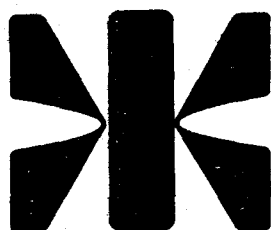


**KERALA CHEMICALS & PROTEINS LIMITED**



**TWENTY NINTH  
ANNUAL REPORT  
2004-2005**

## KERALA CHEMICALS &amp; PROTEINS LTD.



**Board of Directors** : **P. H. Kurian, IAS**  
*Chairman*  
**A. K. Nair**  
*Managing Director*  
**N. Muraki**  
*Joint Managing Director*  
**G. Suseelan**  
*Wholetime Director*  
**T. Yamaguchi**  
**Norimichi Soga**  
**S. Fujii**  
**Venu Nallur**  
**K. Ramakrishnan**  
**K. L. Kumar**

**Secretary** : **P. D. Vincent**  
**Auditors** : Varma and Varma  
 Ernakulam

**Bankers** : State Bank of India  
 Canara Bank  
 State Bank of Travancore  
 UTI Bank Ltd.  
 South Indian Bank Ltd.

**Legal Advisor** : **M. Pathrose Mathai**  
 Advocate, Ernakulam

**Registrar & Share Transfer Agents** : Cameo Corporate Services Ltd.  
 1, Club House Road  
 Chennai - 600 002  
 Tel.: 044-28460390  
 Fax: 044-28460129  
 E-mail: cameo@cameoindia.com  
**Registered Office** : Post Bag No. 4262  
 50/1002, Panampilly Nagar P.O.  
 Kochi-682 036

**Factory**  
**Ossein Division** : Kathikudam P.O.  
 (Via.) Koratty  
 Trichur District-680 308  
**Gelatin Division** : KINFRA Export Promotion  
 Industrial Parks Ltd.  
 P.B. No. 3109, Kusumagiri P.O.  
 Kakkanad, Kochi-682 030

**CONTENTS**

|  |    |
|--|----|
| Board of Directors, etc.   | 1  |
| Financial Highlights   | 2  |
| Notice   | 3  |
| Directors' Report  | 7  |
| Balance Sheet  | 18 |
| Profit and Loss Account  | 19 |
| Schedules to the Balance Sheet   | 20 |
| Schedules to the Profit & Loss Account                                 | 25 |
| Notes on Accounts  | 28 |
| Cash Flow Statement  | 37 |
| Auditors' Report   | 39 |
| Statement Pursuant to Section 212(1) (e)<br>of the Companies Act, 1956 | 42 |
| Consolidated Financial Statements                                      | 43 |
| Annual Report of Bamni Proteins Ltd.                                   | 64 |

## FINANCIAL HIGHLIGHTS (12 Years)

(Rs. in lacs)

