


Report  Junction.com

THE  LIMITED

63

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 2004



CONTENTS

	<u>Page No.</u>
Board of Directors	3
Notice to Shareholders	4
At a Glance	6
Report of the Directors	7
Report on Corporate Governance	11
Balance Sheet Abstract and Company's General Business Profile	15
Auditors' Report	16
Cash Flow Statement	19
Balance Sheet	20
Profit and Loss Account	21
Schedules	22
Statement of Significant Accounting Policies	31
Notes forming part of the Accounts	33
Subsidiary Companies	
1. KECEPE Investments Private Limited	42
2. KCP Vietnam Industries Limited	56
3. KCP Bio Tech Limited	73
Consolidated Financial Statements of The KCP Limited Group	86

HIGHLIGHTS

(Rs. in Lakhs)

	Year Ended									
	31-3-95	31-3-96	31.3.97**	31-3-98	31-3-99	31-3-00	31-3-01	31-3-02	31-3-03	31-03-04
SHARE CAPITAL	2578	2578	1289	1289	1289	1289	1289	1289	1289	1289
RESERVES & SURPLUS	5969	7263	9035	9425	9399	8329	8740	8435	8112	8084
NET WORTH	8547	9841	10324	10714	10688	9618	10029	9725	9401	9374
FIXED ASSETS (NET)	9056	10146	5292	6628	9357	9316	8686	8146	7556	7091
GROSS INCOME	35870	37654	21941	15466	19235	13957	13954	14092	14353	14722
GROSS PROFIT	6614	4569	7176	1702	2039	1139	2544	2734	1122	1385
DEPRECIATION	632	692	360	356	419	618	701	695	688	667
INTEREST	1262	1738	487	590	1152	1480	1255	1051	774	584
PROFIT BEFORE TAX	4720	2139	6328	756	468	-959	587	988	-339	135
PROFIT AFTER TAX	3369	1939	5478	656	318	-962	567	790	-178	117
EARNINGS PER SHARE (Rs.)	13.07	7.52	42.49	5.09	2.47	-	4.40	6.13	-1.38	0.91
BOOK VALUE PER SHARE(Rs.)	33.15	38.17	80.08	83.11	82.91	74.61	77.79	75.43	72.93	72.71
DIVIDENDS ON EQUITY (%)	35*	25	25	25	25	10	11	20	10	10
DEBT EQUITY RATIO	0.51	0.55	0.41	0.67	0.76	0.76	0.62	0.47	0.35	0.39

* Including 10% recommended as Founder's Centenary Bonus Dividend.

** After Re-Organisation.

DIRECTORS

DUTT V.L
Chairman & Managing Director

INDIRA DUTT V.L
Joint Managing Director

KAVITHA D. CHITTURI
Executive Director

RAMAKRISHNAN P.R.

RAMAKRISHNAN V.H.
Nominee of IDBI

NANDAGOPAL S.

PANIKAR C.V.R.

PINNAMANENI KOTESWARA RAO

RAJU G.S.

REDDY D.S.

SWAMINATHA REDDY O.

SECRETARY AND CORPORATE GENERAL MANAGER (Finance)

PRANESH K.B.

AUDITORS

M/s BRAHMAYYA & CO.
Chartered Accountants, Vijayawada

COST AUDITORS

M/s P. PARANKUSAM & CO., Hyderabad.

BANKERS

STATE BANK OF INDIA
CANARA BANK

REGISTERED AND CORPORATE OFFICE

"RAMAKRISHNA BUILDINGS"
2, Dr. P.V. CHERIAN CRESCENT,
EGMORE, CHENNAI - 600 008.
PH : 28270687 & 28279533 E MAIL : kcp@vsnl.com

REGISTRARS & SHARE TRANSFER AGENT & DEPOSITORY REGISTRARS

M/s INTEGRATED ENTERPRISES (INDIA) LIMITED
II FLOOR, "KENCES TOWERS",
NO.1, RAMAKRISHNA STREET,
NORTH USMAN ROAD, T.NAGAR,
CHENNAI - 600 017.
Ph : 28140801 to 803 Fax : 28142479
Website : www.iepindia.com

