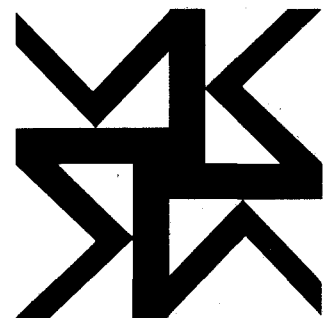
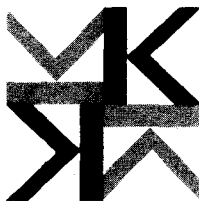


**ANNUAL
REPORT
AND
ACCOUNTS
2003-2004**



**KANCO
KANCO ENTERPRISES LIMITED**



KANCO ENTERPRISES LIMITED

Annual Report & Accounts 2003-2004

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BOARD OF DIRECTORS

Sri U. Kanoria
Chairman & Managing Director
Sri Atul Doshi
Wholtime Director
Sri G. Momen
Sri P. K. Bhattacharjee
Sri A. K. Jain
Sri P. K. Poddar
Directors

COMPANY SECRETARY

Sri D. Arya

AUDITORS

M/s. Jain & Co.
Chartered Accountants

BRANCH AUDITORS

M/s. Dalal & Shah
Chartered Accountants

COST AUDITORS

M/s. N D Birla & Co.
Cost Accountants

BANKERS

State Bank of India
Punjab National Bank

REGISTERED OFFICE

Jasmine Tower, 3rd Floor
31, Shakespeare Sarani, Kolkata 700 017
Telefax : 2281 5217
Email : kanco@vsnl.com

BRANCH OFFICE

207, Shitiratna
2nd Floor, Panchavati Circle
Ahmedabad 380 006

TEA DIVISION

Mackeypore Tea Estate
P.O. Nazira 785 685
Dist. Sivasagar (Assam)

TEXTILE DIVISION

Kanco Overseas
Village : Walthera
Taluka : Dholka 387 810
Dist. Ahmedabad (Gujarat)

SHARE REGISTRARS

M C S Limited
77/2A, Hazra Road
3rd & 5th Floor, Kolkata 700 029
Phone : 2476 7350-54, 2454 1892-93
Fax : 2454 1961
Email : mcscal@cal2.vsnl.net.in



KANCO ENTERPRISES LIMITED

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the THIRTEENTH ANNUAL GENERAL MEETING of the members of KANCO ENTERPRISES LIMITED will be held at "KALAKUNJ", 48 Shakespeare Sarani, Kolkata-700 017 on Monday, the 26th day of July, 2004 at 10.30 A.M. to transact the following business :

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at March 31, 2004, Audited Profit & Loss Account for the year ended on that date and Reports of the Directors and the Auditors thereon.
2. To appoint a Director in place of Sri G. Momen who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint a Director in place of Sri A. K. Jain who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint Auditors and authorise the Board of Directors to fix their remuneration.

SPECIAL BUSINESS

To consider and if thought fit to pass, with or without modification(s), the following resolution as a Special Resolution :

5. "RESOLVED THAT the Articles of Association of the Company be altered by substitution of the Clause (iii) of the Article 5(b) by the following Clause :

(iii) Every person subscribing to shares, debentures or other securities offered by the Company shall have the option to receive such shares, debentures or securities in physical form or to hold the same with a depository in dematerialised form. Such a person who is Beneficial Owner of the securities can at any time opt out of a depository, if permitted, in the manner provided by law and the Company shall in the manner and within the time prescribed issue to the Beneficial Owner the required certificates in physical form at a fee of Rs. 100/- per certificate in case the single certificate is not for the market lot of 50 Shares, subject to discretion of the Board to waive the said fee."

To consider and if thought fit to pass, with or without modification(s), the following resolution as an Ordinary Resolution :

6. "RESOLVED THAT the Board of Directors be and is hereby authorised to appoint individual(s) or firm other than the Company's Auditors at Head Office as Branch Auditors pursuant to Section 228 of the Companies Act, 1956 and to fix their remuneration for the audit of accounts of its Textile Division at Ahmedabad for the financial year ending 31st March, 2005."

