

37th ANNUAL REPORT
2006-07



KOTHARI INDUSTRIAL CORPORATION LIMITED

Kothari Industrial Corporation Limited



BOARD OF DIRECTORS

Mr. Pradip D. Kothari
Chairman & Managing Director

Mr. T. Sankaran

Mr. K. Santhanam

Mr. A. R. Krishnan
(upto 21.4.2006)

AUDITORS

Report



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SRI & SRI ASSOCIATES
Chartered Accountants
Chennai

REGISTERED OFFICE:

"Kothari Buildings"
114, Mahatma Gandhi Salai
Chennai – 600034



KOTHARI INDUSTRIAL CORPORATION LIMITED

Regd. Office : "Kothari Buildings"
114, Mahatma Gandhi Salai, Chennai 600 034

NOTICE TO MEMBERS

NOTICE is hereby given that the 37th Annual General Meeting of the Company will be held as scheduled below :

Day & Date : Saturday, the 26th April, 2008

Time : Immediately after the conclusion of the Thirtysixth Annual General Meeting of the Company

Place : RANI SEETHAI HALL
603, Anna Salai
Chennai – 600 006

The Agenda for the Meeting will be as follows:

ORDINARY BUSINESS

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

"RESOLVED THAT the audited Profit & Loss Account and cash flow statement for the year

ended 31st March, 2007 and the Balance Sheet as at that date along with the Auditors' Report and the Directors' Report circulated to the members be and are hereby adopted".

2. To consider and if thought fit, to pass the following resolution as an Ordinary Resolution:

"RESOLVED THAT Mr. K. Santhanam be and is hereby reappointed as a Director of the company, liable to retire by rotation."

3. To consider and if thought fit, to pass the following resolution as an Ordinary Resolution:

"RESOLVED that Messrs B.B. Naidu & Co., Chartered Accountants, Chennai be and are hereby appointed as Auditors of the Company in the place of retiring auditors, M/s. Sri & Sri Associates to hold office from the conclusion of this Annual General Meeting upto the conclusion of the next Annual General Meeting on such remuneration as may be fixed by the Board of Directors of the company".

(By Order of the Board)

Place: Chennai
Date : 28.09.2007

for KOTHARI INDUSTRIAL CORPORATION LIMITED
PRADIP D. KOTHARI
CHAIRMAN & MANAGING DIRECTOR

A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND ON A POLL TO VOTE INSTEAD OF HIMSELF / HERSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. PROXIES IN ORDER TO BE EFFECTIVE, SHOULD BE LODGED WITH THE COMPANY AT ANY TIME NOT LESS THAN FORTYEIGHT HOURS BEFORE THE TIME OF THE MEETING. A FORM OF PROXY IS ENCLOSED.

Note:

1. Unclaimed Dividend:

Shareholders are hereby informed that all unpaid/unclaimed dividends for the years upto 1995 have been transferred to the Central Government as per the provisions of Sec.205-A(5) of the Companies Act, 1956. Those shareholders who have not encashed the dividend warrants are requested to claim the amount from the Registrar of Companies, Shastri Bhavan, Haddows Road, Chennai 600 006 and they may contact the Company for any assistance in this

Kothari Industrial Corporation Limited

connection.

2. The Register of Members and the Transfer Books of the company remained closed from Tuesday, the 18th September, 2007 to Friday, the 21st September, 2007 (both days inclusive).

3. (a) Members are also hereby informed that the equity shares of the company are available for dematerialisation/ rematerialisation under the Depository System.

(b) M/s. Integrated Enterprises (India) Limited, Chennai - 600 017 are the Registrars & Share Transfer Agents for dealing with electronic form of equity Shares of the Company. The ISIN Code allotted to the Company is INE972A01012.

(c) Members desirous of having more information may write to the Secretarial Department of the company.

4. Members are requested to notify the change of address, if any immediately to the Company.
5. Members with identical order of names who

are holding shares in multiple folios are requested to write to the Company enclosing their Share Certificates to enable the Company to consolidate their holdings into one folio.

6. Members/Proxies should bring Attendance Slip (duly completed) for attending the meeting as well as copy of the Annual Report.

Details of Mr. K. Santhanam, seeking re-appointment at this Annual General Meeting: (in pursuance of Clause 49 of the Listing Agreement)

Date of Appointment : 06.07.2005

Qualification: Post Graduate in Commerce and has also experience in marketing.

Directorship held in other public companies: None

Membership / Chairmanship of Committees of other public companies: None

Member of the following Committee of

Kothari Industrial Corporation Limited:

Issue of duplicate share certificates.

