

**Fourteenth Annual Report 2005-06**



**KITEX**  
Kitex Garments Limited



**KITEX GARMENTS LIMITED**  
**14<sup>th</sup> ANNUAL REPORT**

**BOARD OF DIRECTORS**

Mr. Sabu M. Jacob  
Chairman & Managing Director  
Mr.M.C.Jacob  
Mr.Benni Joseph  
Mr.C.Mohan  
Mr. M.P.Kuriakose

**AUDITORS**

M/s. Venkit & Hari  
Chartered Accountants  
Metro Plaza, North End  
Market Road, Kochi-682 014

**LEGAL ADVISORS**

M/s. Dandapani Associates  
Advocates  
Thirupati  
T.D.Road North End  
Kochi-682 035

**REGISTERED OFFICE**

Building No. 9/536A  
Kitex House  
Kizhakkambalam  
Kochi-683 562

**CORPORATE OFFICE**

Kitex House  
3rd Floor, Shenoy Chambers  
Shanmugham Road, Kochi - 682 031

**BANKERS**

State Bank of India  
Punjab National Bank  
The Federal Bank Limited.

**SHARE TRANSFER AGENTS**

M/s. Cameo Corporate Services Limited  
Subramanian Building, No.1  
Club House Road, Chennai-600 002



**KITEX GARMENTS LIMITED**  
**14<sup>th</sup> ANNUAL REPORT**

CONTENTS	PAGE
1. Notice	3
2. Directors' Report & Annexure A	6
3. Management Discussion and Analysis	10
4. Report on Corporate Governance	11
5. Auditor's Report	16
6. Balance Sheet	19
7. Profit & Loss Account	20
8. Schedule Nos. 1-15	21-29
9. Cash Flow Statement	30
10. Additional Information	31
11. Attendance Slip	32
12. Proxy Form	32



## KITEX GARMENTS LIMITED 14<sup>th</sup> ANNUAL REPORT

### **NOTICE**

Notice is hereby given that the Fourteenth Annual General Meeting of the Members of KiteX Garments Limited will be held at the Factory Premises of the Company at Building No 9/536 A, Kizhakkambalam, Alwaye – 683 562 on Saturday, the 30<sup>th</sup> September 2006 at 10 00 am to transact the following business -

### **ORDINARY BUSINESS**

- 1) To receive, consider and adopt the Directors' Report for the year ended 31<sup>st</sup> March 2006, audited Profit and Loss account of the company for the year, Balance Sheet as at that date, and the Report of the Auditors thereon
- 2) To appoint a Director in the place of Mr Benni Joseph, who retires by rotation and, being eligible offers himself for reappointment
- 3) To appoint Auditors, M/s Venkit & Hari, Chartered Accountants, to hold office from the conclusion of this Annual General Meeting till the conclusion of the next Annual General Meeting and to fix their remuneration

### **SPECIAL BUSINESS**

#### **RE-APPOINTMENT OF Mr SABU M JACOB AS MANAGING DIRECTOR**

TO consider, and if thought fit, to pass, with or without modification, the following resolution as a SPECIAL RESOLUTION

“RESOLVED THAT subject to the provisions of Section 198,269,309, read with Schedule XIII and all other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modification or re-enactment thereof for the time being in force) the company hereby approves the re-appointment of Mr Sabu M Jacob as Managing Director of the company for a period of three years with effect from 16<sup>th</sup> August, 2006 on the following remuneration

- 1 Salary Rs 2,00,000/- pm
- 2 Allowances Rs 50,000/- pm
- 3 Perquisites
  - a) Contribution to provident fund, Superannuation fund or annuity fund to the extent these either singly or put together are not taxable under the Income Tax Act, 1961
  - b) Gratuity payable at a rate not exceeding half month's salary for each completed year of service, and
  - c) Encashment of leave at the end of the tenure
 and
- 4 Commission, subject to the condition that the total remuneration consisting of salary, allowances, perquisites and commission shall not exceed 5% of the net profit of the company for any financial year computed in accordance with the provisions of the Companies Act'

“RESOLVED FURTHER THAT the Board of Directors of the company be and is hereby authorized to alter or vary the terms and conditions of the said re-appointment including remuneration, so long as it does not exceed the limit specified under Schedule XIII of the Companies Act, 1956 or any modification or re-enactment thereof for the time being in force and also to do all such acts, deeds matters and things as may be considered necessary, desirable or expedient to give effect to this resolution”

“RESOLVED FURTHER THAT the said salary, allowances and perquisites shall be payable as minimum remuneration in the event of absence or inadequacy of net profit in any financial year’

