their relatives	Associates and joint ventures of Holding company	Enterprises over which key management personnel and their relatives are able to exercise significant influence
Purchases of goods/services	1,075 (4,143)	Nil (Nil)	Nil (Nil)	Nil (Nil)	39,191 (9,334)
Purchase of Fixed Assets	3,994 (1,963)	Nil	Nil	Nil	Nil
Sale of goods	2,728,558 (2,236,817)	617* (3,808)*	Nil (Nil)	11,111* (10,750)*	950* (378)*
Sale of Fixed Assets Nil	Nil	Nil	Nil	Nil	(38)
Common Expenses recouped	4,800 (4,800)	Nil (Nil)	Nil (Nil)	Nil (Nil)	Nil (Nil)
Amount due to Company as at 31.3.2006	723,268 (479,295)	30,890* (33,155)*	2,700 (2,700)	2,762* (4,428)*	51,599 (49,503)
Amount due by Company as at 31.3.2006	96,794 (16,242)	Nil (Nil)	45 (90)	202 (Nil)	146 (731)
Remuneration including sitting fees	Nil	Nil	3,646 (3,474)	Nil	Nil
Rent Paid	Nil	Nil	540 (540)	Nil	Nil

* Through KECL

25. Segment Reporting

The Company operates in only one business segment (rotating machines group). The revenue from sale of goods outside India (made through KECL) is not a significant percent of the total turnover. In the circumstances, segment information required by Accounting Standard 17 issued by the Institute of Chartered Accountants of India, has not been furnished.

26. The Company has various operating leases for office facilities, guesthouse 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.8.876 million (Rs.1.111 million).

27. Deferred Tax Calculation:

(Rs in 000's)

	As at 31.03.2006	As at 31.03.2005
Liability relating to timing difference on account of value of fixed assets	232,618	229,961
Asset relating to Disallowance under section 43B of Income Tax Act, 1961 and Unabsorbed depreciation under the Income tax Act (Recognized only to the extent of net liability)	232,618	229,961
Net amount	Nil	Nil

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SCHEDULES TO THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT SCHEDULE 'L' (Contd.)

28. Earnings Per Share

Basic & Diluted:

		Current Year	Previous Year
Profit/ (Loss) as per Profit and Loss Account after tax	(Rs. In 000's)	786	(54,647)
Less: Preference dividend including dividend tax		426	–
Net profit available for equity share holders		360	(54,647)
Weighted Average Number of shares outstanding	No.	24,510,200	22,010,200
Earning / (Loss) Per Share	Rs.	0.01	(2.48)
Face Value Per share	Rs.	10	10

29. Details of Provisions

Rs in 000's

Particulars	Warranty Claims	Towards Wage Settlement	Leave Encashment
Balance outstanding at the beginning of the year	10,394	30,000	10,622
Provision for the year (net)	1,462	(2,500)	5,184
Balance outstanding at the end of the year	11,856	27,500	15,806

30. The Company has incurred losses and a 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, rephasing of dues made by banks and FIs, 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.

31. Figures have been rounded off to the nearest thousand rupees as permitted. The previous year figures have been regrouped and recast in order to be in conform with current year figures wherever necessary.

As per our report of even date

For and on behalf of the Board of Directors

FOR B.K.RAMADHYANI & CO
Chartered Accountants

VIJAY R. KIRLOSKAR
Chairman & Whole-time Director

P. S. MALIK **L.G. MADHUSUDHAN**
President & CEO *Director*

SHYAM RAMADHYANI
Partner

Y. VENKATESH
Company Secretary

PRALHAD P. KATTI
Deputy General Manager (Finance)