Registered Office :

Jasmine Tower, 3rd Floor,
31, Shakespeare Sarani, Kolkata 700 017
Dated, the 30th day of April, 2004

By Order of the Board
For KANCO ENTERPRISES LIMITED

D. ARYA
Company Secretary

NOTES :

- A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE ON POLL, IN HIS STEAD. THE PROXY NEED NOT BE A MEMBER OF THE COMPANY.
- Proxies in order to be effective must be received by the Company at the registered office address not less than 48 hours before the meeting.



KANCO ENTERPRISES LIMITED

NOTICE OF ANNUAL GENERAL MEETING (Contd.)

- The Register of Members and Share Transfer Register shall remain closed with effect from July 21, 2004 to July 26, 2004 (both days inclusive).
- The shareholders are requested to communicate to the Registrar & Transfer Agent, change in address, if any at the address given in the Annual Report.
- The members are advised to submit their Bank Account particulars to the Company for building database to be used for remittance of dividend/other benefits as and when applicable, through Electronic Clearing Service (ECS) as ECS wherever available, has been made mandatory by the concerned authorities.
- Members are requested to preferably send their queries to the Registered Office 7 days before the date of the AGM.
- The documents pertaining to the Items 5 and 6 are available for inspection at the Registered Office of the Company during 11 A.M. to 1.30 P.M. on all working days.
- The Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 is appended below.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956 ("the Act")

Item No. 5

It has been observed that the facility of rematerialisation, of shares into numerous share certificates of denominations of low number of shares comprised in each, results in creation of multiple folios, thus leading to avoidable share maintenance costs and hence it has been decided to charge fees from those requesting for share certificates of a denomination different from 50 shares per certificate on rematerialisation and accordingly the alteration of Articles of Association of the Company is being placed before the members for their approval. The Directors recommend passing of this resolution.

None of the Directors is concerned or interested in the resolution.

Item No. 6

The Company has decided to appoint Branch Auditors other than the Auditors appointed at Head Office for carrying out audit of the Accounts of its Textile Division at Ahmedabad in Gujarat for the financial year ending 31st March, 2005. The resolution seeks to obtain the members' consent as required under Section 228 of the Act.

The Directors recommend the resolution for your acceptance. None of the Directors is concerned or interested in this resolution.



KANCO ENTERPRISES LIMITED

DIRECTORS' REPORT

Dear Shareholders,

Your Directors present their Thirteenth Annual Report and Audited Accounts for the year ended 31st March, 2004.

FINANCIALS

Your Company's financial performance was as follows :

	<u>2003-2004</u> (Rs. in lacs)	<u>2002-2003</u> (Rs. in lacs)
Profit Before Interest, Depreciation and Tax	795.22	1093.92
Less : Interest	365.64	425.14
Gross Profit for the year	429.58	668.78
Less : Depreciation	608.26	578.03
(Loss)/Profit Before Tax	-178.68	90.75
Less : Provision for Taxation	0.43	5.71
Add : Provision for Deferred Tax	22.84	27.34
(Loss)/Profit After Tax	-156.27	112.38
Less/Add : Taxation for earlier years (Net)	2.86	—
Less : Transfer to Debenture Redemption Reserve	—	50.00
Add : Balance Brought Forward from Last Account	100.55	38.17
Balance Carried to Balance Sheet	-52.86	100.55

DIVIDEND

In view of loss, the Directors do not recommend any dividend for the year under review.

LISTING

The Company's Equity Shares are listed at the Calcutta Stock Exchange Association Limited, 7 Lyons Range, Kolkata-700 001 ('CSE') and the listing fees till the financial year ending on 31st March, 2005 have been paid.