NOTICE TO SHAREHOLDERS

NOTICE is hereby given that the Sixty Third Annual General Meeting of the Shareholders of the Company will be held on Thursday, the 9th September, 2004 at the Registered Office of the Company at "Ramakrishna Buildings", No.2, Dr. P.V. Cherian Crescent, Egmore, Chennai-600 008 at 11.00 A.M. to transact the following business :

ORDINARY BUSINESS

1. To receive, consider and adopt the Directors' Report, the accounts of the Company for the year ended 31st March, 2004 and the Auditors' Report thereon.
2. To declare a dividend.
3. To appoint auditors for the current financial year and to authorise the Board of Directors to fix their remuneration. Messrs. Brahmayya & Company, Chartered Accountants, Vijayawada, retire at this Annual General Meeting and are eligible for re-appointment and to consider if thought fit, to pass the following resolution as Special Resolution.

Pursuant to Section 224A of the Companies Act and other applicable provisions, if any, **RESOLVED** that M/s. Brahmayya & Co., Chartered Accountants, Vijayawada retiring at this Annual General Meeting be and are hereby appointed as Statutory Auditors till the conclusion of next Annual General Meeting.

Further **RESOLVED** that the Board of Directors be and are hereby authorised to fix their remuneration.

4. To appoint a Director in the place of Sri. P.R. Ramkrishnan, who retires by rotation and who is eligible for re-appointment and to consider and if thought fit, to pass the following resolution as an Ordinary Resolution.

RESOLVED that Sri. P.R. Ramkrishnan, who retires by rotation be and is hereby re-appointed a Director of the Company.

5. To appoint a Director in the place of Sri. Pinnamaneni Koteswara Rao, who retires by rotation and who is eligible for re-appointment and to consider and if thought fit, to pass the following resolution as an Ordinary Resolution.

RESOLVED that Sri. Pinnamaneni Koteswara Rao, who retires by rotation be and is hereby re-appointed a Director of the Company.

6. To consider not to appoint a Director in the place of Sri. C.V.R. Panikar, who retires by rotation and is not seeking re-appointment and to consider and if thought fit, to pass with or without the modification, the following resolution as an Ordinary Resolution.

RESOLVED that the vacancy caused by the retirement of Sri. C.V.R. Panikar, who retires by rotation, be not filled up.

SPECIAL BUSINESS

7. To consider and if thought fit, to pass with or without modification, the following resolution, as an Ordinary Resolution.

RESOLVED that in accordance with the provisions of Section 198, 269 (read with Schedule XIII) 309, 310 and other applicable provisions of The Companies Act, 1956 and subject to necessary approvals, approval is hereby accorded to the appointment of Smt Kavitha D Chitturi as the Executive Director of the Company for a period of 5 years with effect from 01/10/2004 on the following terms and conditions:

- I. **SALARY** : Rs.25,000/- per month i.e. Rs. 3,00,000/- per annum.

II. PERQUISITES :

a. Housing :

- i. A.rent-free furnished accommodation by the Company or, B. 60% of the salary, as house rent allowance
- ii. The Company shall meet the expenses of gas, water and electricity at her residence.
- iii. The company shall provide assets to furnish residence occupied by her as appropriate.

- b. **Medical Reimbursement:** Expenses incurred for the Executive Director and family subject to a ceiling of one month's salary i.e. Rs. 25,000/- in a year or 3 months salary i.e. Rs. 75,000/- over a period of 3 years.

- c. **Leave Travel Concession:** For the Executive Director and her family once in a year incurred in accordance with the rules specified by the Company.

- d. **Club Fees:** Fees of clubs subject to a maximum of two clubs.

- e. **Personal Accident Insurance:** Premium not to exceed Rs. 2,000/- per annum.

- f. **Provident Fund, Superannuation Fund / Annuity Fund:** Company's contribution towards Provident Fund, Superannuation Fund or Annuity Fund as per the rules of the Company, not exceeding 27% of the remuneration.

- g. **Gratuity:** Gratuity payable as per the rules of the Company, but shall not exceed half a month's salary for each completed year of service.

- h. **Leave and Encashment of Leave:** Entitlement to leave and encashment of leave will be as per the rules of the Company made applicable to her.