Bangalore

Date : 24.07.2006

KAYTEE SWITCHGEAR LIMITED

SCHEDULE FOR SSI AND ANCILLARY INDUSTRIES TO WHOM AMOUNTS IS OUTSTANDING FOR MORE THAN 30 DAYS

A B INDUSTRIES	HINDUSTAN TOOLS	PATIL INSULATING CO PVT LTD	SHRI LAXMI ENTERPRISES
ABHIMAN ENGG INDUSTRIES	I G INSULATION PVT LTD	PAVAN INDUSTRIES	SHRI MARUTI ENGG WORKS
ABHYA PLASTIC HINDWADI	IMPEX INSULATION PVT LTD	PEARL ENGG CO	SHRI RAM DIESEL INDIA
ACCU GRINDWAYS	INDIA AUTO PINS	PEARL INSULATIONS PVT LTD- UNIT II	SHRI RAM MUAI INDUSTRIES
ADVANCE COMPONENTS & INSTRUM	INDY RUBBER INDUSTRIES	PEARL INSULATIONS PVT LTD	SHRI SHABARI ENTERPRISES
ADVANCE DIE CAST	INNOVATIVE TECHNOLOGIES	PEARL METAL PRODUCTS	SHRIKANT ELECTRIC WORKS
ADVITH INDUSTRIES	INSEL RECTIFIERS INDIA PVT LTD	PEB ENGINEERING WORKS	SHRIRAM ENTERPRISES
AJANTA ENTERPRISES	J P CASTING	PIONEER ROADLINES	SHUSHIL RUBBER & ALLIED INDUSTRIES
AKASH INDUSTRIES	J R D ENGINEERING PVT LTD	PITTI LAMINATIONS P LTD	SHYAM ENGG WORKS
ALU PRINTS	JAWAHAR ENTERPRISES	PMH & SONS INDUSTRIES	SIDDHART ENTERPRISES
ALUCAS FOUNDRIES BGM PVT LTD	JAYALAKSHMI ENGG - HUBLI	POLYCOM ASSOCIATES	SMALL TOOLS CENTRE
ALUCAST INDUSTRIES	JAYASHREE ELECTRO DEVICES P LTD	POOJA PRINTERS	SOLANLE & SONS
AMRO ENGINEERING	JAYEM INDUSTRIES	POWER ENGG CO	SOSALE ENGG INDUSTRIES
AMUDHA IRON FOUNDRY	JAYPEE INDUSTRIES	POWER TOOLS AND EQUIPMENTS	SOUTHERN ELECTRICALS
ANSONSON RUBBER P LTD	JAYSREE ALLOY STEEL FOUNDRY P LTD	PRABATH CASTING	SPECIAL INSULATORS MFG CO
ANU CHETECH P LTD	JHAVERI THANAWALA P LTD	PRABHA PATTERN WORKS	SREE GAJANANA INDUSTRIES
ANURADHA ELECTRONICS	JOY INDUSTRIES	PRABHAKAR METAL WORKS	SREE GURU ENGINEERING WORKS
APPLE ALLOYS INDUSTRIES-JOB	JYOTHI PRASAD INDUSTRIES	PRABHU ENGG WORKS	SREE GURUVAYURAPPA ENGG
WORK	K H PATIL & CO	PRABHU ENGINEERING WORKS	SREE KRISHNA FIBRELINE PVT LTD
AQUARA ELECTRIC P LTD	KAMAKSHI CHEMICALS	PRAKASH ENGG & MFG WORKS	SREE KRISHNA WOOD INDUSTRIES
AQURA PUMPS BANGALORE PVT LTD	KAMAKSHI FABRICATORS	PRECISION PRESSINGS	SREE MANJUNATHA ENTERPRISES
ARADHYA ENGINEERING WORKS	KARNATAKA ENGINEERING	PREMIER ENGINEERING	SREE RAMA ENGINEERING WORKS
ARADHYA ENTERPRISES	ENTERPRISES	CORPORATION	SREE SAI ENTERPRISES - JOB WORK
ARATHI INDUSTRIES	KARNATAKA FOUNDRY	PREMIER INDUSTRIES	SREE SRINIVASA ENTERPRISES
ARMSTRONG ELECTRICAL SERVICES	KARNATAKA METAL PRESSING	PREMIER MACHINE	SREE SRINIVASA ENTERPRISES
ARUN METAL WORKS	KARNATAKA METAL TESTING	COMP&FABRICATION	SRI BANASHANKARI ENGG. IND
ASHOK ENGINEERING WORKS	KAYMO FASTENER CO	PREMIER POWER PRODUCTS	SRI BANASHANKARI ENTERPRISES
ASHOK INDUSTRIES	KIRAN UDYOG	PRIME INDUSTRIES	SRI CHOWDESHWARI ENGG WORKS