OPERATIONS

Tea Division

Tea Industry witnessed yet another difficult year due to sluggish domestic demand coupled with lower export enquiries and higher carry over of stock from last season adversely affecting the realisation. Your Company also was affected by lower realisation but due to quality produce, the fall in realisation was lower at about 6% compared to about 10% experienced by North Indian teas. Further, the Division produced 17.37 lac kg which was about 5% lower than that produced in the last financial year. Thus, falling realisation, lower crop and increase in input cost affected the margins of the Tea Division adversely.

Fiscal incentives under Section 33AB of the Income Tax Act, 1961 are being availed and the fund utilised in accordance with the Scheme and as per the Company's policy.

To further improve quality of its produce, the Division invested about Rs. 75 lacs to upgrade its manufacturing processes. Further, continuous focus is being given on adhering to Good Manufacturing Practices alongwith field practices as this will aid in achieving its ambition to be a quality producer which should fetch improved realisations. The crop of your tea estate was lower due to unfavourable climate in the first month of the current financial year. In view of lower carry forward of inventory of the last year and with the likely increase in exports to Pakistan, Iran and Iraq, the average realisation for tea is expected to be better. Therefore, your Directors feel confident that the performance of Tea Division should show improvement during the current financial year.



KANCO ENTERPRISES LIMITED

DIRECTORS' REPORT (Contd.)

Textile Division

Performance of Textile Division, in line with the segment of the industry in which it operates, was affected adversely. The Division's earnings in the first half of the financial year 2003-04 declined sharply as the realisations were low due to weak international demand whereas the cost of raw material ruled high. In the second half of the financial year 2003-04, even though the cost of cotton was ruling strong, the realisations improved due to better export market. With investments made for debottlenecking and upgradation of its manufacturing facilities the productivity of the Division has improved resulting in the highest production of cotton yarn at 4316 tonnes.

As a recognition to the impeccable track record of this Division, it was accorded a reduction of 5.5% in the interest rate, effective January 1st, 2004, on major component of its borrowings under Textile Reconstruction Fund by the Institutional Lenders.

At present the Company is affected due to lower yarn realisation and stronger Rupee is also affecting the Company's export earnings adversely. During the financial year 2004-05, the Division's performance is expected to be better through improvement in productivity and higher realisations. The Company's commitment to be a quality producer consistently has been recognised and Bureau of Indian Standards has awarded ISO 9001 certification to the Division. Further, with the dismantling of Multifibre agreement, the Division is expected to be benefitted favourably.

FIXED DEPOSITS

The amount outstanding as on 31st March, 2004 on account of Fixed Deposits aggregating Rs. 56 lacs is yet to mature and all the deposits that matured during the year were repaid with interest due thereon and nothing remains unclaimed.

CORPORATE GOVERNANCE & MANAGEMENT DISCUSSION AND ANALYSIS

A separate report on Corporate Governance incorporating therein the Management Discussion & Analysis along with the Auditors' Certificate on its compliance is attached as Annexure-1 to this Report.

DIRECTORS

Mr. G. Momen and Mr. A. K. Jain retire by rotation at the ensuing Annual General Meeting and are eligible for re-election.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors state that :

- Appropriate Accounting Standards as are applicable to the Annual Statement of Accounts for the financial year ended 31st March, 2004 have been followed in preparation of the said accounts.
- The Directors have followed the accounting policies as described in the Schedule 19 (Notes on Accounts) and applied them consistently to facilitate true and fair view of the state of affairs of the Company.
- Sufficient care has been taken to maintain accounting records of the Company.
- The statement of accounts has been prepared on a going concern basis.

AUDITORS

Messrs Jain & Company, Chartered Accountants, Auditors of the Company retire at the conclusion of this Annual General Meeting and have consented to continue, if re-appointed.

PERSONNEL

The particulars of employees pursuant to Section 217(2A) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 are not applicable as no employee was in receipt of remuneration to the extent laid down in the said Rules. Industrial relations were cordial during the year under review. The Directors express appreciation of the efficient services rendered by the employees.