|                                 | 1993-94 | 1994-95 | 1995-96 | 1996-97 | 1997-98 | 1998-99  | 1999-2000 | 2000-01  | 2001-02  | 2002-03  | 2003-04  | 2004-05  |
|---------------------------------|---------|---------|---------|---------|---------|----------|-----------|----------|----------|----------|----------|----------|
| Total Income                    | 2978.75 | 2820.84 | 2904.62 | 4390.99 | 4755.45 | 5604.53  | 6397.79   | 7397.65  | 8002.33  | 7969.16  | 9224.71  | 9961.69  |
| Sales                           | 2705.67 | 2669.70 | 2424.70 | 3774.30 | 4365.03 | 4963.43  | 5609.94   | 6561.04  | 7161.41  | 7629.65  | 8601.25  | 8841.23  |
| Exports                         | 2387.74 | 2297.54 | 1842.55 | 2733.84 | 3495.91 | 3640.04  | 3702.48   | 4501.28  | 4698.63  | 4684.77  | 5260.42  | 5424.82  |
| Pre-tax Profit/(Loss)           | 752.07  | 747.86  | 1100.37 | 865.49  | 853.91  | 768.38   | (370.46)  | (170.89) | 367.83   | (467.02) | (645.82) | (217.49) |
| Profit/(Loss) after tax         | 680.03  | 691.84  | 874.25  | 688.49  | 753.91  | 677.38   | (485.42)  | (198.22) | 441.45   | (311.05) | (645.82) | (239.72) |
| Earnings per share (Rs.)        | 32.34   | 32.38   | 41.63   | 32.79   | 17.95   | 8.06     | (5.78)    | (2.36)   | 5.26     | (3.70)   | (7.69)   | (2.85)   |
| Divided per share (Rs.)         | 5.00    | 5.00    | 6.00    | 4.50    | 3.00    | 2.50     | -         | -        | -        | -        | -        | -        |
| Reserves &<br>Retained Earnings | 2178.97 | 2765.81 | 3514.06 | 4098.06 | 4503.91 | 7731.52  | 7246.09   | 7047.87  | 7373.33  | 7077.28  | 6431.46  | 6191.75  |
| Share Capital                   | 210.00  | 210.00  | 210.00  | 210.00  | 420.00  | 840.00   | 840.00    | 840.00   | 840.00   | 840.00   | 840.00   | 840.00   |
| Shareholders' Funds             | 2388.97 | 2975.81 | 3724.06 | 4308.60 | 4923.91 | 8571.52  | 8086.09   | 7887.87  | 8213.33  | 7917.28  | 7271.46  | 7022.83  |
| Return on Equity (%)            | 28.47   | 23.25   | 23.48   | 15.98   | 15.31   | 7.90     | (6.00)    | (2.51)   | 5.37     | (3.93)   | (8.88)   | (3.41)   |
| Book Value/Share (Rs.)          | 113.76  | 141.71  | 177.34  | 205.17  | 117.24  | 102.04   | 96.26     | 93.90    | 97.78    | 94.25    | 86.57    | 83.61    |
| Gross Block                     | 903.94  | 966.50  | 1019.50 | 1235.61 | 1662.48 | 10152.12 | 10515.63  | 10610.15 | 10746.77 | 10882.23 | 11028.25 | 11578.84 |
| Net Block                       | 450.75  | 455.22  | 451.23  | 575.60  | 880.81  | 9159.12  | 8761.70   | 8113.24  | 7531.66  | 6955.03  | 6411.08  | 6325.73  |

## KERALA CHEMICALS &amp; PROTEINS LTD.

## NOTICE TO MEMBERS

NOTICE IS HEREBY GIVEN that the 29<sup>th</sup> Annual General Meeting of Kerala Chemicals and Proteins Limited will be held on Saturday, the 25<sup>th</sup> June 2005 at 10.00 AM, at Hotel Avenue Regent, M.G. Road, Ernakulam, Kochi-682 016, to transact the following business:

## ORDINARY BUSINESS:

1. To receive, consider and adopt the Directors' Report, the Audited Balance Sheet as at 31<sup>st</sup> March 2005 and Profit and Loss Account for the year ended on that date and the Auditors' Report thereon.
2. To appoint a Director in place of Mr. S. Fujii, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Mr. K. Ramakrishnan, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint Auditors and to fix their remuneration and in this connection to pass with or without modification, the following resolution as a Special Resolution

"RESOLVED THAT pursuant to the provisions of Section 224A of the Companies Act, 1956, M/s Varma & Varma, Chartered Accountants, be and are hereby re-appointed as Auditors of the Company to hold office until the conclusion of the next Annual General Meeting on a remuneration that may be fixed by the Board of Directors".

Note:

The re-appointment of auditors is being proposed as a special resolution in accordance with Section 224A of the Companies Act, 1956.

## SPECIAL BUSINESS

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

"RESOLVED THAT pursuant to the provisions of Sections 198,269,309,310 read with Schedule XIII and other applicable provisions of the Companies Act, 1956 and subject to such approvals as may be required or necessary, the consent and approval of the Company be and is hereby accorded for the appointment of Mr. Nobuo Muraki as Joint Managing Director of the Company for a period of two years from 1.4.2005 under Article 127(1) of the Articles of Association of the Company, on terms and conditions including remuneration and minimum remuneration as recommended by the Remuneration Committee and approved by the Board and as detailed in the Explanatory Statement to this notice."

"FURTHER RESOLVED that the Board of Directors of the Company, be and is hereby authorised to vary the remuneration and perquisites including the monetary value thereof to the extent the Board of Directors may consider appropriate, as may be permitted or authorised in accordance with any provisions under the Companies Act, 1956."

