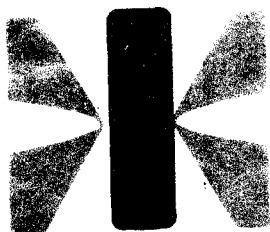


# KERALA CHEMICALS & PROTEINS LIMITED

## 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  
Wholtime Director

Norimichi Soga

T. Nishio

K. Inoue

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.  
"Subramanian Building"  
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

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## FINANCIAL HIGHLIGHTS (12 Years)

(Rs. in lacs)

	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Total Income	2820.84	2904.62	4390.99	4755.45	5604.53	6397.79	7397.65	8002.33	7969.16	9224.71	9961.69	9966.19
Sales	2669.70	2424.70	3774.30	4365.03	4963.43	5609.94	6561.04	7161.41	7629.65	8601.25	8841.23	9763.86
Exports	2297.54	1842.55	2733.84	3495.91	3640.04	3702.48	4501.28	4698.63	4684.77	5260.42	5424.82	6236.79
Pre-tax Profit/(Loss)	747.86	1100.37	865.49	853.91	768.38	(370.46)	(170.89)	367.83	(467.02)	(645.82)	(217.49)	(365.65)
Profit/(Loss) after tax	691.84	874.25	688.49	753.91	677.38	(485.42)	(198.22)	441.45	(311.05)	(645.82)	(239.72)	(379.65)
Earnings per share (Rs.)	32.38	41.63	32.79	17.95	8.06	(5.78)	(2.36)	5.26	(3.70)	(7.69)	(2.85)	(4.52)
Divided per share (Rs.)	5.00	6.00	4.50	3.00	2.50	-	-	-	-	-	-	-
Reserves & Retained Earnings	2765.81	3514.06	4098.06	4503.91	7731.52	7246.09	7047.87	7373.33	7077.28	6431.46	6191.75	5812.10
Share Capital	210.00	210.00	210.00	420.00	840.00	840.00	840.00	840.00	840.00	840.00	840.00	840.00
Shareholders' Funds	2975.81	3724.06	4308.60	4923.91	8571.52	8086.09	7887.87	8213.33	7917.28	7271.46	7022.83	6630.34
Return on Equity (%)	23.25	23.48	15.98	15.31	7.90	(6.00)	(2.51)	5.37	(3.93)	(8.88)	(3.41)	(5.73)
Book Value/Share (Rs.)	141.71	177.34	205.17	117.24	102.04	96.26	93.90	97.78	94.25	86.57	83.61	78.93
Gross Block	966.50	1019.50	1235.61	1662.48	10152.12	10515.63	10610.15	10746.77	10882.23	11028.25	11578.84	11718.26
Net Block	455.22	451.23	575.60	880.81	9159.12	8761.70	8113.24	7531.66	6955.03	6411.08	6325.73	5777.68

KERALA CHEMICALS &amp; PROTEINS LTD.



## KERALA CHEMICALS &amp; PROTEINS LTD.

## NOTICE TO MEMBERS

NOTICE IS HEREBY GIVEN that the 30<sup>th</sup> Annual General Meeting of Kerala Chemicals and Proteins Limited will be held on Thursday, the 22<sup>nd</sup> June 2006 at 9.30 AM, at GRAND Hotel, M.G. Road, Ernakulam, Kochi-682 011, 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 2006 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. K.L. Kumar, who retires by rotation and being eligible, offers himself for re-appointment.
3. 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

4. To consider and if thought fit to pass with or without modification, the following resolution as an Ordinary Resolution.  
"RESOLVED THAT Mr. N. Soga, be and is hereby appointed as a Director of the Company liable to retire by rotation."

By Order of the Board,

Thiruvananthapuram  
09-05-2006

P. D. VINCENT  
Company Secretary

## 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 13.06.2006 to 22.06.2006 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, Chénnai-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,

**KERALA CHEMICALS & PROTEINS LTD.**

the amount of dividend unpaid/unclaimed in the dividend account for the year ended 31.3.99 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. Those 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. 4**

Mr. N. Soga nominee of M/s. Nitta Gelatin Inc., who was appointed as a Director of the Company in the casual vacancy caused by the appointment of Mr. N. Muraki as Joint Managing Director, will retire at this Annual General Meeting. A notice has been received from a member alongwith a deposit of Rs. 500/- as required under Section 257 of the Companies Act, 1956 proposing the candidature of Mr. N. Soga as a Director of the Company. Considering his experience, expertise and valuable contribution on the Board, your Directors recommend that he be appointed as a Director of the Company liable to retire by rotation.