KANCO ENTERPRISES LIMITED

DIRECTORS' REPORT (Contd.)

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

A statement pursuant to Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 on conservation of energy, technology absorption, foreign exchange earnings and outgo is annexed to and forms part of this Report.

ACKNOWLEDGEMENT

Your Directors place on record their appreciation of the co-operation and support extended by the Banks/Financial Institutions and all other business partners.

For and on behalf of the Board

Kolkata
30th day of April, 2004

U. KANORIA
Chairman

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KANCO ENTERPRISES LIMITED

ANNEXURE TO DIRECTORS' REPORT

INFORMATION AS PER SECTION 217 (1) (e) OF THE COMPANIES ACT, 1956, READ WITH THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988 AND FORMING PART OF THE DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31ST MARCH, 2004

(a) Energy Conservation measures taken :

The Company implemented energy conservation measures to keep energy cost under tight control. Various steps have been taken to reduce consumption of energy by increase in productivity levels etc. However, reduction in per unit consumption of energy has been effected in the following manner.

During the year under review :

- (i) The Company has implemented energy conservation measures by way of modification of Humidification Plants in Preparatory and Post Spinning. In this modification we have increased Air washer eliminator cross section area, R.A. and S.A. damper area, Spray header with improved spray nozzles quality. There is gain in the Plant capacity by 40000 Cfm of air in Preparatory and 81000 Cfm of air in Post Spinning department. Besides this gain, we have achieved power saving of 434 units in preparatory and 282 in post spinning department per day.
- (ii) Bln Auto Coner machines : We have changed old system of suction fan supply by introducing inverter drive. With this we are maintaining adequate suction pressure without affecting yarn quality and quantity. With this arrangement we have conserved 380 units power saving per day.
- Total energy saving = 282 + 434 + 380 = 1096 Units/Day
- (b) Total energy consumption per unit of production is furnished in the prescribed Form "A" annexed hereto.

FORM-A

(A) POWER & FUEL CONSUMPTION	TEA DIVISION		TEXTILE DIVISION	
	Current Year	Previous Year	Current Year	Previous Year
(1) Electricity				
(a) Purchased (Units)	6,10,537	5,00,028	11,70,285	13,66,560
Total Amount (Rs.)	37,73,089	25,72,120	68,85,111	81,29,415
Rate/Unit (Rs.)	6.18	5.14	5.88	5.95
(b) Own Generation				
i) Through LDO/FO/Diesel (Units)	4,46,940	5,79,300	1,88,71,909	1,90,19,594
Unit per ltr.	2.59	2.63	4.20	4.07
Cost/Unit (Rs.)	7.50	6.86	2.45	2.43
ii) Through Steam Turbine/Generator (Units)	—	—	—	—
Unit Per ltr. of Fuel/Gas (cm ³)	—	—	—	—
Cost/Unit (Rs.)	—	—	—	—
(2) Coal (Specify quality and where used)				
Quantity (Tonnes)	—	—	—	—
Total Cost (in Rs.)	—	—	—	—
Average Rate (Rs.)	—	—	—	—
Quality : Dust khasi, 4500 kilo calories/kg used in drier : Ash 40% to 60% and 30% to 35%				
(3) Furnace Oil				
Quantity (K. Ltr.)	145.83	139	4,153	4,297
Total Amount (Rs.)	23,82,158	22,22,490	4,04,06,454	4,19,26,228
Average Rate (Rs./K. Ltr.)	16,335	15,989	9,729	9,757
(4) Others/Internal Generation				
(a) Gas				
Quantity (Cm ³)	13,41,504	13,82,079	—	—
Total Cost (Rs.)	28,99,750	25,15,944	—	—
Rate/Unit (Rs./cm ³)	2,162	1,820	—	—
(b) LDO/DIESEL				
Quantity (K. Ltr.)	—	—	344	377
Total Cost (Rs.)	—	—	51,09,379	43,43,614
Average (Rs./K. Ltr.)	—	—	14,853	11,522
(B) CONSUMPTION PER UNIT OF PRODUCTION				
		Unit	Current Year	Previous Year
(i) Black Tea		Kgs.		
Electricity		Unit	0.61	0.59
Furnace Oil		Ltrs.	0.08	0.08
Coal (Quality as above)		Kgs.	—	—
Gas		Cm ³	0.77	0.75
(ii) Yarn		Kgs.		
Electricity		Unit	4.64	4.89
Coal		Kgs.	—	—

For the above, there is no prescribed standard.