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

"RESOLVED THAT pursuant to the provisions of Sections 198,269,309,310 read with Schedule XIII and other applicable provisions of the Companies Act, 1956 and subject to such approvals as may be required or necessary, the consent and approval of the Company be and is hereby accorded for the appointment of Mr. G. Suseelan as Whole-time Director of the Company for a period of five years from 1.4.2005 under Article 127(1) of the Articles of Association of the Company, on terms and conditions including remuneration and minimum remuneration as recommended by the Remuneration Committee and approved by the Board and as detailed in the Explanatory Statement to this notice".

"FURTHER RESOLVED that the Board of Directors of the Company, be and is hereby authorised to vary the remuneration and perquisites including the monetary value thereof to the extent the Board of Directors may consider appropriate, as may be permitted or authorised in accordance with any provisions under the Companies Act, 1956."

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

"RESOLVED THAT approval of the Company be and is hereby accorded for the variation in the terms of appointment of Mr. A.K. Nair, Managing Director by replacing Clause 2(i)(a) with the following with effect from 1.4.2005.

"Company hired accommodation subject to a ceiling of 50% of Basic Pay over and above 20% payable, for which deduction of 20% shall be made from Basic Pay. If Company does not provide accommodation, HRA @ 50% of Basic Pay will be paid""

By Order of the Board,

Kochi  
14-05-2005

P. D. VINCENT  
Company Secretary



## KERALA CHEMICALS &amp; PROTEINS LTD.

## NOTES

1. A member entitled to attend and vote is entitled to appoint a proxy to attend and vote on a poll on his behalf and a proxy need not be a member. The proxy forms duly completed, stamped and signed must be deposited at the registered office of the company not less than forty-eight hours before the meeting.
2. The Register of Members and Share Transfer books of the company will remain closed for 10 days from 16.06.2005 to 25.06.2005 inclusive of both days.
3. Members holding shares in the same name or same order under different ledger folios are requested to apply for clubbing into one folio.
4. Company has appointed M/s Cameo Corporate Services Limited, "Subramanian Building", 1, Club House Road, Chennai-600 002, as the Registrar and Share Transfer Agents of the Company w.e.f 1<sup>st</sup> April 2003 to deal with the physical as well as electronic share registry.
5. Members are requested to notify immediately any change in their addresses to the Registrar and Share Transfer Agents at their address as given above in the case of physical holdings and to their respective Depository Participant in case of demated shares.
6. Members are requested to furnish details of their nominee in the nomination form that can be obtained from the company on request.
7. Members desiring any information as regards the accounts are requested to write to the company so as to reach the Registered Office at least 5 days before the date of meeting to enable the management to keep the information ready.
8. Pursuant to Section 205A of Companies Act, 1956, and the introduction of Section 205C by the Companies (Amendment) Act, 1999, the amount of dividend unpaid/unclaimed in the dividend account for the year ended 31.3.98 will be kept with the bankers for a period of 7 years and will thereafter be transferred to Investor Education & Protection Fund. Members who have not encashed their dividend warrants yet are requested to claim such dividends immediately.
9. Members are requested to note that trading of company's shares through Stock Exchanges are permitted only in electronic/ demat form. The members who have not yet converted their holdings into the electronic form may please consider opening an account with an authorised Depository Participant and arrange for

dematerialisation.

10. Members attending the Annual General Meeting are requested to bring with them:
  - i) copy of the annual report received by post.
  - ii) members holding shares in dematerialised form-their DP Id & Client Id Nos.
  - iii) members holding shares in physical form - their folio no(s).

## ANNEXURE TO THE NOTICE

Explanatory Statement pursuant to Sec. 173(2) of the Companies Act, 1956.

Item No.5

In terms of the Joint Venture Agreement among the promoters of the Company and Article 127(1) of the Articles of Association of the Company, the foreign collaborators have the right to appoint Whole-time Technical Director. In exercise of this power, they have proposed to the Company to appoint Mr. Nobuo Muraki as Whole-time Director of the Company in place of Mr. H. Tachibana for a period of two years from 1.4.2005. The Board considered the proposal and appointed Mr. Nobuo Muraki as Joint Managing Director of the Company as recommended by the Remuneration Committee subject to the approval of the members in General Meeting and Central Government, on the following terms and conditions.