ASHWINI ELECTRICALS	KOVAI CNC APPLICATION P LTD	PROMAX ENTERPRISES	SRI DEVI ENGG WORKS
ASHWINI ENGINEERING WORKS	KRISHNA INDUSTRIES	PROTECH SYSTEM BELGAUM	SRI GANESHA ENTERPRISES
ASHWINI ENTERPRISES	KWALITY ENTERPRISES	PROTECH SYSTEMS	SRI LAKSHMI FETTLING WORKS
ASSOCIATED ENGINEERING WORKS	KWALITY KEY INDUSTRIES	PURA AUTO COMPS P LTD	SRI LAXMI IRON WORKS
ASTECK ELECTRIC CO LTD	KWALITY PLASTIC INDUSTRIES	PUSHKAR ALLOY CASTING P LTD	SRI MANJUNATHASWAMY ELECTRICALS
ASTEK ELECTRIC CO P LTD	LAKSHMI ENTERPRISES	PYROTECH ENGINEERS	SRI MARUTHI ENGINEERING WORKS
AUTO EQUIP ACCESSORIES	LAKSHMI ENTERPRISES	QUALITY METAL WORKS	SRI SHABARI ENTERPRISES
B N R FABRICATORS	LAKSHMI PRASANNA WOOD WORKS	R N SOLANKE & CO	SRI VENKATESHWARA WOOD
B P ENGINEERING WORKS	LALITA ENGINEERING WORKS	R R FOUNDERS	INDUSTRIES
BAIJU ENTERPRISES	LAMINA FOUNDRIES LTD	RAJA MAGNETICS LTD	SRI VINAYAKA ENGG WORKS
BALAJI INDUSTRIES	LAXMI ENTERPRISES	RAJALAKSHMI STAMPINGS	SRI VINAYAKA INDUSTRIES
BANGALORE ELECTRICAL WORKS	LEOTECH	RAVAL SONS	SRI VISHNU INDUSTRIES
BANGALORE METALLURGICALS P LTD	M K B PACKING WORKS	RAVI ENGINEERING	SRINIVAS ENGINEERING ENTERPRISES
BANGALORE WOOD PACKERS PVT	M R K INDUSTRIES	RAVI ENGINEERING	SRINIVASA CHEMICAL INDUSTRIES
LTD	M.GANGADHARAIHAH ENTERPRISES	RAVI ENGINEERING WORKS	STANZEN LINKS
BASAVA INDUSTRIES	MADHAV ELECTRONICS P LTD	RAVI INDUSTRIES	SUJAY ENTERPRISES
BHARAT INDUSTRIES	MAGNA INDUSTRIES	RAVI PLASTIC INDUSTRIES	SUNVIR INDUSTRIES
BHARAT UDYOG	MAHANT ENGG WORKS	RAVISH O PACK	SUNVIR INDUSTRIES
BMS ENGINEERING WORKS	MAHAVEER ELEC WORKS	RGK ENGINEERING ENTERPRISES	SUPA INSULATION INDUSTRIES
BRAIDING INDUSTRIES - BANGALORE	MALAXMI ENGINEERING WORKS	ROLEX GENERAL ENGG WORKS	SUPRA ENGINEERING
BRINDAVAN ENTERPRISES	MALTESH ENGINEERINGWORKS	RSM INDUSTRIES	SUPREME PACKERS
BRINDAVAN TOOLINGS	MANJUNATHA INDUSTRIES	RUKMANI FORGINGS PVT LTD	SURA ELECTRICALS
C L ENTERPRISES	MARUTHI ENGG	S C R WIRE PRODUCTS	SURI INDUSTRY
CAUVERY INDUSTRIALS	MARUTI ELECTRIC COMPANY	S J METAL WORKS	SUSHIL RUBBER & ALLIED IND
CERAMIC PRODUCTS	MARUTI ELECTRICALS	S M V ENTERPRISES	SVI BRUSH GEARS
CHETANA INDUSTRIES	MECH ELECTRONICS	S N ENTERPRISES	SWARNIGIRI WIRE INSULATIONS
CHIRANJEEVI SANJEEVA INDUSTRIES	MECHPROS	S P M TOOLS	SWATHI SUNDER RAJ INDUSTRIES
CHITRA ENGG. INDUSTRIES	MECTRONE ENGINEERING SERVICES	S R S WOOD INDUSTRY & SAW MILLS	TECHMECH
CLASSIC WIRE INSULATION	METAL CRAFTS	S S A INDUSTRIES	THE PRESS TOOL COMPANY
CLASSIC WIRE INSULATIONS	METAL O PRINTS	SAATHU ENGINEERING	TRANS ELECTRO & MECHANO
CMC COMMUTATOR (PVT)LTD	METALARTS	SAIFEE INDUSTRIES JOB WORK	TRI AX MACHINING SYSTEMS
COUSIN CORPORATION	METALICA FABRICATORS	SALIANS INDUSTRIES PVT LTD	UDAY METAL WORKS