KANCO ENTERPRISES LIMITED

ANNEXURE TO DIRECTORS' REPORT (Contd.)

RESEARCH & DEVELOPMENT (R & D) FORM-B

	TEA DIVISION	TEXTILE DIVISION															
(1) Specific areas in which R & D carried out by the Company	The Division subscribes to Tea Research Association which is registered u/s 35(1) (ii) of the Income Tax Act, 1961.	(a) With the continuous application of AFIS-II, we have optimised the drawing settings. (b) With the continuous application of HFT-9000 (High volume cotton testing instrument) and AFIS II we have optimised the comber waste level.															
(2) Benefits derived as a result of the above R & D	The Division benefits from the suggestions received from the Association out of R & D activities.	(a) Reduction in neps level in the final yarn resulting in better quality of product quality. (b) Improvement in Yarn quality with cost effective measures, by optimising comber waste.															
(3) Future plan of action	The Division wishes to continue the membership of Tea Research Association	(a) We are planning to install one new comber with latest technology to improve yarn quality further. (b) To install Heat recovery system for 2.5 MW DG Set hot exhaust air to improve department RH conditions.															
(4) Expenditure on R & D	Nil	<table> <tr> <th></th><th>2003-2004</th><th>2002-2003</th></tr> <tr> <td>(a) Capital</td><td>Rs. —</td><td>Rs. —</td></tr> <tr> <td>(b) Recurring</td><td>Rs. 7,69,168</td><td>Rs. 7,12,257</td></tr> <tr> <td>(c) Total</td><td>Rs. 7,69,168</td><td>Rs. 7,12,257</td></tr> <tr> <td>(d) Total R & D Expenditure as a percentage of total turnover</td><td>0.13%</td><td>0.13%</td></tr> </table>		2003-2004	2002-2003	(a) Capital	Rs. —	Rs. —	(b) Recurring	Rs. 7,69,168	Rs. 7,12,257	(c) Total	Rs. 7,69,168	Rs. 7,12,257	(d) Total R & D Expenditure as a percentage of total turnover	0.13%	0.13%
	2003-2004	2002-2003															
(a) Capital	Rs. —	Rs. —															
(b) Recurring	Rs. 7,69,168	Rs. 7,12,257															
(c) Total	Rs. 7,69,168	Rs. 7,12,257															
(d) Total R & D Expenditure as a percentage of total turnover	0.13%	0.13%															

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

- | | |
|---|---|
| (1) Efforts, in brief, made towards technology absorption, adaptation and innovation. | <p>(a) We have installed "Promise" online speed control device in two more ring frames to increase productivity.</p> <p>(b) We have replaced solid main shaft drive with hollow shaft drive in five ring frames for power saving.</p> <p>(c) We have done modification in preparatory and post spinning humidification plant to optimise utilisation and for energy saving.</p> <p>(d) We have installed one wall mounted overhead cleaner in ring frame.</p> |
| (2) Benefits derived as a result of the above efforts. | <p>(a) By introducing "Promise System", production is increased by 3%.</p> <p>(b) We have saved 0.5 units per kg of yarn production with hollow shaft.</p> <p>(c) With above modification we have increased plant capacity by 40,000 cfm in preparatory and 81,000 cfm. in post spg. and total power saving of 716 units per day.</p> <p>(d) With above modification overall ring frame department cleaning has been improved at wall side.</p> |
| (3) There is no imported technology involved. | |

FOREIGN EXCHANGE EARNINGS AND OUTGO

The Company continues its efforts to enhance exports with vigorous steps to find new markets and develop existing ones.