Contributions to Provident Fund, Superannuation Fund, Annuity Fund and Gratuity within the limits specified above and encashment of leave at the end of the tenure will not be included in the computation of overall ceiling on remuneration specified herein below.

- i. **Car and Telephone:** Provision of car(s) for use on company's business and telephone(s) at the residence, for use on company's business.

III. **COMMISSION:** Remuneration by way of commission on net profits in addition to salary and perquisites is also payable. The amount of salary, perquisites and commission, in aggregate is subject to an overall ceiling of 1% of the net profits of the Company in a financial year, computed in accordance with the provisions of Sec.349 of the Companies Act, 1956.

IV. **MINIMUM REMUNERATION:** Where, in any financial year, during the tenure of the Executive Director, the Company has no profits or its profits are inadequate, the Company will pay her remuneration by way of salary and perquisites as specified above.

8. To consider and if thought fit, to pass with or without modification, the following resolution, as a Special Resolution.

RESOLVED that in accordance with the provisions of Section 198, 309, 310 and other applicable provisions of The Companies Act, 1956, if any, non-executive directors on the Board be paid a commission not exceeding in the aggregate 1% of the net profits of the company, as decided by the Board from time to time, exclusive of the fee payable to them under sub-section (2) of section 309 of the Companies Act, 1956, for a period of five years commencing 1/4/2004 and ending 31/3/2009.

9. To consider and if thought fit, to pass with or without modification, the following resolution, as a Special Resolution.

Resolved that pursuant to Section 372A of The Companies Act, 1956 and other applicable provisions, if any, the Board of Directors of the company be and are hereby authorised to extend Company's guarantee to Banks/Financial Institutions for loan/credit facilities extended by them, (a) to KCP Biotech Limited of Rs. 500 lakhs and (b) to Fives Cail KCP Limited of Rs. 1500 lakhs.

(BY ORDER OF THE BOARD OF DIRECTORS)

Place: Chennai-600 008

Date: 7th June, 2004

For **THE K C P LIMITED**

V L DUTT
CHAIRMAN

NOTES :

- Any member entitled to attend and vote may appoint a proxy to attend and vote instead of himself, and a proxy need not be a member.
- Any member/proxy wishing to attend the meeting must complete the admission slip and hand it over at the entrance.
- Shareholders are requested to notify their change of address, if any, without delay. IN ALL CORRESPONDENCE THE LEDGER FOLIO CIENT ID NUMBER SHOULD BE INDICATED.
- A brief profile of the Directors retiring by rotation and eligible for re-appointment, as required by Clause 49 (VI) (A) of the Listing Agreements signed by the Company with the Stock Exchanges, is given as item no. 13 in the Directors' Report forming part of the Annual Report.

- Shareholders are requested to bring with them their copies of the Annual Report. Due to the prohibitive costs of printing, it will not be possible to supply extra copies.
- The Register of Members and the Register of Share Transfer will remain closed from 1st September, 2004 to 9th September, 2004, both days inclusive.
- Members who wish to have their dividend warrant printed with the bank account for direct credit may please forward a mandate for payment of dividend, to avoid loss during postal transit or interception and encashment by unscrupulous persons.
- The Company has already transferred the unclaimed Dividend, declared upto the financial year ended 31st March 1996 to the Miscellaneous general services account of the Central Government as required by the Investor Education and Protection Fund (Awareness and Protection of Investors) Rules, 2001.
- Shareholders who have not encashed the dividend warrants for the earlier years (prior to June, 1996) are requested to claim the amount from the Registrar of Companies (Tamil Nadu), Shastri Bhavan, No. 26, Haddows Road, Chennai - 600 006.
- Members who have not encashed their dividend warrants pertaining to 1997 and after may approach the Company's Registered Office at No. 2, Dr. P.V. Cheriaan Crescent, Egmore, Chennai - 600 008.

EXPLANATORY STATEMENT ANNEXED TO THE NOTICE

Explanatory Statement annexed pursuant to Section 173(2) of The Companies Act, 1956.

