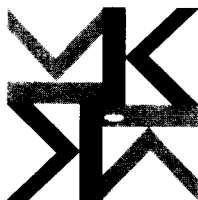


**ANNUAL
REPORT
AND
ACCOUNTS
2005-2006**



KANCO

KANCO ENTERPRISES LIMITED



KANCO ENTERPRISES LIMITED

Annual Report & Accounts 2005-2006

Notice	2
Directors' Report	9
Report on Corporate Governance	14
Auditors' Report	22
Balance Sheet	24
Profit & Loss Account	25
Schedules to Accounts	26

BOARD OF DIRECTORS

Sri U. Kanoria

Chairman & Managing Director

Sri Atul Doshi

Wholetime 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

Website : www.kanco.in

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

Ground Floor, Kolkata 700 029

Phone : 2454 1892-93

Fax : 2454 1961

Email : mcsca1@cal2.vsnl.net.in



KANCO ENTERPRISES LIMITED

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the FIFTEENTH ANNUAL GENERAL MEETING of the members of KANCO ENTERPRISES LIMITED will be held at 'Kalakunj', 48 Shakespeare Sarani, Kolkata-700 017 on Friday, the 28th day of July, 2006 at 10.30 A.M. to transact the following business :

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2006, 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

5. To consider and if thought fit to pass, with or without modification(s), the following resolution as a Special Resolution :
 "RESOLVED THAT in accordance with the provisions of Sections 198, 269, 309, 310 and 311 read with Schedule XI.. and other enabling provisions of the Companies Act, 1956 ("the Act"), the consent of the Company be and is hereby accorded to the increase in remuneration w.e.f. 1st August, 2006 of Mr. Umang Kanoria, Managing Director reappointed by the Board of Directors ("the Board") for a period of 3 years w.e.f. the said date, on the terms /conditions including payment of minimum remuneration in accordance with the Schedule XIII to the Act, contained in the draft agreement approved by a resolution passed by the Remuneration Committee and the Board, an abstract whereof circulated to the members pursuant to Section 302 of the Act, and annexed to the Notice of Fifteenth Annual General Meeting."
 "RESOLVED FURTHER THAT the Board be and is hereby authorised to take all steps and perform such acts, deeds, matters and things, as may be considered necessary, desirable or expedient to give effect to this resolution."
6. To consider and if thought fit to pass, with or without modification(s), the following resolution as an Ordinary Resolution :
 "RESOLVED THAT in accordance with the provisions of Sections 198, 269, 309, 310 and 311 read with Schedule XIII and other enabling provisions of the Companies Act, 1956 ("the Act"), the consent of the Company be and is hereby accorded to the increase in remuneration w.e.f. 1st August, 2006 of Mr. Atul Doshi, Wholetime Director reappointed by the Board of Directors ("the Board") for a period of 3 years from the said date, on the terms/conditions including payment of minimum remuneration in accordance with the Schedule XIII to the Act, contained in the draft agreement approved by a resolution passed by the Remuneration Committee and the Board, an abstract whereof circulated to the members pursuant to Section 302 of the Act, and annexed to the Notice of Fifteenth Annual General Meeting."
 "RESOLVED FURTHER THAT the Board be and is hereby authorised to take all steps and perform such acts, deeds, matters and things, as may be considered necessary, desirable or expedient to give effect to this resolution."
7. To consider and if thought fit to pass, with or without modification(s), the following resolution as an Ordinary Resolution :
 "RESOLVED THAT pursuant to Sections 309, 310 of the Companies Act, 1956, Notification No. S.R. 580(E) dated 24 July, 2003 issued by the Government of India and Article 77 of the Articles of Association of the Company, payment of sitting fees of Rs. 10,000/- to each Non-executive Director for attending every meeting of the Board of Directors on and from 28th July, 2006 be and is hereby approved."
8. To consider and if thought fit to pass, with or without modifications), the following resolution as an Ordinary Resolution :
 "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, 2007."

Registered Office :

Jasmine Tower, 3rd Floor

31, Shakespeare Sarani, Kolkata 700 017

Dated, the 31st day of May, 2006

By Order of the Board
for KANCO ENTERPRISES LIMITED

D. ARYA
Company Secretary



KANCO ENTERPRISES LIMITED

NOTICE OF ANNUAL GENERAL MEETING (Contd.)