Except Mr. Soga no other Director is concerned or interested in this resolution.

**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	K. L. Kumar	N. Soga
Age (Years)	64	57
Nationality	Indian	Japanese
Qualification	B.Sc., Engineering (Mech.)	Majored in Faculty of Textile Science from Kyoto Institute of Technology.
Expertise	Former Chairman and Managing Director of Kochi Refineries Ltd. 15 years in engineering consultancy services, 22 years with Kochi Refineries Ltd. Out of which 12 years as Chairman and Managing Director.	32 years experience in Gelatin business. He has worked as CEO and Director in companies like Nitta Gelatin Holding Inc., Nitta Casings Inc., Nitta Gelatin NA Inc., Nitta Gelatin USA Inc., Nitta Gelatin Canada Inc.
Other Directorships excluding Foreign Companies	Chennai Petroleum Corporation Ltd.	Nil

**KERALA CHEMICALS & PROTEINS LTD.****DIRECTORS' REPORT**

To the Shareholders,

Your Directors present their 30<sup>th</sup> Annual Report and the Audited Accounts of your Company for the year ended 31st March, 2006.

**FINANCIAL HIGHLIGHTS**

	(Rs. in lakhs)	
	2005-06	2004-05
Profit before depreciation, tax, provision for excise duty written back and doubtful debts	335.40	450.95
Depreciation	697.01	657.21
(Loss)/Profit before provision, for doubtful loan/advances written off	(361.61)	(206.26)
Provision for doubtful debts	4.03	11.23
(Loss)/Profit before tax	(365.64)	(217.49)
Provision for Income tax/ FBT	14.00	-
- Prior years Tax	-	22.23
Profit/(Loss) after tax	(379.64)	(239.72)
Balance of loss brought forward from previous year	(1116.26)	(876.54)
Balance Profit/(Loss) carried to Balance Sheet	(1495.90)	(1116.26)

**REVIEW OF OPERATIONS**

The Gelatin industry has not shown any improvement during the year. The global demand for bone gelatin further reduced due to health scare. As a result the demand for Ossein from M/s. Nitta Gelatin Inc. during the year reduced by 406 MT.

However, your company could increase the Gelatin production and sale with active support of the collaborators and could increase the turnover.

The market for Dicalcium Phosphate had been stable till January 2006. However, the detection of bird flu disease in Maharashtra during February 2006 has adversely affected the market resulting in considerable reduction in price. The strengthening of rupee against dollar continued during the current year also and the loss to the Company on account of this, compared with average realisation during last year was Rs. 75 laks. The average price of crushed bone increased by 9.12%. The furnace oil price also increased considerably due to the crude oil price increase in the international market and the average increase compared with last year was

17%. The loss to the company on account of the price increase was Rs. 90.38 lakhs.

Your Company is making all out efforts to increase the yield and to reduce production cost. We are glad to inform you that teams from two international regulatory agencies - United States Food and Drug Administration (USFDA) from USA and European Directorate for the Quality of Medicines (EDQM) from Europe inspected the Factory and certified compliance. Our products are already being sold in USA and some countries in Europe. These certifications will help the company's product to get wider access in the Europe and US markets in the coming years.

Your Company sold 1814 MT of Gelatin in the export markets such as Japan, Iran, USA, Singapore, Sri Lanka and Canada and 745 MT in the domestic market. Altogether, the turnover increased by 10.42%. The financial results of the year's operations vis-a-vis that of the previous year are given at the beginning of the report.

**BAMNI PROTEINS LTD.**

The annual production during the year was 3.54% higher than the previous year. However, due to increase in furnace oil cost and cost of coal the subsidiary company incurred a loss of Rs.41.23 lakhs.

The Directors' Report, Balance Sheet and Profit & Loss Account of Bamni Proteins Ltd. for the year 2005-06 is attached as required under Section 212 of the Companies Act, 1956.

The Company has become a Sick Industrial company as per the provisions of Sick Industrial Companies (Special Provisions) Act, 1985.

**AUDITORS' REPORT**

Note Nos. B 10 and B 13 (b) (i) (a & b) of Schedule No. 23 to the accounts referred to in the Auditors' Report are self explanatory and hence no further comments are called for.

**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. Their total share participation is now 42.95%. There is, however, no change in the total holding of the Foreign Collaborators.

