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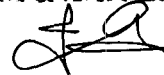
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ANNUAL REPORT 2008 - 2009

KHADIM INDIA LIMITED

CERTIFIED TO BE TRUE COPY

KHADIM INDIA LIMITED



JOYDEV SENGUPTA
COMPANY SECRETARY & HEAD-LEGAL

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Corporate Information

BOARD OF DIRECTORS

Mr. Satya Prasad Roy Burman : Chairman &
Whole-Time Director

Mr. Siddhartha Roy Burman : Managing Director

Mrs. Tanusree Roy Burman : Director

Mr. Indra Nath Chatterjee : Director

Prof. Ashoke Kumar Dutta : Director

Prof. Amar Nath Sadhu : Director

COMPANY SECRETARY, HEAD - LEGAL & COMPLIANCE OFFICER

Mr. Joydev Sengupta

REGISTERED OFFICE

"Kankaria Estate", 5th Floor,
6, Little Russell Street,
Kolkata - 700 071, India
Website: www.khadims.com

AUDIT COMMITTEE

Prof. Amar Nath Sadhu : Chairman

Prof. Ashoke Kumar Dutta : Member

Mr. Indra Nath Chatterjee : Member

Mr. Joydev Sengupta : Secretary

STATUTORY AUDITORS

Ray & Ray
Chartered Accountants
6 Church Lane
Kolkata- 700 001

REMUNERATION/COMPENSATION COMMITTEE

Prof. Ashoke Kumar Dutta : Chairman

Prof. Amar Nath Sadhu : Member

Mr. Indra Nath Chatterjee : Member

Mr. Joydev Sengupta : Secretary

BANKERS

State Bank of India
UCO Bank

SOLICITORS

M/s. Khaitan & Co.

SHAREHOLDERS'/INVESTORS' GRIEVANCE COMMITTEE

Mr. Indra Nath Chatterjee : Chairman

Prof. Ashoke Kumar Dutta : Member

Mr. Siddhartha Roy Burman : Member

Mr. Joydev Sengupta : Secretary

Directors' Report

DIRECTORS' REPORT TO THE MEMBERS

The Board of Directors of your Company ("the Board") is pleased to present its report on the business and operations of your Company for the financial year ended on **31 March 2009**.

FINANCIAL HIGHLIGHTS:

	Rs. In '000s	
	2008-2009	2007-2008
Sales	1979807.00	1984536.00
Other Income	13956.00	19370.00
Profit before Depreciation, Interest, and Tax	182337.00	237300.00
Depreciation	47345.00	41985.00
Interest	98689.00	68065.00
Profit before tax	36302.00	127250.00
Provision for Taxation		
- Current and deferred Tax	13908.00	41976.00
- Fringe Benefit Tax	2701.00	2602.00
Profit for the year after tax	19694.00	82672.00

GENERAL OVERVIEW

The Directors of your Company are presenting their report at a time when the world economy is passing through a deep recession that has shaken the foundations of some of the big names of global economy. Nearly 40 million people have lost their jobs across the globe; big corporations have been forced to shut down; and in the process an estimated trillion US Dollars has been lost. The only silver lining is that in this time of crisis all the countries are working in unison to come out of this recession.

India, being a part of the global economy, has not been immune to the recession. However, Indian economy has not suffered as feared, mainly due to the very nature of the economy which, unlike other economies, is not dependent on any one or two particular industry but has an even spread of industries.

With this backdrop, your Company has tried to carry out its operation in a prudent manner so that the impact of the recession is reduced. However, due to recessionary trends and also due to the substantial loss from the Large Format Retail ("LFR") business, during the year under review the turnover of your Company was less, compared to the previous year. In addition, the loss suffered on account of the LFR operations delivered a major blow to the bottom line of the Company resulting in a decline in profit against the last year.

During the year under review, a petition under sections 397 & 398 of the Companies Act, 1956 (hereinafter referred to as "the Act") was brought, inter-alia, against the Company which has been settled after the date of the Balance Sheet to which this Report relates, particulars of the case is appearing under the head "Events Occurring After The Date of Balance Sheet".

PROCUREMENT

Procurement of products through outsourcing has all along been an area of strength for your Company. We always feel that in our type of industry ensuring seamless transition from one design to another, one style to another, can only be possible if the focus is on outsourcing backed by need based manufacturing of strategic products. Moreover, the benefits derived in the form of shifting of risks coupled with cost effectiveness is much more than that through manufacturing.