1. Basic Salary  
Rs.45,000/- (Rupees Fortyfive Thousand) per month.
2. Housing  
Mr. Muraki will be provided with a Company-owned accommodation for which 10% of the salary shall be deducted by the Company. The expenditure incurred by the Company on gas, electricity, water and furnishings will be valued as per the Income Tax Rules and shall be subject to a ceiling of 10% of the salary.
3. Medical Benefits  
Expenses actually incurred for self and family subject to a ceiling of one month's salary in a year. Unavailed medical benefits, if any, at the end of the year will be allowed to be carried forward.
4. Personal Accident Insurance  
The annual premium not to exceed Rs. 4,000/- to the Company.
5. Leave Travel  
Return passage for self and family once in a year by business class to home town in Japan.

## KERALA CHEMICALS &amp; PROTEINS LTD.

## 6. Holiday passage for children studying abroad

Return Holiday passage once in a year by economy class from their place of study abroad to India and back.

## 7. Passage

Reimbursement of expenses incurred for joining duty and returning to home town, on completion of tenure viz. travel by business class for self and family, packing and forwarding, loading/unloading, freight, insurance, customs duty, clearing expenses at port of disembarkation, local transportation charges to residence and installation expenses.

## 8. Car

Motor car for personal and official use (Personal use of car will be billed for)

## 9. Telephone

Free telephone facility at the residence (Long distance calls will be billed for)

## 10. Leave and Leave Encashment

On full pay and allowances not exceeding 30 days for every year of service. Unavailed leave, if any, at the end of the tenure will be allowed to be encashed.

## 11. Club Membership

Membership fee of any two clubs will be reimbursed. No life membership fees will be paid.

## 12. Entertainment expenses

Entertainment expenses actually incurred in the course of the business of the Company will be reimbursed subject to the limits fixed by the Board.

The above said remuneration including benefits will be paid to Mr. Muraki as minimum remuneration and shall not be varied/reduced with reference to profits or otherwise.

Except Mr. N. Muraki, Mr. H. Tachibana and Mr. T. Yamaguchi, Nominee Directors of Nitta Gelatin Inc., Japan, no other director of the Company is concerned or interested in the said resolution.

The abstract of the terms and conditions of the appointment was sent to members u/s 302 of the Companies Act, 1956.

Item No.6

The Management structure of the Company remained unchanged in spite of the growth of activities, number of units and the size of business. To strengthen the management structure to meet the Company's changing needs, the Board appointed Mr. G. Suseelan, Executive

Director (Operations & Materials), as Wholtime Director of the Company as recommended by the Remuneration Committee for a period of five years with effect from 1.4.2005, subject to the approval of the members in General Meeting and Central Government on the following terms and conditions.

Basic Pay - \*\* Rs.50000 /-per month (with an annual increment of Rs.2,000/-)

## 1. Housing:

a) Company hired accommodation subject to a ceiling 50% of Basic Pay over and above 20% payable, for which deduction of 20% shall be made from Basic Pay.

b) If Company does not provide accommodation, HRA @50% of Basic Pay will be paid.

## 2. Furnishing, Gas, Electricity and Water

Reimbursement of actual expenses incurred on Gas, Electricity, Water and furnishing subject to a ceiling of 10% of Basic Pay.

## 3. Medical benefits

Expenses actually incurred for self and family subject to a ceiling of one month's salary. Unavailed medical benefits for the previous years will be allowed to be carried forward

## 4. Personal Accident Insurance

The annual premium not to exceed Rs.4000/- to the Company.

## 5. Leave Travel Concession

Return passage for self and family once in a year by business class to any place in India.

## 6. Car

Free use of Company car with driver for official use. Use of car for personal purposes will be billed for.

## 7. Free telephone facility at the residence.

## 8. Leave and Leave Encashment

On full pay and allowances not exceeding 30 days for every year of service. At the end of the tenure, unavailed leave will be allowed to be encashed on the basis of last pay drawn. Unavailed leave as on 31.3.05 will be allowed to be carried forward.

## 9. Club Membership

Membership fee of any two clubs will be reimbursed. No admission or life membership fees will be paid.

**KERALA CHEMICALS & PROTEINS LTD.****10. Entertainment expenses**

Entertainment expenses actually incurred in the course of business of the Company will be reimbursed subject to a limit fixed by the Board.

**11. Company's contribution to the Provident Fund - at the rates as per Company's rules****12. Gratuity - @ 15days' salary at the last drawn rates for every completed year of service. Past service in the Company will also be reckoned for the purpose.****13. Minimum Remuneration**

In the event of loss or inadequacy of profits in any financial year the director shall be paid remuneration by way of salary and perquisites as specified above.