Shareholding in the company :

Nil



REPORT OF THE DIRECTORS

Your Directors present herewith the Thirtyseventh Annual Report on the performance of the Company along with the Audited Balance Sheet and Profit and Loss Account for the financial year ended 31st March, 2007.

The Financial Results are as follows:

	(Rs.in Lacs)	(Rs.in Lacs)
	2006 - 07	2005 - 06
Turnover/Income from Services	<u>1577.23</u>	<u>1917.83</u>
Profit/(Loss) before Interest and Depreciation	(106.79)	485.20
Interest and Finance Charges	1.89	71.24
Profit/(Loss) before Depreciation	(108.68)	413.96
Extra-ordinary items (net)	(1407.67)	(187.92)
Depreciation	21.64	41.11
Profit/(Loss) before tax	(1537.99)	184.93
Provision for Income-tax	--	--
Fringe Benefit tax	6.40	4.50
Profit / (Loss) after tax	(1544.39)	180.43
Balance Profit / (Loss) brought forward from the previous year	(2981.90)	(3162.33)
Balance Profit / (Loss) carried to Balance Sheet	(4526.29)	(2981.90)

In the absence of profits for the year under review, the Directors could not recommend any dividend for the year.

The Turnover on account of NPK mixtures, Straight fertilizers and trading on pesticides resulted in a turnover of Rs.1577.23 Lacs (Rs.1917.83 Lacs)

KOTHARI COFFEE CURING WORKS:

The operations of the company's working under an arrangement was carried on by an interested purchaser. However, due to financial and labour problems, the Purchaser has suspended the operations. The management is taking steps to sort out the issue.

GRANITE:

The Granite Division has not been in operation during the year.

FUTURE PROSPECTS:

The company's present reduced activities are limited to fertilizer mixing, trading in pesticides besides receiving rental income. The management is confident of restarting the manufacturing activities based on the restructuring exercise being undertaken and upon infusion of additional funds in the Fertiliser Division. The management is further negotiating with the financial institution for financial assistance to repay to banks and other lenders on One Time Settlement basis and for providing adequate working capital towards reviving the suspended operations of super phosphate and other fertilizers.

DIRECTORS:

In accordance with the provisions of the Companies Act, 1956 and the Company's Articles of Association, Mr. K. Santhanam retires by rotation and is eligible for reappointment.

Mr.A.R.Krishnan resigned from the Board with effect from 21st April, 2006.

The Board placed on record its appreciation of the services rendered by Mr.A.R.Krishnan during his tenure as Director of the company.

RESPONSIBILITY STATEMENT:

The Directors confirm that —

- In the preparation of the annual accounts, the applicable accounting standards have been followed and that no material departures have been made from the same;
- They have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true

Kothari Industrial Corporation Limited

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;

- c) To the best of their knowledge and information, they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- d) They have prepared the annual accounts on a going concern basis.

AUDITORS' REPORT:

With regard to the remarks in the Auditors' Report, the relevant financial notes are self explanatory. The items included under extra ordinary items in the Profit and Loss account are based on realistic approach taking into account the developments.

AUDITORS

Presently, M/s. Sri & Sri Associates, Chartered Accountants, Chennai are the auditors, appointed at the 36th AGM of the Company. In the meanwhile, the company has received a notice proposing the name of M/s. B.B. Naidu & Co., Chartered Accountants, Chennai in the place of retiring auditors, M/s. Sri & Sri Associates, to be the auditors of the company. Necessary resolution is set out in the Notice convening the 37th Annual General Meeting.

M/s. B.B. Naidu & Co., were the joint auditors of the company for 11 years from 1994-95 till 2004-05. In view of the long association of M/s.B.B. Naidu & Co, with the company, the Directors recommend the ordinary resolution for approval of the members.

SAFETY AND ENVIRONMENT:

The Company continued to maintain a good safety record. The manufacturing units of the Company are environment friendly and maintain all safety standards and measures.

DEPOSITS:

The Company held Rs. 74.31 Lacs as deposits from public and OCBs as on 31st March, 2007 out of which deposits aggregating to Rs. 4.17 Lacs remain unclaimed as on that date.

PARTICULARS OF EMPLOYEES:

None of the employees were in receipt of a monthly remuneration of Rs.2,00,000/-.

CORPORATE GOVERNANCE:

The Company has not been able to appoint a Company Secretary due to inability to match the remuneration package vis-à-vis the size of the Company and there being only a skeleton staff in the Secretarial Department, it has not been possible to prepare in time the Corporate Governance and Management Analysis Report required to be annexed to the Annual Report which shall be circulated to the Members as soon as they are compiled.

ACKNOWLEDGEMENT:

Your Directors place on record their appreciation of the valuable support and timely help of the financial institutions, government authorities, banks and employees. The cooperation and the forbearance of the members are gratefully acknowledged.