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.
- The Register of Members and Share Transfer Register shall remain closed with effect from July 21, 2006 to July 28, 2006 (both days inclusive).
- The shareholders are requested to communicate to the Registrar & Transfer Agent change in their address, if any.
- 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.
- The members are requested to note that the amount lying unclaimed on account of proceeds of fractional entitlement remitted to them on 29th January, 2002 will be transferred in due course to account prescribed by the Government, as may be applicable.
- Members are requested to preferably send their queries to the Registered Office 7 days before date of the Annual General Meeting.
- The documents pertaining to the Items No. 5, 6 and 7 as may be applicable are available for inspection at the Registered Office of the Company during 11 A.M. to 1.30 P.M. on all working days.
- As required by the Clause 49 of Listing Agreement, members are informed that the equity shares held in the Company by Messrs G. Momen and A. K. Jain are 650 and Nil respectively.
- 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 & 6

The Company is implementing an expansion project at its Textile Division for manufacture of Cotton Yarn and after commercial production from the augmented capacity commences, another phase of expansion to further expand the capacities may be taken up. Considering all aspects of the managerial involvement including the challenges imposed by the current business environment, it has been decided to revise the remuneration of Mr. U. Kanoria, Managing Director and Mr. Atul Doshi, Wholtime Director reappointed by the Board of Directors for a period of three years w.e.f. 1st August, 2006. Statements containing abstract of appointment pursuant to Section 302 of the Companies Act, 1956 ("the Act") and the information on managerial remuneration prescribed by the Schedule XIII to the Companies Act, 1956 are annexed to the Notice.

The Directors recommend passing of the resolutions. None of the Directors other than Mr. U. Kanoria and Mr. Atul Joshi in their respective appointments and remuneration, are concerned or interested in the said items of business.

Item No. 7

In accordance with Sections 309 & 310 of the Act, the Notification No. G.S.R. 580(E) dated 24th July, 2003 issued by the Government of India and Article 77 of the Articles of Association of the Company, sitting fees of Rs.10,000/- are sought to be paid to each Non-executive Director for attending every meeting of the Board of Directors.

In view of the Clause 49 of the Listing Agreement dealing with Corporate Governance, the resolution is being placed before the members for their approval. The Executive Directors recommend passing of the resolution. Messrs P. K. Bhattacharjee, G. Momen, A. K. Jain and P. K. Poddar, Directors are interested in the resolution.

Item No. 8

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, 2007. 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

ANNEXURE TO THE NOTICE of Fifteenth Annual General Meeting ('AGM')

To

The Members of the Company,

Abstract of the terms of re-appointment of Mr. U. Kanoria as Managing Director and Mr. Atul Doshi as Wholetime Director pursuant to Section 302 of the Companies Act, 1956

The Board of Directors at its meeting held on 31st May, 2006 has approved the re-appointment of Mr. Umang Kanoria as Managing Director and of Mr. Atul Doshi, as Wholetime Director for three years w.e.f. 1st August, 2006.

As required under Section 302 of the Companies Act, 1956, Abstracts of the terms of reappointment and remuneration of Mr. Umang Kanoria and Mr. Atul Doshi are as follows :