By Order of the Board of Directors  
For KITEX GARMENTS LIMITED

Sd/-

**SABU M JACOB**

Chairman & Managing Director

Kochi

30<sup>th</sup> June, 2006

### **NOTES:-**

- 1) A member entitled to vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a member
- 2) The instrument appointing a proxy should be deposited at the Registered Office of the Company not less than 48 hours before the commencement of the meeting



## KITEX GARMENTS LIMITED

### 14<sup>th</sup> ANNUAL REPORT

- 3) Members are requested to notify any changes in their addresses to the company at the Registered Office by quoting their Folio Numbers
- 4) Any clarification needed on the accounts should be lodged in writing at the Registered Office of the Company on or before 5 PM on 25 09 2006
- 5) Members /proxies should bring the attendance slips duly filled in for attending the meeting
- 6) The Share transfer books and the Register of members shall remain closed from 27<sup>th</sup> September 2006 to 30<sup>th</sup> September, 2006, both days inclusive
- 7) Applications for demat of shares, applications for transfer of shares and any related correspondence may be sent to the company's share transfer agents M/s Cameo Corporate Services Limited Subramanian Building, No 1, Club House Road, Chennai - 600002
- 8) Explanatory statement u/s 173 of the Act is annexed hereto in respect of the special business mentioned above

## EXPLANATORY STATEMENT PURSUANT TO SECTION 173 (2) OF THE COMPANIES ACT, 1956

### RE-APPOINTMENT OF Mr. SABU M JACOB AS MANAGING DIRECTOR

The tenure of Mr Sabu M Jacob as Managing Director expires on 15<sup>th</sup> August, 2006 Taking into consideration the valuable services rendered by him during the past thirteen years for the growth of the company, the Board of Directors at their meeting held on 30<sup>th</sup> June, 2006 re-appointed him as Managing Director for a further period of three years effective from 16<sup>th</sup> August, 2006 on a remuneration set out in the resolution

He shall be eligible to the said salary, allowances and perquisites as minimum remuneration in the event of absence or inadequacy of profits in any financial year The above remuneration has been recommended by the remuneration committee As required under Sch XIII of the Companies Act 1956 the appointment and remuneration shall be approved by a special resolution of the share holders in general meeting

Mr Sabu M Jacob is also the Managing Director of Kitex Childrenswear Limited

None of the Directors other than Mr Sabu M Jacob and his father Mr M C Jacob is concerned or interested in this resolution

As required under Sch XIII the following information is given to the shareholders

#### 1. General Information

- 1 Nature of industry Manufacture and export of readymade garments
- 2 Date of commencement of commercial production 01 01 1996
- 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

	2005-06
Net Profit for the year (Rs in lacs)	443 35
Weighted Average number of Equity Shares	4,75,00,000
Nominal value of Shares (Rs)	1
Basic & Diluted Earnings per Share (Rs)	0 93

- 5 Export performance and net foreign exchange earnings

	2005-06
Export performance	Rs 10144 75 lakhs
Net foreign exchange earnings	Rs 8005 18 lakhs

- 6 Foreign investments or collaborators, if any NRI SHARE HOLDING RS 2 16 LACS

#### 2. Information about the appointee:

- 1 Background details Mr Sabu M Jacob belongs to a family of entrepreneurs who have promoted many industrial units for producing textiles, garment, vessels, spices, umbrellas, school bags etc The group promoted Kitex Garments Limited in 1992 with the object of exporting readymade garments Mr Sabu M Jacob has been involved in the promotion and management of the company as Chairman and Managing Director right from its inception
- 2 Past remuneration Salary Rs 1,50,000/- + Allowances Rs 50,000/- per month during the past 3 years



## KITEX GARMENTS LIMITED 14<sup>th</sup> ANNUAL REPORT

3. Recognition or awards: The industrial unit is one of the few WRAP certified factories in India and has received certificates from reputed international buyers like Wal-Mart, Gerber, Disney etc as one of their approved sources.
4. Job-profile and his suitability: It is proposed to reappoint Mr. Sabu M Jacob as the Managing Director of the company for a period of 3 years with effect from 16.08.2006. He has been in the same position for more than thirteen years and under his leadership the company has grown in size and reputation.
5. Remuneration as detailed in the resolution.
6. Comparative remuneration profile with respect to industry, size of the company, profile of the position and person (in case of expatriates the relevant details would be w.r.t. the country of his origin): The proposed remuneration is considered reasonable with respect to the size of the company nature of industry and other factors. It is within the limits permitted under Schedule XIII of the Companies Act.
7. Pecuniary relationship directly or indirectly with the company, or relationship with the managerial personal, if any: Mr. M.C. Jacob, father of Mr. Sabu M Jacob is a director of the company. Mr. Sabu M Jacob holds 14.97% shares in the company. The promoter's shareholding is 56.16% of the paid up capital