D P DHAVALE	METAMER ENGINEERS	SANDHYA ELECTRICALS	UDAYA ENTERPRISES
D S ENGINEERING WORKS	METCAST PATTERS	SANELEC EXCITATION SYSTEMS P	UDAYA INDUSTRIES
DATTATREYA ENGG WORKS	MINIMAX CABLE INDUSTRY	LTD	UMA ENGINEERING WORKS
DECCAN ALLOYS P LTD	MIRACLE CABLES (INDIA) PVT LTD	SANGEET PRINTERS	UMA INDUSTRIES
DEEPA ENGINEERING WORKS	MONOLITHIC DEVICES & ELEC	SANMATHI RUBBER INDUSTRIES	UMBREY ENGINEERING P LTD
DEVILOG SYSTEMS (INDIA)	MPP TECHNOLOGIES PVT LTD	SANTOSH ENTERPRISES	UNIFABS
DO ALL ENGINEERS	MUKESH ENGG WORKS	SANTOSH MACHINE TOOLS	UNIQUE INSTRUMENTS &
EMCO PRECIMA ENGG PVT LTD	MYSORE ENGINEERING ENTERPRISES	SANTOSH MECHANICALS	MANUFACTURERS
EMDI PLAS ENGG	N R ENTERPRISES	SARAVANA ENGINEERING WORKS	UNIVERSAL OIL SEALS MFG
ENCOP WIRES	N R INDUSTRIES	SATISH ENGINEERING COMPANY	UTTAM ELECTRONIC COMPONENTS
ENSON ENGG WORKS	NAGACHANDRA PLASTO METALS P LTD	SATISH ENTERPRISES	VEERESH STEEL INDUSTRIES
ENSON ENGINEERING WORKS	NALVADE INDUSTRIES	SAVITHA SUPPLIERS	VIJALAXMI ENTERPRISES
EPCO PRODUCTS	NAREN ENGINEERING WORKS	SCR WIRE PRODUCTS	VIJALAXMI ENTERPRISES
ESS DEEP ENTERPRISES	NAVEEN ENGINEERING WORKS	SCREEN ARTZ	VIJAYSHREE ENTERPRISES
ESS VEE ENGG	NAVEEN INDUSTRIES	SCREEN TECH	VIJETHA UDYOG
ESSAR ENGINEERING COMPANY	NAVEEN SCREEN PRINTERS	SELVI INDUSTRIES	VIMAL ENGG WORKS
EXCEL PROCESS BANGALORE P LTD	NEWTECH ENGG	SEMICRON ELECTRONICS P. LTD	VINAYAKA ENGINEERING ENTERPRISES
FAB MACHINES PVT LTD	NIVITHA TOOLS & ACCESSORIES	SHANKUNTALA ENGINEERING	VINOD ENTERPRISES
FENFE METALLURGICALS	NUCLEAR PRESS	SHET ELECTRICALS P LTD	VISAKA INDUSTRIES
FIBE TECK	OHM SOLITRONICS P LTD	SHIVA ENTERPIRS	VISHNU FORGE INDUSTRIES LTD
FIBROTECH INDUSTRIES	OMEGA ENGINEERS	SHIVARAM FOUNDRERS	VMD ENGINEERING INDUSTRIES
FURNTECH	OMHARK CONTROLS P LTD	SHREE GANESH ELECTRICALS	WELDERS INTERNATIONAL
GAJANANA ENGINEERING WORKS	OMKAR ENGINEERS	WORKS	WERKZEUGE INDIA
GAUTAM INDUSTRIES	ONYX TECHNICS	SHREE INDUSTRIES	YASH ENTERPRISES
GAYATHRI ENGINEERING WORKS	ORIENTAL LEATHERS	SHREE JYOTHI ENTERPRISES	YASHASWI ENGG SERVICES
GEETA ENGG WORKS	P M ELECTRIC SERVICES	SHREE LAKSHMI ENTERPRISES	YASU ENTERPRISES
GIRIJA INDUSTRIES	P S G ENTERPRISES	SHREE LAKSHMI ELECTRICALS	YELGUR MARUTI ELECTRIC WORKS
GIRISH INDUSTRIES	PADMAMBA PRINTING PRESS	SHREE SHAMI ENGINEERING	
GOTAWAT INDUSTRIES	PADMAMBA PRINTING PRESS	SHREE SHANKAR INDUSTRY	
GUPTA ELECTRICAL INDUSTRIES	PADMASHREE ENGG WORKS	SHREYAS ENTERPRISES	
GURU ENGINEERING WORKS	PADMAVATI ELECTRICALS	SHRI GANESH CHEMICALS	
HARSHA INDUSTRIES	PANDURAG V MALVADE	SHRI GANESH INDUSTRIES	
HARSHAD ENGINEERING WORKS	PATIL ELECTRIC COMPANY	SHRI GAYATHRI ENGG WORKS	