Terms	Managing Director	Wholetime Director
Period of Agreement	1st August, 2006 to 31st July, 2009	1st August, 2006 to 31st July, 2009
Salary	Rs. 1,50,000/- per month in the Scale of Rs. 1,50,000 - 1,65,000-1,81,500	Rs. 55,000/- per month in the Scale of Rs. 55,000-60,000-65,000
Commission	1% of the net profits subject to 50% of annual salary	Nil
Perquisites		
Housing	(i) Furnished residential accommodation or house rent allowance. (ii) In case the accommodation is provided by the Company, 20% of salary to be deducted. (iii) In case no accommodation is provided by the Company, House Rent Allowance @ 30% of salary.	Nil
Gas, Electricity, Water and Furniture/fixtures	Expenditure incurred to be valued as per Income Tax Rules, 1962.	Expenditure incurred to be valued as per Income Tax Rules, 1962
Medical Reimbursement	Medical expenses incurred in India or abroad including hospitalisation, surgical charges, for self and family and travel relating thereto.	Medical expenses incurred in India or abroad including hospitalisation, surgical charges, for self and family and travel relating thereto, restricted to one month's salary.
Leave Travel Concession	For self and family in accordance with the Rules of the Company.	For self and family in accordance with the Rules of the Company.
Personal Accident Insurance	Annual Premium not to exceed Rs.5,000/-	Annual Premium not to exceed Rs.5,000/-
Club Fees	Fees of maximum two clubs. No life membership/admission fees.	Fees of maximum two clubs. No life membership/admission fees.
Perquisites not to be included in the computation of ceiling on remuneration specified above : (i) Provision of Company car for official purpose and telephone at residence (including payment for local calls and long distance official calls), (ii) The Company's contribution towards Provident Fund and Superannuation Fund as per the Rules of the Company but restricted to the extent not taxable under the Income Tax Act, 1961. (iii) Gratuity not exceeding one-half month's salary for each completed year of service, (iv) One and a half month's leave with full pay and perquisites. Accumulation of leave upto maximum of 180 days. Encashment of leave at the end of service not to be included in the computation.		



KANCO ENTERPRISES LIMITED

ANNEXURE TO THE NOTICE of Fifteenth AGM (Contd.)

Minimum Remuneration

In the event that the Company in any financial year during the tenure of the above named managerial personnel, has no profits or its profits are inadequate, the remuneration payable to Mr. Kanoria as Managing Director and to Mr. Doshi as Wholetime Director by way of salary and perquisites shall be the remuneration drawn by them as given above, the same being in accordance with and to the extent provided in the Schedule XIII to the Companies Act, 1956.

Terms and Conditions

1. Managing Director and Wholetime Director will not, so long as they function as such Managing Director and Wholetime Director, become interested or otherwise concerned directly or through their spouse and/or minor children in any selling agency of the Company in future unless permissible by the applicable laws prevailing at the relevant time.
2. Managing Director and Wholetime Director and the Company shall have the right to terminate the appointment by giving six months' prior notice in writing.
3. Subject to supervision, direction and control of the Board, the Managing Director and Wholetime Director would be entrusted with power of management. Their powers shall be such as are necessary for the overall general management of the Company and such as may be conferred upon them by the Board of Directors as it may deem fit/expedient from time to time

Memorandum of Interest

Mr. Umanj Kanoria and Mr. Atul Doshi are interested in their respective appointments.

By Order of the Board
for KANCO ENTERPRISES LIMITED

D. ARYA
Company Secretary

Kolkata, the 31st May, 2006



KANCO ENTERPRISES LIMITED

ANNEXURE TO THE NOTICE of Fifteenth AGM (Contd.)

Information pursuant to the Schedule XIII to the Companies Act, 1956

I. GENERAL INFORMATION:

1. Nature of Industry :

Manufacture of Black Tea and Cotton Yarn.

2. Date or expected date of commencement of commercial production :

The Company took over the manufacturing units in 1998 under a Scheme of Arrangement and the said units were operational for a long time before that.

At present the Textile Division of the Company is implementing expansion project which is scheduled to commence commercial production from September, 2006.

3. In case of new companies, expected date of commencement of activities as per project approved by financial institutions appearing in the prospectus : Not Applicable.

4. Financial performance based on given indicators.

Rs./Lac.

Financial Year Ended 31st March	2006	2005
Gross Revenue	7754.41	7829.95
Profit Before Tax & Extraordinary Items	28.71	9.16
Profit After Tax & Extraordinary Items	17.54	7.47
Gross Fixed Assets	8822.14	8668.94
Equity Share Capital	771.52	771.52
Reserves and Surplus (excluding revaluation reserves)	1873.47	1986.97
Net Worth	2159.34	2155.73

5. Export performance and net foreign exchange collaborations :

Rs./ Lacs

Financial Year Ended 31st March	2006	2005
Foreign Exchange Earnings (Direct Exports)	4460.41	4170.63
Foreign Exchange Outgo	128.98	235.33

The Company exports Cotton Yarn and is a recognised One Star Export House registered with the Government of India besides being accredited with ISO 9000:2001 certification by the Bureau of Indian Standards. The Company has no foreign exchange collaborations.