Our team of dedicated professionals is equipped to ensure quality control that is so important in outsourcing. During the year under review we continued to focus on product quality improvement, through streamlining and centralizing the procurement process. In addition we have mapped the capacity of our vendors to extract the best out of them at best possible price points.

MANUFACTURING

In the year under review, the Injection Moulded Footwear Section has become fully operational. Due to installation of new machinery the capacity has increased to 17000 pairs per day. In the year that went by, initiative was taken to enhance the quality of Injection Moulded Footwear and EVA while the focus was on better capacity utilization. During this period the productivity saw a growth of 18 % over the same period last year.

During the year under review, a new factory building inside the Kasba Industrial Estate, Kolkata with 45000 sq. ft., spread over 5 floors was put to use to facilitate the enhanced manufacturing capabilities. In order to make the manufacturing activities more robust complete support of D.G. Backup was installed to ensure uninterrupted power supply, thereby reducing the lead time and related costs.

LOGISTICS

During the year under the review, substantial progress has been made in terms of reducing operation time of loading and unloading. Moreover, during the financial year 2008-2009 we made substantial savings in transport costs, despite the hike of fuel and related transportation costs, by giving clubbed loads to the transporters and also by giving forward planning to them. Another important development during the year was the logical streamlining of the re-order Level System in all company operated retail outlets and some exclusive dealer outlets.

BRAND AND MARKETING

During 2008-2009, a new decor scheme for our footwear stores were introduced with an objective to enhance the functionality and browsing experience in the store and impart a contemporary look so as to appeal to the young consumer base. Threshold marketing support was provided nationally for key festivals like Pongal, Bihu, Durga Puja, Diwali, Onam, Eid and occasion linked purchases like Wedding, School & Monsoon collections through an optimum mix of media, to generate footfalls and sales. Further, Sona Khazana was repositioned as a brand of attractive gold jewellery for the women.

LIFESTYLE RETAILING

During the year under review, the Company has closed down its LFR unit at Bhowanipur after taking necessary approval from the Board of Directors and the Shareholders.

INFORMATION TECHNOLOGY

During the year under review, we have implemented the SAP R/3 as a core business solution. This will improve alignment of strategies and operations, increase productivity and insight, reduce costs through increased flexibility, reduce risk, improve financial management and corporate governance, optimize IT spending and provide immediate access to enterprise information to the top management. Apart from this we have ensured single-window access to all employees through Khadim's portal and anywhere-anytime e-mail access.

INTERNAL AUDIT

The internal audit team of your Company continues to evaluate the effectiveness of the internal control system and contribute to its ongoing effectiveness through its reporting directly to the Audit Committee and the Board of Directors.

HUMAN RESOURCES

Your Company's most valuable resource remained in focus during the year 2008-09. During the year the Performance Appraisal System was made more robust and result oriented. New talents were inducted in the system and steps were

taken to reduce attrition. Besides, various policies and systems like travel policy, incentives policy etc. were updated and rewards and recognition system were reviewed and upgraded.

PARTICULARS OF EMPLOYEES

Information as per the provisions of Section 217(2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975, as amended, forms a part of this Report and is given in **Annexure A**.

DIVIDEND

The Board is of the opinion that the Company should consolidate its net worth and hence thus no dividend is being recommended for the financial year ended 31 March 2009.

PUBLIC DEPOSITS

During the financial year 2008-2009, the Company has neither invited nor accepted any deposits from the Public within the meaning of Section(s) 58A, 58AA of the Companies Act, 1956 read with Companies (Acceptance of Deposit) Rules, 1975.

EVENTS OCCURRING AFTER THE DATE OF BALANCE SHEET

During the financial year 2008-2009 a Petition under Section 397 & 398 of the Companies Act, 1956, (hereinafter "the Act") being No. C.P. No. 4 (KOL) of 2009 (hereinafter "the said proceedings") before the Hon'ble Company Law Board, Kolkata Bench, New Delhi (hereinafter "CLB") was filed by two members of Company who are part of the promoter group, inter-alia, against the Company.

After several rounds of hearing the CLB passed its final order dated 24 July 2009 disposing off the said proceedings in terms of the Terms of Settlement executed by and between the petitioners and all the companies, partnership firm and the individuals of / related to the Khadim Group being in the nature of family settlement.