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SCHEDULES TO THE BALANCE SHEET AS AT 31ST MARCH 2006

SCHEDULE - 'M'

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I REGISTRATION DETAILS

REGISTRATION No. 5 1 9 8 / 1 9 8 3
STATE CODE 0 8
BALANCE SHEET DATE 3 1 - 0 3 - 2 0 0 6

II. CAPITAL RAISED DURING THE YEAR (RUPEES IN THOUSANDS)

PUBLIC ISSUE	RIGHTS ISSUE
0 0 N I L 0 0	0 0 N I L 0 0
BONUS ISSUE	PRIVATE PLACEMENT
0 0 N I L 0 0	1 6 7 6 7 5

III. POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS (RUPEES IN THOUSANDS)

TOTAL LIABILITIES	TOTAL ASSETS
1 9 6 3 7 6 0	1 9 6 3 7 6 0

SOURCES OF FUNDS

PAID UP CAPITAL	RESERVES & SURPLUS
3 8 7 7 7 7	4 4 0 0 0 0
SECURED LOANS	UNSECURED LOANS
1 0 8 3 7 6 7	5 2 2 1 6

APPLICATION OF FUNDS

NET FIXED ASSETS	CAPITAL WORK IN PROGRESS
1 3 0 8 6 6 2	5 5 3 9 3
NET CURRENT ASSETS	ACCUMULATED LOSSES
(5 3 0 9 1)	6 5 2 7 9 6

IV. PERFORMANCE OF COMPANY (RUPEES IN THOUSANDS)

TURNOVER (INCLUDING OTHER INCOME)	TOTAL EXPENDITURE
2 4 4 9 9 8 7	2 4 4 6 4 0 1
PROFIT BEFORE TAX	PROFIT AFTER TAX
3 5 8 6	7 8 6
EARNING PER SHARE IN RS. (AFTER TAX)	DIVIDEND RATE %
0 . 0 1	N I L