Equity Shares of the Company are listed at the Calcutta Stock Exchange Association Ltd.

6. Foreign investments or collaborators, if any : Not Applicable

II. INFORMATION ABOUT THE APPOINTEE :

1. Background details :

Mr. Umang Kanoria, Chairman and Managing Director of the Company besides being a Commerce graduate with honours is an Associate Member of the Institute of Cost & Works Accountants of India (A.I.C.W.A.) and holds a Master's degree in Business Administration from Switzerland (M.B.A.).

Mr. Kanoria has vast experience in Tea and Textile Industries and was instrumental in business expansion of his last company. Having served as a past President of Tea Association of India (TAI), at present he is a member of its Committee.



KANCO ENTERPRISES LIMITED

ANNEXURE TO THE NOTICE of Fifteenth AGM (Contd.)

Mr. Kanoria was Chairman of Education Committee of Young Presidents' Organisation (YPO) and the Kolkata YPO Chapter Chairman and immediate past President of Indian Chamber of Commerce (ICC). He is also on the Boards of some prominent public limited companies.

2. Past remuneration

Remuneration to which Mr U. Kanoria is entitled to at present is as follows :

A. (i) Salary : Rs.1,00,000/- per month. (ii) Commission: Nil

B. Perquisites :

The Managing Director is entitled to the following perquisites in addition to the salary. Perquisites are restricted to an amount equal to the annual salary.

Housing :

Furnished accommodation is provided by the Company and twenty percent of the salary deducted by the Company.

The other perquisites, terms and conditions are the same as now proposed and detailed in the Abstract of appointment pursuant to Section 302 annexed to the Notice of Fifteenth Annual General Meeting.

Minimum Remuneration

In the event that in any financial year during the tenure of Mr. Kanoria as Managing Director the Company has no profits or its profits are inadequate, the minimum remuneration payable to Mr. Kanoria by way of salary and perquisites shall be the remuneration drawn by him also be in accordance with the Schedule XIII to the Companies Act, 1956.

3. Recognition or awards :

The Textile Unit has been granted Energy Conservation Award by the Ministry of Power, Government of India. The Company is a one-star Export House recognised by the Director General of Foreign Trade (DGFT) and the Textile Unit has been accredited with ISO 9001:2000 by Bureau of Indian Standards.

4. Job profile and his suitability :

Mr. U. Kanoria is professionally qualified executive [B.Com. (Hons), A.I.C.W.A., MBA] and has extensive experience of more than 20 years in tea and textiles businesses. Aged about 46 years he has been managing day-to-day affairs of the Company and as a Promoter/Entrepreneur he manages two units vested in the Company under a Scheme of Arrangement sanctioned by the Hon'ble High Court in 1998. Since then the Company has been growing in size and stature and at present its Textile Unit is implementing an expansion project to augment its capacity, which is progressing as per schedule.

With the experience and entrepreneurial abilities of Mr. U. Kanoria the Company has achieved turnover of about Rs.77 Crores which is likely to go up after augmentation of capacity in September, 2006. Under his leadership, the Company is poised to grow further by another phase of expansion in foreseeable future.

5. Remuneration proposed :

(a) Salary of Rs.1,50,000/- per month in the scale of Rs 1,50,000-1,65,000-1,81,500

(b) Commission: 1% of the net profits subject to 50% of annual salary.

Perquisites, other terms and conditions and minimum remuneration as per the details given in the Abstract of reappointment annexed to the Notice of Fifteenth Annual General Meeting.



KANCO ENTERPRISES LIMITED

ANNEXURE TO THE NOTICE of Fifteenth AGM (Contd.)

6. Comparative remuneration profile with respect to industry, size of company, profile of the position and person :
There is actually no peer group company operating in both the industries in which the Company has its businesses i.e. Black Tea & Cotton Yarn, hence the comparative data are not applicable. However, Managing Director of Bengal Tea & Fabrics Ltd., a company having tea and fabrics business is paid Salary of Rs. 1,00,000/- p.m. with similar perquisites and the said remuneration has been approved by the members of that company for a period of three year w.e.f. 1st January, 2005.
7. Pecuniary relationship directly or indirectly with the Company, or relationship with the managerial personnel, if any :
Mr. U. Kanoria has no pecuniary relationship with the Company other than his remuneration as Managing Director and Member/Promoter. Relationships by way of Accounting Standard (AS)-18 are disclosed in the Annual Report accompanied by the Notice of Fifteenth Annual General Meeting.
There is no managerial personnel related to Mr. U. Kanoria.