As per the terms of settlement the Company is supposed to release its land at Gariahat measuring 8 Cottahs 15 Chittaks 9 Sq.ft, situate at Premises no. 49A, Leela Roy Sarani (formerly Gariahat Road) Kolkata 700019. Moreover, any one or more of the Respondents or any of their duly appointed representative(s) or nominee(s) or successor(s-in-interest) or legal heir(s) will pay to the Petitioners or their legal heirs, representatives, administrators, assignees or nominees an aggregate sum of Rs.18,00,00,000/- (Rupees eighteen crore only) over a period of 5 years 4 months from 13 May 2009 and against such consideration the petitioners shall transfer their shares to the respondents or their nominees and shall not be entitled to attend any Board meetings/ General meetings and shall observe non-compete for 5 years.

AUDITORS' REPORT

Subject to the following, the comments made by the Auditors in their Report have been duly explained in the Notes to Accounts and hence do not require to be separately dealt with here.

With respect to the qualification of the Auditors' Report, in Clause 4.6 the Directors of your Company state as under:

The Qualification is in respect of CP 4 (KOL) of 2009 ("the Case") as described under the head "Events Occurring after the date of Balance Sheet". As mentioned before, as per the Order of the Hon'ble Company Law Board ("CLB"), the Company has to transfer its land at Gariahat measuring 8 Cottahs 15 Chittaks 9 Sq.ft., situate at Premises no. 49A, Leela Roy Sarani (formerly Gariahat Road) Kolkata 700019 to the petitioners in respect of the Case, latest by 31 March 2010. Furthermore, as per the said order, the respondents, which includes the Company, are to pay a sum of Rs.18 Crore in 5 years 4 months' time from 13 May 2009.

The Company has not made any provision for loss in the Profit & Loss Account for the financial year 2008-2009 as the Management feels that actual event of transfer of the land will take place in the financial year 2009-2010 as per the order of CLB and that at the end of the entire transaction period i.e. 5 years 4 months' time from 13 May 2009

or any time before that, approval will be obtained from the High Court at Calcutta or any other court / authority having appropriate jurisdiction, as the case may be, for reduction of share capital and reserves.

AUDITORS

The Statutory Auditors of the Company, M/s Ray & Ray, Chartered Accountants, retire at the conclusion of the ensuing Annual General Meeting, and being eligible offer themselves for reappointment. Furthermore, M/s Ray & Ray, Chartered Accountants, have confirmed that, if appointed, their appointment would be within the limit prescribed under Section 224(1B) of the Companies Act, 1956.

DIRECTORS

As on the date of this Report the number of members on the Board is 6 consisting 2 whole-time directors, 1 non-executive director and 3 non-executive-Independent Directors.

The Managerial Remuneration paid to Mr. Satya Prasad Roy Burman, Chairman and Mr. Siddhartha Roy Burman, Managing Director in the financial year 2008-2009 needs your approval in accordance with item (v) of Clause (B) of sub-section(1) of Section I of Part II of Schedule XIII to the Act. The Remuneration Committee has already approved it.

Furthermore, pursuant to Section 256 of the Companies Act, 1956, Mr. Indra Nath Chatterjee, Director being Director liable to retire by rotation under Section 255, retire at the AGM and being eligible offers himself for re-appointment.

The respective resolutions seeking your approval for his appointment is being forwarded to you through appropriate Notice.

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.

A. CONSERVATION OF ENERGY

During the year under review, your Company has taken adequate measures to optimize the consumption of electricity. Loss of electricity due to leakage has been minimized by improving the insulation capacity of the water pipelines, from chiller machine to EVA injection machine as also centralisation of power supply. An improved capacitor panel was introduced to improve the power factor. Electricity consumption was made effectively to reduce wastage. The effect of the aforesaid measures will be beneficial in the long run.

As the Company is not operating in an industry listed in the Schedule to Form A referred to in sub-clause (d) of Clause A of Rule 2 of the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, the details as per Form A is not relevant.

B. TECHNOLOGY ABSORPTION:

Research and Development

During the year under review no R&D initiatives were taken within the meaning of the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 or AS 26.

Technology Absorption, Adaptation and Innovation:

No specific technology was absorbed, adapted or innovated within the meaning of Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, during last 5 years.

C. FOREIGN EXCHANGE EARNINGS AND OUTGO

The details of Foreign exchange earnings and outgo is as follows:

		Rs.'000	
Sl.	Particulars	2008-09	2007-08
(a)	Value of import on CIF basis		
	Raw material, components & spare parts	Nil	1443
	Capital Goods - including Moulds	4010	477
(b)	Foreign exchange Earning	2441	4094
(c)	Foreign exchange outgo	17	530
(d)	Others	Nil	Nil

DIRECTORS' RESPONSIBILITY STATEMENT UNDER SECTION 217(2AA) OF THE COMPANIES ACT, 1956**The Directors confirm that:**

1. In the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
2. They have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period;
3. They have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. They have prepared the annual accounts on a going concern basis.