Note on Item No. 3

Banks & Financial Institutions hold more than 25% of the subscribed and paid-up share capitals of the Company, mainly by way of shares held as security. In term of clarification of the Department of Company Affairs in this regard, it is necessary to pass a Special Resolution to appoint auditors in terms of Section 224A of The Companies Act, 1956. Accordingly a Special Resolution is tabled for consideration.

None of the directors of the Company is interested in this Resolution.

Note on Item No. 7

Smt. Kavitha Dutt Chitturi is a graduate in Business Management with specialization in International Business from Cedar Crest College Allentown, Pennsylvania. She also holds a Post-Graduate Diploma in Human Resources. She is presently a Member of Madras Chapter of Young Presidents Organisation, an International Organisation based at USA and Secretary of Madras Chapter FICCI Ladies Organisation. She was appointed as Executive Director of the Company from 1/10/1999 for a period of five years. The present resolution is tabled for consideration for appointment in office for another term of five years, on completion of the present term of office.

Dr. V L Dutt, Chairman and Managing Director and Smt. V L Indira Dutt, Joint Managing Director are interested in the above resolution.

Note on Item No. 8

Non-Executive Directors on the Board are paid a sitting fee of Rs. 4000 per meeting of the Board of Committee thereof, attended by them. The recent changes being introduced by statute and regulatory authorities are over enlarging the scope of the non-executive director's responsibility. To discharge such responsibility they are required to involve themselves more intently in the affairs of the Company. It is therefore appropriate that they are remunerated for such contribution to the affairs of the Company. In order to provide reasonable compensation, it is proposed that they be paid in aggregate a commission of 1% of the net profits of the Company. Further, as contemplated by The Companies Act, 1956, this commission payment will be in addition to the sitting fees being paid to the directors for attending Board or Committee Meetings.

Non-executive Directors are interested in this resolution.

Note on Item No. 9

- (i) KCP Biotech Limited, a subsidiary of the Company is implementing a project for extraction of natural colours at a cost of Rs. 600 lakhs. The subsidiary has applied to the banks for a Term Loan of Rs. 250 lakhs for working

capital funding of Rs. 250 lakhs. This being a new venture, the banks require guarantee from the parent company as a collateral security. Accordingly, the Company needs to furnish a guarantee for the loans extended to KCP Biotech Limited.

- (ii) Fives Cail-KCP Limited is a joint-venture wherein the Company is the Indian joint-venture partner. The joint-venture has obtained an order worth US\$ 7.6 million for supply of equipment to a sugar refinery project in Bangladesh. The joint-venture has applied to the banks for Packing Credit facility of Rs.1500 lakhs to execute the said project. The joint-venture Company is only a design company and does not have an asset base. Considering the financial position of the joint-venture and non-availability of an asset base, the bankers require a guarantee provided by the joint-venture partner viz., "the Company". Consequently, the Company needs to issue the said guarantee to enable the banker advance required funds for execution of the project.

None of the directors is interested in the above resolution. This resolution requires the consent of the members through postal ballot.

AT A GLANCE

	31.03.2004		31.3.2003	
Cement Produced (M.T.)	465684		496255	
Power Produced (KWH)	5263160		4086320	
TURNOVER:	Rs. (000')	%	Rs. (000')	%
Machinery & Equipment	542637	37.88	419392	30.85
Cement	844369	58.94	877282	64.54
Power	19300	1.35	24970	1.84
Others	26264	1.83	37624	2.77
	1432570	100	1359268	100
FIXED ASSETS				
Gross Block		1675556		1655826
Depreciation		969608		903592
Nett		705948		752234
RESERVES		808429		811244
PROFITS (Before Depreciation and taxation)		80140		34887
NETT PROFIT (After Depreciation and taxation, available for appropriation and dividends)		11729		-17841

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31ST MARCH 2004

Submitted to the Shareholders at the 63rd Annual General Meeting held
at the Registered Office of the Company on Thursday, the 9th September, 2004 at 11.00 a.m.

- Your Directors have pleasure in submitting their report for the financial year ended 31st March, 2004 together with the Balance Sheet on that date and the Profit and Loss Account for the year ended on that date.