III. OTHER INFORMATION

1. Reasons of loss or inadequate profits :
Last few years have been difficult for tea industry mainly due to depressed demand, rising input costs and cost of social obligations imposed by labour laws besides uncertain production due to vagaries of weather.
The Textile Unit's facilities were modernized during 1998 to 2004 for improving the productivity, production and utilisation of power and therefore, the interest outgo and depreciation resulted in bottomline being affected adversely. Detailed information is available in the Management & Discussion Analysis annexed to the Directors' Report.
2. Steps taken or proposed to be taken for improvement :
Textile unit of the Company is now implementing expansion of capacity which is scheduled for completion in September, 2006 to cater to potential growth in demand after removal of Multi Fibre Agreement (MFA) since 1st January, 2005 and benefits from the same are expected to accrue from the second half of the current financial year.
The Company's tea estate manufactures quality teas and invests prudently every year to upgrade its manufacturing facilities thereat. The estate has enlarged its production base to cater to increase in domestic consumption.
3. Expected increase in productivity and profits in measurable terms :
Consistent upgradation of manufacturing facilities at both the divisions has resulted in enhanced productivity thus contributing to improvement in performance. With Mr. U. Kanoria's experience of over 20 years in managing the affairs and expansion of textile unit's capacity to result in better absorption of overheads, the Company's profits are expected to increase suitably.

IV. DISCLOSURES :

1 & 2

The shareholders of the Company have been informed of the remuneration package of Mr. U. Kanoria and all elements thereof are given in the Corporate Governance Report annexed to the Directors' Report which should be read in conjunction with the abstract of appointment pursuant to Section 302 annexed to the Notice of Fifteenth Annual General Meeting.



KANCO ENTERPRISES LIMITED

DIRECTORS' REPORT

Dear Shareholders,

Your Directors present their Fifteenth Annual Report and Audited Accounts for the year ended 31st March, 2006.

FINANCIALS

Your Company's financial performance was as follows :

	2005-2006	2004-2005
	(Rs. in lacs)	(Rs. in lacs)
Profit Before Interest, Depreciation and Tax	917.28	878.94
Less: Interest	272.96	274.75
Gross Profit for the year	644.32	604.19
Less : Depreciation	615.61	595.03
Profit Before Tax	28.71	9.16
Less : Provision for		
Net Current Tax	0.42	1.69
Fringe Benefit Tax	10.75	11.17
Less/Add : Deferred Tax	132.70	10.70
(Loss)/Profit After Taxation	(115.16)	18.17
Less : Taxation for earlier years (Net)	—	3.81
	(115.16)	14.36
Balance Brought Forward from Last Account	(38.50)	(52.86)
Balance Carried to Balance Sheet	(153.66)	(38.50)

CAPITAL

Authorised Capital of the Company has been increased during the year from Rs.8.50 Crores to Rs.18.50 Crores by creation of 1,00,00,000 Equity Shares of Rs.10/- each ranking *pari passu* with the existing Equity Shares.

Pursuant to the Scheme of Allotment finalised in consultation with the Calcutta Stock Exchange Association Limited, 77,15,187 Equity Shares of Rs.10/- each for cash at par have been allotted on 31st May, 2006 to the members on rights basis and the Paid up Capital of the Company stands increased to Rs. 15,43,03,740/- divided into 1,54,30,374 Equity Shares of Rs.10/- each fully paid.

DIVIDEND

Due to inadequate profits, 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, 2007 have been paid. As stated in the Letter of Offer, the Company will apply to CSE for listing of 77,15,187 Equity Shares arising out of the Rights Issue.

OPERATIONS

Your Company's operating profit improved during the year ended 31st March, 2006 as compared to the previous financial year. Profit Before Tax of Rs. 28.71 lacs was reduced to Loss After Tax of Rs.115.16 lacs due to accounting for deferred tax.