**14. The Company shall have the right to terminate the term of office of the Director at any time by giving notice of not less than three months in writing or three months salary and allowances in lieu thereof. The Director shall also have the right to relinquish his office at any time before the expiry of his term by giving notice of not less than three months.**

Except Mr. G. Suseelan, no other Director of the Company is concerned or interested in the said resolution.

**\*\* The Basic Pay originally fixed at Rs.40,000/- per month with an annual increment of Rs.2000/- was revised to Rs.50,000/- per month with an annual increment of Rs.2000/-.**

The abstracts of the terms and conditions of the appointment and variation of the said terms were sent to the members as required u/s.302 of the Companies Act, 1956.

**Item No.7**

The original terms of appointment of Mr. A.K. Nair, as Managing Director, provided for payment of HRA @ 50% of Basic Pay. As the Whole-time Directors other than the Managing Director are entitled for Company hired accommodation, it is proposed to extend this facility to the Managing Director also. By providing hired accommodation, the Company does not incur any additional cost as the rent payable is subject to a ceiling of 50% of Basic Pay, over and above 20% payable by Mr. A.K. Nair.

Except Mr. A.K. Nair, no other Director of the Company is concerned or interested in the said resolution.

The abstract of the variation of the said term was sent to the members as required u/s 302 of the Companies Act, 1956.

**DETAILS OF DIRECTORS SEEKING APPOINTMENT/RE-APPOINTMENT IN THE  
FORTHCOMING ANNUAL GENERAL MEETING**

(in pursuance of Clause 49 of the Listing Agreement with the Stock Exchanges)

| Name  | N.Muraki  | G.Suseelan  | S. Fujii  | K.Ramakrishnan   |
|---|---|---|---|--|
| Age (Years)                                     | 58  | 54  | 51  | 69   |
| Nationality                                     | Japanese  | Indian  | Japanese  | Indian   |
| Qualification                                   | Majored in Industrial Chemistry from Toyama University, Japan | B.Sc.Engg. and MBA  | M.Sc., Graduate in Chemical Engg. from Waseda University, Japan   | M.Sc. and AIIB   |
| Expertise                                       | 34 years experience in manufacturing Ossein and Gelatin       | 32 years experience out of which 30 years in manufacturing Ossein and Gelatin | 26 years experience in Mitsubishi Corporation Possesses specialised skill in marketing Gelatin and other allied products. | Former Managing Director of State Bank of Travancore and former Dy. Managing Director of State Bank of India. Vast knowledge in finance and banking. |
| Other Directorships excluding Foreign Companies | Nil   | Bamni Proteins Ltd.   | Bamni Proteins Ltd.   | Nil  |

## DIRECTORS' REPORT

To the Shareholders,

Your Directors present their 29<sup>th</sup> Annual Report and the Audited Accounts of your Company for the year ended 31st March, 2005.

### FINANCIAL HIGHLIGHTS

|  | (Rs. in lakhs) |          |
|--|----------------|----------|
|  | 2004-05        | 2003-04  |
| Profit before depreciation, tax, provision written back, provision for doubtful debts and loans and advances | 450.95         | 101.40   |
| Depreciation   | 657.21         | 694.65   |
| (Loss)/Profit before provision for doubtful loan/advances written off  | (206.26)       | (593.25) |
| Provision for doubtful loans and advances  | -              | 52.57    |
| Provision for doubtful debts (Net)   | 11.23          | -        |
| (Loss)/Profit before tax   | (217.49)       | (645.82) |
| Provision for Income tax   |                |          |
| - Prior years Tax  | 22.23          | -        |
| Profit/(Loss) after tax  | (239.72)       | (645.82) |
| Balance of loss brought forward from previous year   | (876.54)       | (230.72) |
| Balance Profit/(Loss) carried to Balance Sheet   | (1116.26)      | (876.54) |

### REVIEW OF OPERATIONS

As reported in our last report, the Gelatin Industry is still passing through a difficult situation inspite of the slight improvement compared to last year. The global demand for bone gelatin reduced considerably due to health scare. However, with the support of the Collaborators, your Company was able to produce Photographic Grade Gelatin in addition to Food Grade Gelatin and as a result, could increase the turnover.