2. PROFIT & APPROPRIATIONS

	Rs.	Rs.
The accompanying accounts		
Show a net profit of	1,17,29,006	
for the year 2003-2004 after		
providing for interest of	5,83,75,284	
Depreciation of	6,66,59,201	
Provision for current tax of	15,00,000	
Deferred tax of	59,52,484	
And withdrawal of excess		
provision for income-tax of	57,00,000	
Balance brought forward from	50,43,57,889	
2002-2003		

Deduct:

Proposed dividend and tax thereon	1,45,43,918
Balance to be carried to the next	
year of account	50,15,42,978

3. DIVIDENDS

Your Directors recommend payment of a Dividend of Rs. 1.00 per share on 12892116 Equity Shares of Rs. 10/- each amounting to Rs.1,28,92,116.

4. CAPITAL & RESERVES

Capital of the Company stood at Rs. 12,89,21,160 and the Reserves stood at Rs.80,84,29,121 as on 31st March, 2004.

5. FIXED DEPOSITS

As at 31st March, 2004, there were deposits matured and unclaimed amounting to Rs. 32,21,000 of 279 depositors. Since then, Rs. 9,20,000 of 44 depositors were renewed and Rs. 2,23,000 of 49 depositors were repaid.

6. MANAGEMENT DISCUSSION & ANALYSIS SALES & PROFITS

FINANCIAL YEAR	2003-2004	2002-2003
	(Rs. in lakhs)	
Sales	14,326	13,593
Profit before interest & tax	823	435
Profit(+)/Loss(-) after tax	117	-178
Current ratio	2.19	2.09
Debt equity ratio	0.05	0.13
Inventory Turnover	4.55	4.17

During the year, operating margin improved as compared to the previous year in spite of set-back in power generation, owing to improved performance of the Engineering segment.

For the second year in succession, inadequate water storage in Nagarjuna Sagar Dam owing to poor monsoon resulted in meager flow of water for shorter duration during the year. Consequently, power generation was less than 20% of capacity.

CEMENT

Operational Performance :

FINANCIAL YEAR	2003-2004	2002-2003
	(Rs. in lakhs)	
Cement produced (M.T.)	4,65,684	4,96,255
Capacity Utilisation (%)	93%	99%
Cement sold	4,68,095	4,92,900
Turnover (Rs. In lakhs)	8,444	8,780
Segment result	418	279

Prices continued on a downward trend from April, 2003 to September, 2003 and recovered from October, 2003 to maintain an upward trend till December, 2003. Again from January, 2004, prices declined till the end of the year. During the year prices were the highest in December. At the end of the year prices closed at June levels, which were lower than prices in April, 2003. However, average net realisation was higher during the year as compared to the previous year.

Overview :

The Company operates a plant of 5,00,000 tonnes annual capacity at Macherla in Guntur District of Andhra Pradesh. During the year under report, the Company marketed cement in Andhra Pradesh, Pondicherry and parts of Tamil Nadu, Karnataka and Orissa. The Company's prospects were in tune with the realisation in Andhra Pradesh since 86% of the production was marketed in Andhra Pradesh.

State of the Industry :

Andhra Pradesh continues to have surplus capacity in cement production. The Company's production capacity is 4% of the total production capacity available in the state. New units came into production during the year near Company's core market and subjected the company to higher level of competition. Consequently, quantity of cement sold during the year was lower, though the competitive price band was a trifle higher than the previous year.

The Company marketed 9% of its production in Tamil Nadu, during the year under report. Prices remained at unremunerative levels throughout the year. Therefore, the Company marketed lesser quantity in this market as compared to the previous year. During the year, due to adverse sales tax policy and severe competition, prices continued to be low in this market.

Increase in transport costs due to oil price increase and consequent increase in input costs, along with reduction in realisation, have had adverse impact on segment results.

Andhra Pradesh Electricity Regulatory Authority (APERC) have proposed a service line charge for the captive generating capacity of 9.9 MW diesel generator, at 50% of the Maximum Demand charges. The Company has filed an appeal against this order and obtained a stay from the AP High Court.

Outlook :

The Company produced 48% Blended Cement and 52% Portland Cement during the year. The company proposes to produce 60% Blended Cement and 40% Portland Cement in the ensuing year.