**KERALA CHEMICALS & PROTEINS LTD.****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) substantially benefitted your Company. However, the introduction of Service Tax on transportation and Fringe Benefit Tax adversely affected the Company.

**HUMAN RESOURCE**

The Company was forced to lock out the Ossein Division for 12 days due to labour problems. Even though based on the agreement executed before the Hon'ble Labour Minister, the company withdrew the lock out, a section of workmen went on strike with effect from 08-02-2006. But the company could maintain substantial production with the support of remaining workmen and management staff. During the year, your Company lost production equivalent to 59 days in total, due to labour unrest at Ossein Division. However, we are glad to inform that there was no loss on account of non execution of export orders of Ossein during the year. The relation with employees at Gelatin Division was cordial during the year. Negotiation with the employees of Gelatin division for long term settlement is under progress.

**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 23 forming part of the Accounts.

**RESPONSIBILITY STATEMENT OF DIRECTORS**

Directors responsibility statement on the Annual Accounts of the Company for the year ended 31.3.2006, 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> March 2006 and of the profit or loss of the Company for the year ended 31<sup>st</sup> March 2006.
- 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 alongwith 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. Yamaguchi and Mr. S. Fujii resigned from the Board. The Directors place on record their appreciation of the services rendered by Mr. T. Yamaguchi and Mr. S. Fujii. Mr. T. Nishio and Mr. K. Inoue have been appointed in the casual vacancies caused by their resignations.

Under the provisions of the Articles of Association of the Company and the Companies Act, 1956, Mr. N. Soga and Mr. K.L. Kumar 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,

Thiruvananthapuram  
9th May 2006

P. H. KURIAN  
Chairman

## ANNEXURE TO THE DIRECTORS' REPORT

## (A) CONSERVATION OF ENERGY

- (a) During the year energy conservation measures were continued.
- (b) Additional investments and proposals, if any, being implemented for reduction of consumption of energy.

	Rs. in lakhs
Power Capacitors Installed	3.40
Proposal	
Power capacitors	4.00
V.F.D. Motor (water pumps)	2.25
Energy saver for lighting	2.00
Gassifier	3.50

- (c) 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.

- (d) Total energy consumption and energy consumption per unit of production.

As per Form 'A' Attached.

discharge systems and value addition to effluent sludge have been continued. The Company proposes to undertake the following studies during the year.

1. ETP Sludge - Started conversion of effluent sludge to compost which is being commercially marketed. The quality has been found satisfactory and we have taken steps to get it registered with the Agriculture Department.
2. 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.
3. Studies are being done to reduce the consumption of furnace oil. In certain areas, substitution with other fuels is being considered. So also other methods of concentrating/evaporation are being studied.

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

## Expenditure on R&amp;D

	(Rs.in lakhs)	
	Current Year	Previous Year
a. Capital	3.05	1.29
b. Development Expenses	1.77	1.81
c. Recurring Expenses	16.35	8.86
Percentage to turnover	0.17	0.14

## (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 was reduced. The company is making continuous efforts towards technology absorption, adaptation and innovation in respect of Gelatin.

## RESEARCH &amp; DEVELOPMENT

The in-house R&D efforts towards improvement of product quality, effluent

## (C) FOREIGN EXCHANGE EARNINGS AND OUTGO

	(Rs. in lakhs)	
	Current Year	Previous Year
a. Earnings	6236.79	5424.88
b. Outgo	249.91	257.19



## KERALA CHEMICALS &amp; PROTEINS LTD.

## FORM 'A'

FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT  
TO CONSERVATION OF ENERGY

Current Year	Previous Year	
	2005-06	2004-05
<b>A. POWER &amp; FUEL CONSUMPTION:</b>		
1. Electricity		
(a) Purchased		
Units (KWH in lakhs)	170.92	174.23
Total amount (Rs.in lakhs)	633.35	652.56
Rate/Unit (Rs.)	3.71	3.75
(b) Own generation		
(i) Through Diesel Generator Unit		
(KWH in lakhs)	1.05	2.03
Unit per litre of diesel oil	2.29	2.66
Cost/Unit (Rs.)	12.77	9.82
(ii) Through steam turbine/generator		
Unit (KWH in Lakhs)	Nil	Nil
2. Coal	Nil	Nil
3. Furnace Oil		
Quantity (in KL.)	5993	6678
Total amount (Rs.in lakhs)	845.78	847.14
Average rate (Rs. per KL.)	14112.00	12686.55
4. Others/Internal generation	Nil	Nil
<b>B. CONSUMPTION PER UNIT OF PRODUCTION:</b>		
<b>Product - Ossein</b>		
1. Electricity (KWH) per MT	1627.00	1498.34
2. LSHS/Furnace Oil (KL) per MT	0.215	0.224
<b>Product - Gelatin</b>		
1. Electricity (KWH) per MT	3609.62	3642.64
2. LSHS/Furnace Oil (KL) per MT	1.936	2.14