### 3. Other Information

1. Reasons of loss or inadequate profits & Steps taken or proposed to be taken for improvement: Out of the past ten years from the commencement of commercial production in January 1996, the company suffered losses only in two years – in 1996-97 due to extensive power cut imposed by the KSEB and in 2000-01 due to international recession. In all other years the company has been making profits and the entire accumulated losses has been wiped off during the year 2002-03. However the profits are restricted due to stiff competition from other established manufacturers in the international market. Even though the company is making every effort to increase its profitability in the coming years, the proposed minimum managerial remuneration of Rs. 2,50,000/- per month, which is within the permissible limit under Schedule XIII, may exceed the ceiling of 5% of the net profits as prescribed under section 198 of the Companies Act.
2. Expected increase in productivity and profits in measurable terms:

Year	2005-06 (Actual)	2006-07 (Expected)
Sales (Rs in lakhs)	10583.27	17600.00
Net Profit (Rs in lakhs)	443.35	876.00

### DETAILS OF DIRECTOR SEEKING RE-APPOINTMENT AT THE ANNUAL GENERAL MEETING

(In pursuance of Clause 49 of the listing agreement)

- a) Brief resume of the director: Mr. Benni Joseph is a Member of the Institute of Chartered Accountants of India. He has been functioning as a Director of the Company since July, 1998.
- b) Nature of his expertise in specific functional areas: Finance Management, Accounts and Taxation.
- c) Names of companies in which he holds directorship and membership of committees of the Board: Director in Kitex Childrenswear Limited.
- d) Shares held by the Director (both own or held/for other persons on a beneficial basis): Nil

By Order of the Board of Directors  
For KITEX GARMENTS LIMITED

Sd/-

**SABU M JACOB**  
Chairman & Managing Director

Kochi  
30<sup>th</sup> June, 2006



## KITEX GARMENTS LIMITED 14<sup>th</sup> ANNUAL REPORT

### **DIRECTORS' REPORT**

#### **TO THE MEMBERS OF KITEX GARMENTS LIMITED**

The Directors have pleasure to present their Fourteenth Annual Report and the audited Annual Accounts for the year ended 31<sup>st</sup> March 2006

#### **Financial Results**

	Year ended 31 <sup>st</sup> March, 2006 (Rs in lakhs)	Year ended 31 <sup>st</sup> March, 2005 (Rs in lakhs)
Income from operations	11160 36	8033 69
Operating Profit	1638 21	1536 81
Profit before Financing Charges and Non cash expenditure	1119 61	749 33
Profit before tax	739 17	465 00
Profit after tax	443 35	262 39

#### **Performance Review**

The export turnover, which was Rs 6,801 56 lacs in the previous year 2004-05, has increased to Rs10,173 10 lacs during 2005 06. The export sales mainly consisted of Infant and Children's wear and Polar Fleece Jackets intended for the USA market. The sale was effected through reputed US buyers. The increase in turnover has resulted in increase in Operating profit from Rs 1,536 81 lacs to Rs1,638 21 lacs during the year.

#### **Future Prospects**

The company has commissioned the Factory and Hostel under the New Project on 25<sup>th</sup> March, 2006. The company expects to commission the expansion project in full by 31<sup>st</sup> December 2006. To ensure the quality and timely availability of the major raw material i.e. fabric, the company plans to set up a processing plant near the existing factory at a cost of Rs 4,580 lacs. The work of the processing plant is in progress and plans to commission the same by March 2007.

#### **Dividend**

The Directors are happy to report that a maiden interim dividend was paid during the year at 10% of the paid up capital. No final dividend is recommended for the year in order to conserve the available resources for the on going expansion.

#### **Capital Expenditure**

As at 31<sup>st</sup> March 2006 the gross fixed assets stood at Rs 2813 86 lakhs and net fixed assets Rs 2219 10 lakhs. Additions during the year amounted to Rs 1180 42 lakhs, which includes addition to building for Rs 741 19 lakhs, machinery and other equipments amounting to Rs 238 59 lakhs. The additions were made as a part of the on going expansion of the existing factory.

Term Loan for the New Processing plant was sanctioned in November 2005 by The Federal Bank Ltd to the tune of Rs 3,893 lakhs.

#### **Directors Responsibility Statement**

The directors report that

- i) In the preparation of the annual accounts, the applicable accounting standards have been followed
- ii) The Directors 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 and loss account of the company for that period
- iii) The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in



## KITEX GARMENTS LIMITED

### 14<sup>th</sup> ANNUAL REPORT

accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.

- iv) The Directors have prepared the annual accounts on a going concern basis.

#### **Corporate Governance**

As per Clause 49 of the Listing Agreement with the Stock Exchanges, a report on the Corporate Governance and Management Discussion and Analysis is enclosed.