Prices have picked up during April and May, 2004, in all markets. It is the Directors' perception that in the year 2004/2005, owing to increase in demand, the company will compete in a higher price band. Consequently, this segment is expected to post better results in the ensuing year as compared to the year under review.

POWER

Operational Performance :

FINANCIAL YEAR	2003-2004	2002-2003
	(Rs. in lakhs)	
Hydel power generation in (KWH)	52,63,160	40,86,320
Usage (KWH)	51,71,391	65,48,942
Turnover (Rs. in lakhs)	193	250
Segment result	-206	-162

For the second year in succession, generation of electricity was less than 20% of the capacity due to inadequate water storage in Nagarjuna Sagar Dam, owing to poor monsoon.

Overview :

The Company set up five mini-hydel units aggregating to 8.25 MW capacity on the Guntur Branch Canal of the Nagarjuna Sagar Dam. This being an irrigation canal, water is expected to be available for seven to eight months of the year. Electricity generated in these units is wheeled to the Company's cement unit for use. Generation in excess of the consumption at the cement unit is banked on a monthly basis and is to be used within twelve months of generation. Electricity unused even after twelve months is sold to the Grid. Electricity used in the cement factory will be deducted from the monthly bills and will get a relief at the H.T rates, while electricity sold to grid will be paid for at the prevalent purchase price by APTRANSCO.

Risks :

Two of the five schemes are operating at half the capacity due to irrigation and canal constrains. Further, water flow in the canal is unpredictable which is entirely dependant on the monsoon and filling up of Nagarjuna sagar dam. For the second successive year, owing to failure of monsoon, water storage was very low. Consequently, water release was poor both in terms of quantum and number of days. During the year under report, this resulted in total generation being 20% of normal capacity.

Concerns :

The Company has entered into an agreement with Andhra Pradesh Transmission Corporation Limited (APTRANSCO) for wheeling the generated energy at Hydel Stations to the cement plant at a charge of 2% fixed for a period of 20 years.

However, Andhra Pradesh Electricity Regulatory Commission reviewed these provisions and hiked the wheeling charges by about 15 times. This issue was challenged and the A.P. High Court has quashed the order of APERC.

During the year Government of Andhra Pradesh hiked water cess exorbitantly. The company's appeal to the High Court is pending before the Court.

Outlook :

Prospects of this unit are dependent on good monsoon in catchment area of Nagarjuna Sagar Dam. Further, due to constant endeavour for ways and means to augment revenue earnings, State Electricity Authorities, are likely to end up increasing costs for power producers. Considering this, Directors expect a moderate return from this segment.

ENGINEERING

Operational Performance :

FINANCIAL YEAR	2003-2004	2002-2003
	(Rs. in lakhs)	
Turnover :		
Domestic	3,617	4,112
Export	2,072	453
Segment result	867	129

The Company operates a versatile engineering facility that is capable of manufacturing heavy mechanical equipment to a given design for various industries. The workshop has foundry, heavy fabrication and machine shop facilities, integrated within the plant location. The Company continued to use the facility at Arakonam for manufacture through sub-contracting.

Operation of the Engineering Unit at Tiruvottiyur was substantially better than the previous year in terms of turnover and profits.

Overview:

Status of capital goods sector:

During the year capital goods industry revived on both domestic and export demand. Acceptability of engineering goods of Indian origin in the global market in terms of quality, improved. Consequently, new opportunities are emerging. Similarly, in the domestic market, investment in capital goods by core industries increased during the year owing to better performance of these industries.

Opportunities:

The Company has added new range of products like valves and filters to the product line. Further, prompt execution of export jobs with quality has generated international enquiries from new customers.

Risks :

Product mix and customer mix are the deciding factors for the performance of this segment. These are variables with shorter time cycle. Consequently, this segment is open to drastic variations in job orders and hence the results.

Outlook :

With the orders on hand at Rs. 4,188 lakhs and the existing product-mix, performance during fiscal 2004-2005 is expected to yield similar results as that of the year under report.