	2003-2004	2002-2003
1. Foreign Exchange Earnings	Rs. 31,26,95,154	Rs. 31,43,52,345
2. Foreign Exchange Outgo	Rs. 54,56,933	Rs. 1,20,01,134

Kolkata
30th day of April, 2004

For and on behalf of the Board
U. KANORIA
Chairman

KANCO ENTERPRISES LIMITED

ANNEXURE-1

REPORT ON CORPORATE GOVERNANCE FOR THE FINANCIAL YEAR ENDED MARCH 31, 2004

KEL's Philosophy on Code of Governance

KEL's corporate culture continues to follow the strictest standards of integrity and transparency by adhering to the policies laid down by the Board of Directors comprising of industrialists and professionals. The corporate governance is based on the two most important principles of team work and professionalism where the shareholders, customers, financial institutions/banks, employees and other stakeholders are the main constituents of the 'team'.

KEL's business objective is to manufacture and market the products where quality deservingly receives all the attention on a consistent basis with the ultimate aim of bringing full satisfaction to all concerned.

Board of Directors

Composition, Attendance at the Board Meetings and the last Annual General Meeting, Outside Directorships and memberships of Board Committees

Director	No. of Board meetings attended	Attendance at previous AGM on 29/07/2003	No. of outside Directorship held*	No. of membership/ chairmanship in Committees**	Executive/Non-Executive/ Independent
U. Kanoria	4	Present	2	2	Executive
Atul Doshi	4	Present	—	1	Executive
P. K. Bhattacharjee	4	Present	2	3	Non-Executive & Independent
Anil Kumar Jain	1	Leave of absence	3	1	Non-Executive & Independent
Golam Momen	4	Present	11	13	Non-Executive & Independent
Pavan Poddar	4	Present	7	3	Non-Executive & Independent

* Directorship of Companies registered under the Companies Act, 1956 but excluding private companies and alternate directorship.

** Chairmanship/membership of Audit Committee, Shareholders/Investor Grievance Committee and Share Transfer Committee only.

Board Meetings held during the Financial Year ended 31st March, 2004

During the year, four Board Meetings were held on 12th May, 2003, 29th July, 2003, 30th October, 2003 and 15th January, 2004.

Appointment/Re-appointment of Directors

The following directors retire by rotation and are eligible for re-appointment. A brief resume together with the other directorship/committee membership of the directors being re-appointed is given below :

Mr. G. Momen was Chairman & Managing Director of Caritt Moran & Company Pvt. Ltd. for 21 years. He is a veteran in Tea Industry sharing his rich experience with directors of many tea companies in this part of the country and is an expert Financial Consultant too. Mr. Momen is Chairman of White Cliff Holdings Pvt. Ltd., White Cliff Tea Pvt. Ltd., White Cliff Properties Pvt. Ltd. Besides being on the Company's Board since 1998 he is also a director of AFT Industries Ltd., Baghmari Tea Co. Ltd., Bengal Tea & Fabrics Ltd., Birla VXL Ltd., Assam Brook Ltd., ABL International Ltd., Empire & Singlo Tea Ltd., Jutlibari Tea Co. Ltd., Rydak Syndicate Ltd., Scottish Assam (India) Ltd., Harrisons Malayalam Ltd. and Dover Tea Pvt. Ltd.

Mr. Momen is Chairman/member of Shareholders/Investors Grievance Committees of Bengal Tea & Fabrics Ltd. and the Company respectively, member of Audit Committees of AFT Industries Ltd., Assam Brook Ltd., Bengal Tea & Fabrics Ltd., Scottish Assam (India) Ltd., Birla VXL Ltd. and the Company, member of Share Transfer Committees of Bengal Tea & Fabrics Ltd. and the Company and member of Remuneration Committees of Empire & Singlo Tea Ltd., Bengal Tea & Fabrics Ltd. and the Company.