The market for Dicalcium Phosphate went down drastically due to bird flu in the South Asian countries, and the consequent reduction in the demand for chicken. However, market is slowly picking up from January 2005. The loss on account of reduction in price compared to last year was Rs.290.08 lakhs. The strengthening of rupee against dollar continued this year also and the loss to the Company on account of this, compared with average realisation during last year was Rs.99.07 lakhs.

The average price of crushed bone increased by 10%. The main reason for the increase in CB price was imposition of phyto sanitary regulations, reduced availability of raw bone and increase in freight. However, there was no corresponding increase in the price of Ossein due to lower demand and excess production.

With the active involvement of the Management Support Team deputed by our Collaborators, your Company could implement the MS Project at Gelatin Division to increase the process efficiency and also to reduce consumption of utilities like Furnace Oil. The project was commissioned in March 2005 and the benefits due to the reduction in utilities will be reflected in the coming years. Your Company is making all out efforts to increase yield and reduce production cost. As mentioned in the last report, the strategy adopted by the Company during last year with a long term perspective of meeting the compliance requirements of international regulations, coupled with the steps taken for achieving increased production capacity and increased process efficiency, helped your Company to reduce the loss during second half of the year.

Your Company sold 1365 MT of Gelatin in the export markets such as Japan, Turkey, Jordan, USA, Singapore, Sri Lanka etc., and 875 MT in the domestic market. Altogether, the turnover increased by 3%. The financial results of the year's operations vis-à-vis that of the previous year are given in the beginning of the report.

### BAMNI PROTEINS LTD.

The annual production during the year was 8.64% higher than the previous year. Due to reduction of demand of Ossein, Bamni Proteins could not run to 100% capacity and incurred a loss of Rs.11.34 lakhs.

The Directors' Report, Balance Sheet and Profit & Loss Account of Bamni Proteins Ltd. for the year 2004-05 is attached as required under Section 212 of the Companies Act, 1956.

### COLLABORATORS

Your Collaborators continue to provide their whole-hearted support to your Company.

M/s. Nitta Gelatin Inc., the technical and financial Collaborators, purchased 4,00,000 Equity Shares from M/s. Mitsubishi Corporation, during the year thus making their total share participation to 38.19%. There



is, however, no change in the total holding of the Foreign Collaborators.

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

The information as required under 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 is annexed.

#### **BUDGET - CENTRAL AND STATE**

The introduction of Value Added Tax (VAT) will substantially benefit your Company due to reduction in Furnace Oil cost. However, the introduction of Service Tax on transportation and fringe benefit tax will adversely affect the Company.

#### **HUMAN RESOURCE**

The relation with the employees remained generally cordial during the year. The Company has entered into a wage agreement with the Unions at Ossein Division for a period of 5 years with a productivity increase of 20%. The Company has also introduced a Voluntary Retirement Scheme to reduce the employee cost.

#### **PARTICULARS OF EMPLOYEES**

None of the employees of the Company is coming under the purview of Section 217(2A) of the Companies Act, 1956. Details of managerial remuneration under Section 198 of the Act, are furnished under Note No. B2 of Schedule 22 forming part of the Accounts.

#### **RESPONSIBILITY STATEMENT OF DIRECTORS**

Directors responsibility statement on the Annual Accounts of the Company for the year ended 31.3.2005, pursuant to the provisions of Section 217(2AA) of the Companies Act. 1956.

#### **Your Directors confirm:**

- i) That in the preparation of the annual accounts, the applicable Accounting Standards have been followed along with proper explanation relating to material departures.
- ii) That 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 and fair view of the state of affairs of the Company as at 31<sup>st</sup>

#### **KERALA CHEMICALS & PROTEINS LTD.**

March 2005 and of the profit or loss of the Company for the year ended 31<sup>st</sup> March 2005.

- iii) That they have taken proper and sufficient care for the maintenance of adequate accounting records in safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- iv) That they have got prepared the annual accounts on a going concern basis.

#### **MANAGEMENT DISCUSSION AND ANALYSIS REPORT**

Report on Management Discussion and Analysis is annexed.

#### **CORPORATE GOVERNANCE**

A report on Corporate Governance along with Certificate of Compliance from the Auditors is Annexed.