V. GENERIC NAMES OF THREE PRINCIPLE PRODUCTS/SERVICES OF THE COMPANY

ITEM CODE NO. (ITC CODE)	8 5 . 0 1
PRODUCT DESCRIPTION	E L E C T R I C M O T O R
ITEM CODE NO. (ITC CODE)	8 5 . 0 1
PRODUCT DESCRIPTION	A C M A C H I N E S
ITEM CODE NO. (ITC CODE)	8 5 . 0 1
PRODUCT DESCRIPTION	D C M A C H I N E S

KAYTEE SWITCHGEAR LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH 2006

Particulars	Current Year Amount (Rs. in 000's)	Previous Year Amount (Rs. in 000's)
A. CASH FLOW FROM OPERATING ACTIVITIES :		
NET PROFIT BEFORE TAX AND EXTRAORDINARY ITEMS	3,586	(54,647)
ADJUSTMENT FOR :		
DEPRECIATION	79,213	75,714
AMORTISATION AND PROVISIONS	(23,354)	35,948
PROFIT ON SALE OF FIXED ASSETS	(618)	(1,700)
INTEREST AND DIVIDEND (NET)	<u>96,976</u>	<u>112,716</u>
	152,217	222,678
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	155,803	168,031
ADJUSTMENTS FOR:		
TRADE AND OTHER RECEIVABLES	(206,724)	32,856
INVENTORIES	(35,318)	(40,424)
TRADE AND OTHER PAYABLES	<u>425,294</u>	<u>66,196</u>
	183,252	58,628
CASH GENERATED FROM OPERATIONS	339,055	226,659
INTEREST PAID	(98,249)	(113,729)
TAX PAID	<u>58</u>	<u>-</u>
	(98,191)	(113,729)
NET CASH FROM OPERATING ACTIVITIES	<u>240,864</u>	<u>112,930</u>
B. CASH FLOW FROM INVESTING ACTIVITIES		
PURCHASE OF FIXED ASSETS	(101,938)	(92,623)
SALE OF FIXED ASSETS	5,322	2,080
INTEREST RECEIVED	1,273	1,013
ISSUE OF EQUITY	50,000	-
ISSUE OF PREFERENCE SHARES	<u>117,675</u>	<u>-</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>72,332</u>	<u>(89,530)</u>
C. CASH FLOW FROM FINANCING ACTIVITIES		
PROCEEDS FROM LONG TERM BORROWINGS		
REPAYMENT OF TERM BORROWINGS	(298,933)	(48,421)
NET CASH USED IN FINANCING ACTIVITIES	<u>(298,933)</u>	<u>(48,421)</u>
	14,263	(25,021)
NET INCREASE IN CASH AND CASH EQUIVALENTS		
CASH AND CASH EQUIVALENTS AS AT 01.04.2005	17,247	42,268
CASH AND CASH EQUIVALENTS AS AT 31.03.2006	<u>31,510</u>	<u>17,247</u>
	14,263	(25,021)

As per our report of even date

For and on behalf of the Board of Directors

FOR B.K.RAMADHYANI & CO
Chartered Accountants

VIJAY R. KIRLOS KAR
Chairman & Whole- time Director

P. S. MALIK
President & CEO

L.G. MADHUSUDHAN
Director

SHYAM RAMADHYANI
Partner

Y. VENKATESH
Company Secretary

PRALHAD P. KATTI
Deputy General Manager (Finance)

Bangalore
Date : 24.07.2006

FIFTH ANNUAL REPORT 2004

The Board of Directors
KEC North America, Inc.
Cleveland, Ohio.