Place : Chennai
Date : 28.09.2007

On behalf of the Board of Directors
Pradip D. Kothari
Chairman & Managing Director



REPORTS OF THE AUDITORS

To
The Members of
Kothari Industrial Corporation Limited

We have audited the attached Balance Sheet of M/s Kothari Industrial Corporation Ltd., Chennai – 600 034 as of 31st March, 2007, the Profit and Loss Account for the year ended on that date annexed thereto and the Cash Flow statement for the year ended on that date. 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.

1. 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 about 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 presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.
2. As required by the Companies (Auditor's Report) Order, 2003 and amended by the Companies (Auditor's Report) (Amendment) Order, 2004, issued by the Central Government in terms of sub-section (4A) of Section 227 of the Companies Act, 1956. We enclose in the annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
3. Further to our comments in the annexure referred to above, we state that:
 - (i) The company has not made available the accounts, records and provided adequate information and explanation relating to the Granite Division, which to the best of our knowledge and belief are necessary for the purpose of our audit.
 - (ii) In our opinion, proper books of account as required by law have been maintained with the exception of Granite Division so far as appears from the examination of those books and non-availability of the Register under Section 301 of the Companies Act, 1956 for our audit.
 - (iii) The Balance Sheet and Profit and Loss Account and the cash flow statement referred to in this report are in agreement with such books of account referred to in paragraph (ii) above.
 - (iv) In our opinion, the Balance Sheet, Profit and Loss Account and cash flow statements dealt with this report comply with the Accounting Standards referred to in Section 211(3c) of the Companies Act, 1956 subject to specific qualifications contained in Para 5 and 6 on non-observance of accrual basis of accounting.
 - (v) In our opinion, the said accounts together with the accounting policies and notes in Schedule 17b give the information required under the Companies Act, 1956 in the manner required.
4. In view of the Company not having paid the loans to financial institutions and banks and not repaid certain matured fixed deposits for a period exceeding three years, we report that all the Directors are disqualified as on 31st March, 2007 from being appointed as Directors in any other public limited company in terms of Sec.274(1)(G) of the Companies Act, 1956. The company has been advised by the counsel that there is no bar for the existing Directors of the company from being reappointed as Directors in the same company.
5. Attention is invited to:
 - (i) Note No.5(ii) relating to non-provision for disputed sales tax demands aggregating to Rs.900.07 lacs.

Kothari Industrial Corporation Limited

- (ii) Non-provision for power tariff consequent to withdrawal of concessional power tariff relating to earlier years Rs. 328.73 lacs (Note 5 (iii))
 - (iii) Non-provision for potential liability for unfulfilled export obligation pertaining to textile division amounting to Rs.84.07 lacs (Note 5(vi) and debonding charges pertaining to Granite Division amounting to Rs.150.00 lacs.
 - (iv) Non-incorporation of the transactions of the Granite Division during the year (Note 8)
 - (v) The company has yet to give effect to the order of the City Civil Court, Chennai regarding refund of share monies (Note 2(v) and 2(vi))
 - (vi) The company has not given effect to the consent decree filed with the Supreme Court regarding disputed share allotment (Note 2(vii))
 - (vii) The liability on account of shortfall between the realisable value of certain leased machineries of Kothari Mill No.2 repossessed by the leasing company and the amount that would become ultimately payable, has not been quantified and provided for.
 - (viii) The suspension of construction activities at Brewery Project in Andhra Pradesh.
 - (ix) Legal possession of certain plantation lands acquired is overdue and yet to be registered by the Company (Schedule 5 Note 2)
 - (x) We have not audited the unpaid dividend bank accounts of the company in the absence of complete details / bank statements and the consequential payments to the Investor Education and Protection Fund.
 - (xi) Non-provision of interest on certain unsecured advances
 - (xii) The company has not constituted an Audit Committee during the year.
 - (xiii) Advances of Rs.46.45 lacs due from Kothari Group Employees Gratuity Fund representing Gratuity paid directly to employees by the company. In the absence of ascertainment of the quantum of gratuity liability either on actuarial basis or otherwise, it has not been possible to ascertain whether the gratuity liability has been recognized in full in the accounts and whether amount of Rs.46.45 lacs shown as due from Gratuity Fund is recoverable in the absence of the accounts of the fund which have not been made available.
- 6(i) The company has not complied with most of the requirements of Clause 49 of SEBI regulations and the Companies Act, 1956 in regard to the timely preparation and publication of the quarterly / final accounts.
- (ii) The Fertiliser Factory at Ennore has not been in operation since 2001. The physical existence and present condition of the Plant and Machinery of the fertilizer factory and at the Granite Factory which are in the proximity to the sea has not been ascertained to assess the impairment in their condition
 - (iii) The incomplete factory building meant for brewery in Andhra Pradesh has remained as such for the last few years and diminution/impairment in its carrying value has not been quantified and adjusted in the account.
7. (a) We are unable to express any opinion on :
- (i) the quantum of liability relating to items (i), (ii) and (iii) in paragraph (5)
 - (ii) Justification of writing off certain loans and advances and amounts due from companies included under extraordinary items in the Profit and Loss account.