#### **ADDITIONAL DISCLOSURES**

Keeping in view the requirements of the Listing Agreements and the Accounting Standards of the Institute of Chartered Accountants of India, your Company has made additional disclosures in respect of Consolidated Financial Statements, Related Party Transactions and Segmental Reporting.

#### **DIRECTORS**

Mr. T.K.A. Nair who had been the Chairman of the Company from 17-02-1999 resigned from the Board on 5th June, 2004, on his taking over as the Principal Secretary to the Prime Minister of India. As the resignation took place after the issue of the Annual Report for the year 2003-04, we could not report it to the shareholders in the last Annual Report. The Directors wish to record their deep appreciation to the guidance and directions given by him as the Chairman of the Company during the period when the company was passing through difficult times.

M/s. Nitta Gelatin Inc., withdrew the nomination of Mr. H. Tachibana as Technical Director with effect from 31.3.2005. Your Directors place on record their appreciation of the services rendered by Mr. H. Tachibana.

As proposed by M/s. Nitta Gelatin Inc., Mr. N. Muraki was appointed as Joint Managing Director and Mr. G. Suseelan was appointed as Wholetime Director with

effect from 1.4.2005. Resolutions for approval of their appointment are proposed. Mr. Norimichi Soga was appointed as Director in the casual vacancy caused by the appointment of Mr. N. Muraki as Joint Managing Director.

Under the provisions of the Articles of Association of the Company and the Companies Act, 1956, Mr. S. Fujii and Mr. K. Ramakrishna retire by rotation and are eligible for re-election. Necessary resolutions in this behalf have been proposed for consideration of the members.

#### AUDITORS

M/s. Varma & Varma, the retiring auditors, are eligible for re-appointment and a Special Resolution is being proposed for their re-appointment.

#### ACKNOWLEDGEMENT

Yours Directors place on record their gratitude to the State and Central Governments, The Kerala State Industrial Development Corporation Limited, Nitta Gelatin Inc., Mitsubishi Corporation, the Company's Bankers, Customers, Suppliers and Shareholders for their continued co-operation and support. They also acknowledge and appreciate the valuable contributions of the Executives and employees of the Company at all levels.

For and on behalf of the Board,

Kochi  
14th May 2005

P. H. KURIAN  
Chairman

### ANNEXURE TO THE DIRECTORS' REPORT

#### (A) CONSERVATION OF ENERGY

- During the year energy conservation measures were continued.
- Additional investments and proposals, if any, being implemented for reduction of consumption of energy.  
Power Capacitors : Rs. 634,410/-
- Impact of measures at (a) and (b) above for reduction of energy consumption and consequent impact on the cost of production of goods:  
The above measures will result in savings in energy.
- Total energy consumption and energy consumption per unit of production.  
As per Form 'A' Attached.

#### (B) TECHNOLOGY ABSORPTION

The technology for Ossein, Dicalcium Phosphate, Compound Glue, Limed Ossein and Gelatin obtained from the foreign collaborators has been fully absorbed and improved upon. The Collaborators have now given technology for manufacture of Photographic Gelatin. With the active support of the Collaborators the consumption of utilities like Furnace Oil, and power were reduced. The company is making continuous efforts towards technology absorption, adaptation and innovation in respect of Gelatin.

#### RESEARCH & DEVELOPMENT

The in-house R&D efforts towards improvement of product quality, effluent discharge systems and value addition to effluent sludge have been continued. The Company proposes to undertake the following studies during the year.

Degreasing of slaughtered bones by standardising the degreasing time and temperature to get crushed bone with optimum grease and Ossein with optimum Accelerated Liming Loss.

The benefits from these activities will manifest in due course through cost reduction, product improvement and miscellaneous revenue.

Expenditure on R&D

|                         | (Rs.in lakhs) |               |
|-------------------------|---------------|---------------|
|                         | Current Year  | Previous Year |
| a. Capital              | 1.29          | 1.92          |
| b. Development Expenses | 1.81          | 3.96          |
| c. Recurring Expenses   | 8.86          | 9.01          |
| Percentage to turnover  | 0.14          | 0.17          |

#### (C) FOREIGN EXCHANGE EARNINGS AND OUTGO

|             | (Rs. in lakhs) |               |
|-------------|----------------|---------------|
|             | Current Year   | Previous Year |
| a. Earnings | 5424.82        | 5278.37       |
| b. Outgo    | 257.19         | 209.47        |