September 8, 2005

Independent Auditors' Report

We have audited the accompanying balance sheet of KEC North America, Inc. as of December 31, 2004 and the related statement of retained deficit, operations and cash flows for the year then ended. 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.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KEC North America, Inc as of December 31, 2004, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 4 to the financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raises substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Veres & Company
Certified Public Accountants
September 8, 2005

KEC NORTH AMERICA, INC. **BALANCE SHEET AS AT 31.12.2004**

	As at 31.12.2004		As at 31.12.2003	
	USD	INR	USD	INR
ASSETS				
Current Assets :				
Cash	2591	114600	4240	184355
Accounts Receivable - Trade	17619	779288	200	8696
Total Current Assets	<u>20210</u>	<u>893888</u>	<u>4440</u>	<u>193052</u>
LIABILITIES				
Current Liabilities :				
Accounts Payable - Trade	739329	33092366	727550	31975824
Accrued expenses	-	-	219564	9649838
Notes Payable	240625	10770375	238625	10487569
TOTAL LIABILITIES	<u>979954</u>	<u>43862741</u>	<u>1185739</u>	<u>52113231</u>
Share holders' Equity				
Common stock, \$.01 par value, 850 shares authorized, 300 shares issued and outstanding	3	106	3	130
Paid-In Capital	522212	18481083	522212	22705778
Retained Deficit	(1481959)	(64826708)	(1703514)	(74626086)
Exchange Loss		3376667		0
Total Share holders' equity (Deficit)	<u>(959744)</u>	<u>(42968853)</u>	<u>(1181299)</u>	<u>(51920179)</u>
Total Liabilities and Share Holders' Deficit	<u>20210</u>	<u>893888</u>	<u>4440</u>	<u>193052</u>

The accompanying notes are an integral part of these financial statements.

KEC NORTH AMERICA INC.

**STATEMENT OF RETAINED DEFECIT
BALANCE SHEET AS AT 31.12.2004**

		For the Period ended		For the Period ended
		31.12.2004		31.12.2003
	USD	INR	USD	INR
Accumulated Adjustments Account:				
Accumulated Adjustments Account:				
Beginning Balance	(1703514)	(74626086)	(1694321)	(77599902)
Net Income	221555	9799378	(9193)	2973816
Total Retained Deficit	(1481959)	(64826708)	(1703514)	(74626086)

STATEMENT OF OPERATIONS

Net Sales	89018	3937266	124647	5708833
Cost of Sales	76884	3400579	113641	5204758
Gross Profit (Loss)	<u>12134</u>	<u>536687</u>	<u>11006</u>	<u>504075</u>
General and Administrative expenses	10143	448625	14674	672069
Profit from Operations	<u>1991</u>	<u>88062</u>	<u>(3668)</u>	<u>(167994)</u>
Other Expense :				
Depreciation expense			(1078)	(49372)
Loss on abandonment of assets			(4447)	(203673)
Exchange Fluctuation			-	3394855
Nonrecurring Item	219564	9711316	-	-
Net Other Income (Expense)			(5525)	3141810
Net Income	<u>221555</u>	<u>9350753</u>	<u>(9193)</u>	<u>(2973816)</u>

The accompanying notes are an integral part of these Financial Statements.

Note 1-Summary of Significant Accounting Policies.

This summary of significant accounting policies of KEC North America, Inc. is presented to assist in understanding the Company's financial statements. The financial statements and note are representations of the Company's management, which is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Business Activity

KEC North America, Inc is a closely-held corporation incorporated in Ohio on May 13, 1999, operating as a wholesale distributor of high-quality, price effective, feature-rich, standard industrial electric motors to satisfy an array of applications. The Company is the North American subsidiary of Kirloskar Electric Company, based in Bangalore, India.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include any highly liquid debt instruments purchased with a maturity of three months or less.

Accounts Receivable

The Company considers accounts receivable to be fully collectible. If amounts become uncollectible, they are charged to operations when that determination is made.

FIFTH ANNUAL REPORT 2004

Income Taxes.

At December 31, 2004, the company had a net operating loss (NOL) carry forward of \$1,210,035 available to offset future taxable income. This NOL carry forward will expire twenty years from the year in which the losses were incurred. The Company has fully reserved the tax benefit of the operating loss carry forward. The likelihood of realization of the tax benefit cannot be established.