- (iii) the effect of impact of significant matters mentioned in paragraph (5) (iv), (v), (vi), (vii), (viii) (ix) and (xi), the quantum thereof not having been quantified or estimated by the company
 - (iv) the effect of unadjusted shortfall between the revalued assets and the reduced Revaluation Reserve on account of periodical utilization of the Reserve in the earlier years for absorbing capital losses on disposal of certain divisions in the past years and the amount has not been quantified by the management.
 - (b) As mentioned in the Financial note No.1 to Schedule 17, the future profitability would depend upon further financial assistance/ restructuring scheme, in the absence of which, we are unable to express any opinion on the presentation of the accounts on principles applicable to a going concern in our opinion is inappropriate.
- 8. Subject to our observations in paragraphs 5, 6 and 7 above and the consequential effect on the assets and liabilities and the loss we report that:
 - (a) the Balance Sheet gives a true and fair view of the state of the company's affairs as at 31st March, 2007
 - (b) the Profit & Loss Accounts gives true and fair view of the loss for the year.
 - (c) In the case of the Cash flow statement for the year ended 31st March, 2007, the cash flows for the year ended on that date.
 - 9. The company has not submitted to us the Corporate Governance Report and Management discussion and Analysis Report for the year.

For SRI & SRI ASSOCIATES
Chartered Accountants

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M.B.SRIDHARAN
Partner

Membership No. 020860

Place: Chennai
Date : 28.9.2007

Kothari Industrial Corporation Limited

ANNEXURE REFERRED TO IN OUR REPORT OF EVEN DATE ON THE ACCOUNTS FOR THE PERIOD ENDED 31.03.2007

1. (a) The company has maintained proper records showing full particulars including quantitative details and situation fixed assets except Granite Division.
- (b) All the fixed assets excepting Granite Division have been physically verified by the Management during the year. **As the existence of Plant and machineries at Granite Division which had been closed have not been verified by the Management it is not possible for us to ascertain if there are any material discrepancies.**
- 2.(a) The inventories have been physically verified during the year by the management. In our opinion, the frequency of verification is reasonable.
- (b) The procedures of physical verification of inventories followed by the Management are reasonable and adequate in relation to the size of the company and the nature of its business.
- (c) On the basis of our examination of the records of inventory, we are of the opinion that the company is maintaining proper records of inventory. The discrepancies noticed during physical verification between the physical stocks and the book records were not material.
- (3) (a) The Register under Section 301 of the Companies Act 1956, has not been produced to us for verification. However, from the financial records, we have ascertained that there is one limited company to which the Company has granted loans/advances. The company has also availed loans/advances from some companies/firms. The maximum amount involved during the year was Rs.93.73 lacs and the year end value of loans/advances granted to such parties was Rs. 15.23 lacs and loans and advances availed from such parties is Rs.52.06 lacs.
- (b) We could not ascertain the rate of interest and other terms and conditions on which loans have been taken from/granted to companies, firms or other parties under Section 301 are prima facie, prejudicial to the interest of the company or not as the Register maintained under Section 301, **has not been made available to us for verification.**
- (c) With regard to loans, overdraft and cash credit availed, **the company is not regular in repaying the principal amounts as stipulated and has not been regular in payment of interest.**
- (d) Since the Register under Section 301 of the Company's Act 1956, has not been produced to us for verification we could not give any opinion whether any over due amount of loans were taken from or granted to companies, firms or other particulars listed in Section 301 of the Companies Act 1956.
4. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the company and the nature of its business with regard to purchases of inventory and fixed assets and with regard to the sale of goods.
5. The Register to be maintained under Section 301 has not been produced to us for verification and therefore we could not give any opinion on the transactions made in pursuance of contracts or arrangements entered in the registers under Section 301 and exceeding the value of five lakh rupees in respect of any party during the year have been made at prices which are reasonable having regard to prevailing market prices at the relevant time.
6. In our opinion and according to the information and explanations given to us, the company **has not complied with the provisions of sections 58AA of the Companies Act, 1956 and the Companies (Acceptance of Deposits) Rules, 1975** with regard to the deposits accepted from the public in prior years and matured deposits of Rs.74.31 lacs which remain unpaid.