7. CORPORATE INVESTMENTS

Performance :

Fives Call K.C.P. Limited :

Operations during the year ended 31.03.2004 were better than the previous year. Fresh orders for equipment were executed and the Company posted profits for the year. The Company has secured an export order for supply of equipment to a sugar refinery, in Bangladesh. The supply is expected to be completed during the year and hence the Joint Venture is expected to post satisfactory results and recover past losses partially, in the ensuing fiscal.

Sudalagunta Sugars Limited :

Sudalagunta Sugars Limited crushed 291575 tonnes during the season ended 14-3-2004 with a recovery of 10.27 %. During this financial year, the Company also sold 2,59,89,884 units of electricity. The Company has also obtained OTS and restructured debts. Though sugar price is currently ruling high, reduction in cane yield due to drought will reduce profits. Wiping of past losses will take a considerable time.

As contemplated, the Company has divested 10% of the holdings to the promoter at par. The entire holding is to be sold to the promoter in a phased manner in three to four years.

K.C.P. Biotech Limited :

Project construction is in progress and is expected to be completed before end July, 2004 at a cost of Rs.600 lakhs. Commercial production of natural colourants is scheduled to commence by August, 2004.

Somayajulu & Co. Limited :

Company's investment in Somayajulu & Co. Ltd. did not return any income during the current year. Operations during the year 31-3-2004, were good owing to the better performance of the stock and debt markets. This investment is expected to yield returns from the ensuing year.

KCP Vietnam Industries Limited :

KCP Vietnam Industries Limited concluded the second season with a crush of 410392 tonnes and a recovery of 8.98%. Realisation was lower than that of the previous year. For the year ended 31-12-2003, the Company earned a cash profit of Rs. 348 lakhs. However, after absorbing depreciation, workings resulted in a loss of Rs.385 lakhs. Performance in the ensuing year is expected to be better.

This unit obtained ISO 9001 Certification during the year and the 'Refined Sugar Superior' produced and marketed by the Company was awarded Gold medal as the best quality sugar produced during the year, in Vietnam.

During the year under review, the subsidiary bought a 150 TCD sugar factory in the adjacent Dong Xuan District to ensure availability of the contiguous cane area.

Diminution in value of investments:

During the current year, further provisions towards shortfall in value of investments were effected, as warranted.

Overview :

Status and risks:

Investment in Sugar:

A substantial part of the Company's assets is deployed in the Company's subsidiary engaged in manufacture and sale of sugar in Vietnam. Prospects of this business will impact the Parent Company. Return from this project for the equity investment is not expected before 2 or 3 years from now.

During the season ended June, 2004, the subsidiary crushed 330,000 tonnes of cane with a recovery of 9.9%. Cane yields fell sharply due to drought in the growth period. However, recovery was higher. This was a countrywide phenomenon in Vietnam. Consequently, aggregate production is expected to fall by 20%. Sugar prices have therefore, firmed up. During the current year the Company is expected to post profits which will reduce accumulated losses.

Investment in Biotechnology:

Natural colour extracts have vast market potential. The Company has identified customers abroad and is likely to export entire production.

8. CAUTIONARY STATEMENT

Statements in the "Management Discussion and Analysis" describing the Company's objectives, expectations or predictions are as perceived currently. Actual results may differ materially from those expressed in the statement. Important factors that could influence the Company's operations include: domestic supply and demand conditions affecting selling prices of finished goods, input prices, changes in government regulations, tax laws, economic developments within the country and other factors such as litigation and industrial relations.

9. SAFETY & POLLUTION CONTROL

Cement Unit has consent from Pollution Control Board and the emission levels are well within the prescribed limits. Engineering Unit's application for consent is under consideration.

10. CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, EXPORT AND FOREIGN EXCHANGE EARNINGS AND OUTGO

A statement giving the details of conservation of energy, technology absorption, export and foreign exchange earned and outgo in accordance with the companies (Disclosure of particulars in the report of Board of Directors), Rules, 1988 is enclosed.

11. SUBSIDIARIES

The financial details required under Sec.212 of the Companies Act, 1956 in respect of subsidiaries, M/s. KECEPE Investments Pvt. Ltd., Singapore, M/s. KCP Vietnam Industries Limited, Vietnam and K.C.P. Biotech Limited, India have been attached to the Balance Sheet of the current year.