## MANAGEMENT DISCUSSION AND ANALYSIS REPORT

## THE STRUCTURE AND DEVELOPMENTS IN THE GELATIN/OSSEIN INDUSTRY

Kerala Chemicals and Proteins Limited has been producing Gelatin, Ossein and Dicalcium Phosphate. Ossein is sold to the collaborators. Gelatin caters to the demand of photo, food and pharmaceutical industry, both in the domestic and international markets.

## SEGMENT-WISE PERFORMANCE

## Exports

5-6% growth is estimated in the world-wide Gelatin market. The demand for Pharmaceutical Grade Gelatin is increasing and we expect to increase our exports in this segment. Eventhough the introduction of digital technology has had an impact on the demand of Photographic Grade Gelatin, we have been able to sustain our sales in this market segment last year. We expect to continue our sales in the segment in the coming years. However the volumes are expected to reduce in a phased manner.

During 2005-06, we have successfully faced two every important international regulatory inspections conducted by USFDA and EDQM. The outcome of these inspections will give a further impetus to our export business.

The year 2005-06 witnessed a further reduction of the Ossein exports to M/s. Nitta Gelatin Inc., due to reduced demand of Gelatin in their markets. However, the fact that NGI has already confirmed an increased off-take of Ossein during the current year, indicates that the international Gelatin market is on the recovery path.

We have been earnestly trying to increase the market spread for DCP by exploring new export possibilities.

## Domestic

## Gelatin

The demand for Hard Capsule and Soft Capsule Grade Gelatin was steady during 2005-06 and is expected to increase in the current year.

Our customers in India continue to use our product mainly for their export production and we are therefore expecting a steady demand in the domestic market.

## DCP

The Indian Poultry Industry had a very good year until the outbreak of bird flu in February 2006. DCP prices in the domestic market had increased steadily throughout the year. However, from March 2006, as a result of bird flu outbreak the demand and as a result the price have been adversely affected. We expect that it will take 6-12 months for the market to recover.

## Opportunities

We now have the unique strength of having

successfully faced two very important international regulatory inspection and we therefore expect that the increased confidence of our overseas customers will result in increased demand for our Gelatin.

Our product has the advantage of being well accepted in terms of quality and regulatory compliance. We therefore expect to increase our presence both in the export and domestic markets.

## Threats

There has been a substantial increase in the production volumes of Pork Skin Gelatin. The increased availability of this type of Gelatin is likely to adversely affect the demand of Bovine Bone Gelatin. Also Gelatin alternatives such as HPMC and starch based products pose a strong threat to the future of the industry. Conventional photography is making way to digital photography and a steady decline in this market segment has to be anticipated.

## Outlook

We are now shifting our focus towards Pharmaceutical Grade Gelatin. With the growing demand in the overseas and domestic market for this grade, we expect an increase in the pharmaceutical grade business during 2006-07. Eventhough the photographic market is on the decline we will be in a position to maintain our sales volume in this segment.

Ossein exports are expected to increase in 2006-07.

The impact of bird flu is expected to die down by September 2006 and thereafter the DCP market is likely to improve.

## Internal control system

KCPPL has evolved a system of internal controls to ensure that assets are safeguarded, transactions are authorised, recorded and correctly reported. The internal control system is supported by management reviews. Planned periodic reviews are carried out for identification of control deficiencies, bridging gaps with best practices and formulation of time bound action plans to minimise risk. To further strengthen internal control, a firm of Chartered Accountants has been appointed to do internal audit whose scope of work and work programme is agreed with the Audit Committee at the beginning of each year. The findings of the Internal Auditors are discussed with the Audit Committee and adequate mitigatory steps are taken accordingly to plug control weakness pointed out. The Board is of the view that appropriate procedures and controls are operating and monitoring procedures are in place.

In line with the requirement of the amended Clause 49 of the Listing Agreement which came into force