Note 2-Notes payable.

The Company has current notes payable at December 31,2004:

	Current
1. KirsonsTrading Pte. Ltd.	40,625
2. Kirloskar Malaysia Sdn.Bhd.	200,000
TOTAL	\$ <u>240,625</u>

1. Notes payable on demand totaling \$ 40,625. The notes are unsecured and do not bear interest.
2. Note payable on demand totaling \$ 200,000. The note is unsecured and does not bear interest.

NOTE 3- Related Party Transactions

The Company conducts business with, and purchases all of its motors from its parent Company, Kirloskar Electric Company, of Bangalore, India. As a result of this arrangement, The Company has established an economic dependence on the parent Company.

NOTE 4 – Going Concern

As shown in the accompanying financial statements, the Company incurred a net income before non recurring items of \$1,991, and net income after writing off accrued liabilities of \$ 221555 during the current period and has incurred losses of \$ 1703514 since inception. As of December 31, 2004 the Company's total libilaties exceeded its total assets by \$959,744 Those factors, as well as the uncertain business environment that the Company faces, create an uncertainty about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

NOTE 5 – Significant Customers

During the year ended December 31, 2004, one customer comprised 100% of both total sales and total accounts receivable –trade.

NOTE 6 – Nonrecurring Item

During the year ended December 31, 2004, accrued liabilities totaling \$ 219,564 were written off. The Liabilities consisted primarily of severance pay, back pay and fringe benefits owed to three former shareholders. The liabilities were written off in conjunction with the purchase of the stock of the three shareholders.

Statement of Cash Flows for the year ended December 31, 2004

	U S \$	I N R
Cash flows from Operating Activities		
Cash Received from Customers	71,599	3,166,824
Cash Paid to Suppliers & employees	(75,248)	(3,328,219)
Net Cash used by operating Activities	(3,649)	(161,395)
Cash Flows from Financing Activities		
Proceeds from notes payable	2,000	88,460
Net Decrease in Cash Equivalents	(1,649)	(72,935)
Cash and Cash Equivalentents at the Beginning of Period	4,240	(187,535)
Cash and Cash Equivalentents at the End of Period	2,591	114,599

The accompanying notes are integral part of these financial statements

KIRLOSKAR ELECTRIC COMPANY LIMITED

Industrial Suburb, Rajajinagar, Bangalore - 560 010

ATTENDANCE SLIP

I certify that I am a registered member/proxy for the registered member of the Company.

I hereby accord my presence at the 59th Annual General Meeting of the Company held at Chowdiah Memorial Hall, Gayathri Devi Park Extension, Vyalikaval, Bangalore at 10.00 A.M. on Thursday the 28th September, 2006.

Member/Proxy's Name in Block Letters

Member/ Proxy's Signature

L.F. No. :

Client ID : NSDL

Client ID : CDSL

Please bring this attendance slip and hand it over at the entrance of hall.

KIRLOSKAR ELECTRIC COMPANY LIMITED

Industrial Suburb, Rajajinagar, Bangalore - 560 010

PROXY FORM

I/We -----
of -----being a Member / Members
of KIRLOSKAR ELECTRIC COMPANY LIMITED hereby appoint -----
of----- or failing him ----- in the District of -----
of-----or failing him -----
of ----- as my / our proxy to attend and vote for me / us on my /our
behalf at the 59th Annual General Meeting of the Company to be held at Chowdiah Memorial Hall, Gayathri Devi Park
Extension, Vyalikaval, Bangalore on Thursday the 28th September, 2006 and at any adjournment thereof.

As witness my hand/ our hand this ----- day of ----- 2006

Signed by the -----

Affix
Rs.1
Revenue
Stamp

L.F. No. :

Client ID : NSDL

Client ID : CDSL

Note : The proxy must be deposited at the Registered Office of the Company at Industrial Suburb, Rajajinagar, Bangalore 560 010, not later than 48 hours before the time of holding the meeting.