ACKNOWLEDGEMENT

The Directors place on record their sincere appreciation for the significant contribution made by the employees, who through their competence, hard work, solidarity, co-operation and support have enabled the Company to consolidate its foothold across the market.

The Directors also take this opportunity to thank the Central and various State Governments and other statutory bodies including the Registrar of Companies, West Bengal and the Ministry of Corporate Affairs, Vendors, Lenders, Bankers, financial institutions and the shareholders for their consistent and uninterrupted support.

Kankaria Estate,
5th Floor,
6, Little Russell Street,
Kolkata- 700 071

Dated: 29 August 2009

For and on behalf of the Board

Satya Prasad Roy Burman

Chairman

Annexure A

Information as per the provisions of Sec 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975

SI No.	Name	Designation	Nature of Employment	Nature of Duties	Qualifications	Age (in Yrs.)	Date of Commencement of Employment	Remuneration (In Rs. Lacs)	Experience	Previous Employment
1	Sri Satya Prasad Roy Burman	Chairman & Whole time Director	Contractual	General Management	School Final	79	03.12.1981	39.19	53	NA
2	Sri Siddhartha Roy Burman	Managing Director	Contractual	General Management	B.Com	47	25.09.1990	66.08	23	Chief Executive of the Company

NOTES:

1. Gross Remuneration comprises of salary, commission, perquisites and Company's contribution to PF.
2. The Directors featuring above are related to each other directly.
3. No other employee of the Company have drawn salary more than Rs. 2 lakh per month for any part of the financial year 2008-2009 or Rs. 24 lakh during the entire financial year 2008-2009.
4. The approval given by the Ministry in respect of the Managerial Remuneration payable to the Chairman expired on 31 March 2008 while that for the Managing Director was still in vogue. The Managerial Remuneration paid to Mr. S P Roy Burman, Chairman and Mr. Siddhartha Roy Burman, Managing Director in the financial year 2008-2009 exceeded the limits prescribed under Schedule XIII of the Companies Act, 1956 and they were paid remuneration in accordance with item (v) of Clause (B) of sub-section(1) of Section I of Part II of Schedule XIII to the Act on the basis of approval by the Remuneration Committee given on 17 March 2009 subject to approval of the shareholders at the General Meeting.

Auditors' Report

TO THE MEMBERS OF KHADIM INDIA LIMITED

1. We have audited the attached Balance Sheet of **KHADIM INDIA LIMITED** (the "Company") as at 31st March, 2009, the related Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto (hereinafter referred to as "financial statements"), which have been signed by us under reference to this report. 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. These Standards require that we plan and perform the audit to obtain reasonable assurance as to 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 ("Order") issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956 ('the Act') and on the basis of such checks of the books and records of the Company as we considered appropriate and according to the information and explanations given to us, we give in the **Annexure**, a statement on the matters specified in paragraphs 4 and 5 of the Order.
4. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:
 - 4.1 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;
 - 4.2 In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
 - 4.3 The Balance Sheet and Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - 4.4 In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report except as noted below comply with the applicable Accounting Standards referred to in Sub-section (3C) of Section 211 of 'the Act';
 - 4.5 On the basis of written representations received from the Directors, as on 31st March, 2009 and taken on record by the Board of Directors, we report that none of the Directors of the Company is disqualified as on 31st March, 2009 from being appointed as a Director in terms of clause (g) of Sub-section (1) of Section 274 of 'the Act';
 - 4.6 *On the basis of the order passed by the Company Law Board on 24th July, 2009 as referred to Note no 20 in Notes to Accounts, in our opinion, considering the event occurring after the Balance Sheet date (AS -4 'Contingencies and events occurring after Balance Sheet Date'), there is impairment in respect of land of Rs. 20,487,586 and Capital Work -In -Progress of Rs. 3,975,380 for which no provision for loss have been made in the accounts of the Company. Had the above provision been made in the accounts, the profit of the Company for the year would have been reduced by Rs. 24,462,966 with similar reduction in the total assets of the Company.*
 Subject to the above, in our opinion and to the best of our information and according to the explanations given to us, the said financial statements together with the notes thereon and attached thereto give in the prescribed manner in the information required by 'the Act', and also 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, 2009;
 - (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 the Cash Flow Statement, of the cash flows for the year ended on that date.

For **RAY & RAY**
Chartered Accountants

AMITAVA CHOWDHURY
(Partner)
(Membership No – F-56060)

Place : Kolkata
Date : 29th August 2009