#### **Disclosure of Particulars**

- (i) Information as per Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are given in Annexure 'A' forming part of this report.
- (ii) The Company has no employee in respect of whom information under Section 217(2A) of the Companies Act 1956, read with the Companies (Particulars of Employees) Rules, 1975 as amended is required to be annexed.

#### **Directors**

Mr. Benni Joseph is retiring by rotation and being eligible offers himself for re-appointment.

The tenure of Mr. Sabu M Jacob as Managing Director expires on 15.08.2006. Proposal to reappoint him is placed before the ensuing Annual General Meeting.

#### **Auditors**

M/S Venkit & Hari, Chartered Accountants retire at the forthcoming Annual General Meeting and are eligible for reappointment.

#### **Acknowledgement**

Your Directors wish to place on record their appreciation for the whole hearted and sincere co-operation the Company has received from its bankers, State Bank of India, Punjab National Bank, The Federal Bank Ltd and various Government agencies. Your Directors also wish to thank all the employees for their co-operation.

For and on behalf of the Board of Directors

Sd/-

SABU M JACOB

Chairman & Managing Director

Kochi

30<sup>th</sup> June, 2006

#### **ADDENDUM TO DIRECTORS' REPORT**

Regarding Auditor's remark on usage of funds vide para (xvii) of Annexure to the Auditor's Report (page 18), the company had applied for an additional term loan of Rs. 1000 lacs from bankers for meeting a part of the capital expenditure for the expansion project. Since there was an unexpected delay in getting the sanction of the term loan, the company had to use short term funds to the extend of Rs. 1010 lacs for the project in order to complete the project as per schedule so as to avoid cost overrun. The term loan of Rs. 1000 lacs has been sanctioned in June 2006 and the usage of funds has been regularised.

For and on behalf of the Board of Directors

Sd/-

SABU M JACOB

Chairman & Managing Director

Kochi

30<sup>th</sup> June, 2006



## KITEX GARMENTS LIMITED 14<sup>th</sup> ANNUAL REPORT

### Annexure 'A' to the Directors' Report

(Additional information given in terms of notification issued by the Department of Company affairs)

#### **A. CONSERVATION OF ENERGY**

The Company continues its efforts to improve methods for energy conservation and utilization by

- (1) More usage of electricity purchased from KSEB.
- (2) Improved efficiency of own generation by usage of diesel generator only for emergencies and as stand by.
- (3) Intensified vigil on wastage/leakage control.

Disclosure of particulars with respect to conservation of energy

#### **Power & Fuel Consumption**

	Year Ended 31.03.2006	Year Ended 31.03.2005
Electricity		
a) Purchased		
Units (KWH)	31,26,262	25,74,221
Total Amount	(Rs) 1,23,17,472	(Rs) 1,01,42,431
Rate/Unit (Rs./KWH)	3.94	3.94
b) Own generation		
Through Diesel Generator		
Units (KWH)	1,35,392	91,244
Total Cost	(Rs) 7,90,687	(Rs) 4,63,518
Cost/Unit (Rs./KWH)	5.84	5.08

#### **B. CONSUMPTION PER UNIT OF PRODUCTION**

The company manufactures different types of garments like Hosiers, Shirts, Pants, Jackets, Innerwears, Outerwears etc. and power consumption cannot be appropriated separately.

#### **C. TECHNOLOGY ABSORPTION**

Disclosure of particulars with respect to technology absorption:-

#### **Research & Development**

##### **1. Specific areas in which R&D carried out by the company.**

- a) Quality Upgradation
- b) Developing wide range of products
- c) Productivity enhancement
- d) Quality Control Management



## KITEX GARMENTS LIMITED 14<sup>th</sup> ANNUAL REPORT

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

- a) Increase in production and capacity utilization
- b) Repeat order from customers due to consistency in quality

### **3. Future plan of action**

- a) Cost-efficiency in manufacturing operations through better methods and techniques of production
- b) Increasing range of production
- c) Development of new markets.

### **4. Expenditure in R&D**

Specific expenditure of recurring or capital nature is not involved.

Technology absorption, adoption and innovation

#### **Efforts**

Development of products of International Quality and Standards particularly for exports of merchandise and implementation of Total Quality Assurance System for this purpose.

#### **Benefits**

- a) Export of Merchandise increased.
- b) Quality of products improved.
- c) Scoring high points in evaluation by reputed foreign buyers.

### **D. FOREIGN EXCHANGE EARNINGS AND OUTGO**

	2005-2006 (Rs in lakhs)	2004 - 2005 (Rs in lakhs)
Earnings on account of Exports	10144.75	6684.38
Outgo on account of Import & Expenditure	2139.57	1319.60

For and on behalf of the Board of Directors

Sd/-

**SABU M JACOB**

Chairman & Managing Director

Kochi

30<sup>th</sup> June, 2006