



Spice Islands
Apparels Limited



17th Annual Report 2004-2005


Spice Islands
Apparels Limited

BOARD OF DIRECTORS

UMESH KATRE *Chairman & Managing Director*
BILIN KUMAR SEN *Whole Time Director*
ASHOK DARYANANI *Executive Director*
B. K. KHARE *Director*
L. A. MEHTA *Director*
KARL DANTAS *Director*

BANKERS

VJAYA BANK

AUDITORS

P. R. GANDHI & CO. *Chartered Accountants*

REGISTERED OFFICE

 62-B, Mittal Tower,
 210, Nariman Point,
 Mumbai - 400 021.
 Tel.: 2285 5410

ADMINISTRATIVE OFFICE	BRANCH OFFICE
125-A, Mittal Tower, 210, Nariman Point, Mumbai - 400 021. Tel.: 2282 3128 / 2284 4452	305/306, Brigade Links, 1st Main Road, Seshadripuram, Bangalore - 560 020. Tel.: 080-2344 4671 / 2344 5197 / 2331 2493

FACTORY	
S. F. No. 287, Koothampalayam, (Near Switzer Prem School), Thirumurgan Poondi (P. O.), P. N. Road, Tirupur - 641 652. Tel.: 0421-2350492/3	193-B, 3rd Phase, KIADB Industrial Estate, Peenya, Bangalore - 560 058. Tel.: 080-28370561 / 5127 2755 / 5127 2733

REGISTRAR & SHARE TRANSFER AGENT INTIME SPECTRUM REGISTRY LIMITED	
C-13, Bhandup Industrial Estate, Pannalal Silk Mill Compound, L. B. S. Marg, Bhandup (W), Mumbai - 400 080. Ph.: 5555 5454 Fax : 5555 5353 E-mail : helpline@intimespectrum.com	O R
	201, Davar House, Near Central Camera, Dr. D. N. Road, Fort, Mumbai - 400 001. Ph.: 2269 4127

ANNUAL REPORT 2004-05**NOTICE**

Notice is hereby given that Seventeenth Annual General Meeting of the members of SPICE ISLANDS APPARELS LIMITED will be held at M. C. Ghia Hall, Bhogilal Hargovindas Building, 18/20, K. Dubash Marg, (Behind Prince of Wales Museum), Kala Ghoda, Mumbai - 400 001, on Tuesday, 20th September, 2005 at 11.30 a.m. to transact the following business :

1. To receive and adopt the audited Profit & Loss Account for the year ended 31st March, 2005, the Balance Sheet as at that date and Reports of the Board of Directors and Auditors.
2. To appoint a Director in place of Mr. Karl Dantas who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint Auditors to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting of the Company and to fix their remuneration.

SPECIAL BUSINESS

4. To consider and, if thought fit, to pass with or without modifications, as an Ordinary Resolution the following :
"RESOLVED that pursuant to the provisions of Section 198, 269, 309, 310 and other applicable provisions, if any, of the Companies Act 1956, (Act) read with schedule XIII to the said Act, approval of the members, be and it is hereby accorded to the re-appointment of Mr. Umesh Katre as a Managing Director of the Company for a further period of five years with effect from 1-11-2004 to 31-10-2009, on the terms and conditions set out in the Draft Agreement, a copy of which is placed before the meeting, duly initialed by the Chairman for the purpose of identification, with authority to the Board of Director (the board) to alter or vary his terms of remuneration subject to the overall ceiling specified in schedule XIII to the Act, read with Section 198, 309, 310 and other applicable provisions of the Act or any amendment thereto on re-enactment thereof as may be agreed by the Board and Mr. Katre."
"RESOLVED FURTHER that the Board it is hereby authorised to do all acts, deeds matters and things as may be considered necessary, desirable or expedient for giving effect to this Resolution."

For and on behalf of the Board of Directors,
SPICE ISLANDS APPARELS LIMITED

PLACE : MUMBAI
DATE : 29th JUNE, 2005.

UMESH M. KATRE
(Chairman & Managing Director)



NOTES

1. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of himself, only on a poll and a proxy need not be a member. Proxies in order to be effective, must be received at the Registered Office of the Company not less than 48 hours before the commencement of the Meeting.
2. Relevant Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956 in respect of the Special Business at item no 4 of the Notice is annexed.
3. All document referred to in the accompanying notice and Explanatory Statement are open to inspection at the Registered Office of the Company between 2 p.m. and 4 p.m. on all working days up to the day of the Annual General Meeting.
4. The Register of Members and Share Transfer books of the Company will remain closed from Monday 12th September, 2005 to Tuesday 20th September, 2005, both days inclusive.
5. In terms of Section 205A and 205C of the Companies Act, 1956, the dividends for the year ended 31st March, 1997 and thereafter which remains unclaimed for a period of 7 years from the date of transfer to the Unpaid Dividend Account are required to be transferred to the "Investor Education and Protection Fund" established by the Central Government. According to the relevant provisions of the Companies Act, 1956, as amended, no claims shall remain against the said Fund or the Company for the amount of dividends so transferred to the said Fund. Members who have not encashed their dividend warrant(s) so far for the year ending on 31-3-1998 or any subsequent years are requested to send their claim directly to the Company or to the Registrars and Share Transfer Agents. The Company have been sending reminders to the concerned members to claim their dividend amount from the Company.

Unclaimed dividend for the year ended 31st March, 1997 was transferred to the "Investor Education and Protection Fund" of the Central Government during the year.

6. Members are requested to notify immediately any change of address to their Depository Participants (DPs) in respect of their holdings in electronic form and to the Secretarial Department at the Registered Office of the Company or to the Registrar and Share Transfer Agent in respect of their holding in physical form.
7. Members are informed that in case of joint holders attending the Meeting, only such joint holder who is higher in the order of names will be entitled to vote.
8. In terms of Section 109A of the Companies Act, 1956, Members are entitled to make nominations in respect of shares held by them in physical form. Members desirous of making nominations are requested to send their request in Form 2B, in duplicate, to the Secretarial Department at the Registered Office of the Company or to the Registrar and Transfer Agent.

REQUEST TO THE MEMBERS

1. Members desiring any relevant information on the accounts at the Annual General Meeting are requested to write to the Company at least seven days in advance, so as to enable the Company to keep the information ready.
2. As a measure of economy, copies of the Annual Report will not be distributed at the Annual General Meeting. Members are requested to bring their copies of the Annual Report to the Meeting.
3. Members who hold shares in demat mode are requested to bring their Client ID and DP ID numbers for easy identification of membership at the Meeting.
4. For the convenience of Members, an Attendance Slip is annexed to the Proxy Form. Members are requested to fill in and affix their signatures at the space provided therein and hand over the Attendance Slip at the entrance of the place of the Meeting. Proxy / Representative of a Member should mark on the Attendance Slip as "Proxy" or "Representative", as the case may be.

For and on behalf of the Board of Directors,

SPICE ISLANDS APPARELS LIMITED

PLACE : MUMBAI
DATE : 29th JUNE, 2005.

UMESH M. KATRE
(Chairman & Managing Director)

ANNEXURE TO THE NOTICE

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

ITEM NO. 4 : The present terms of office of Mr. Umesh Katre as Managing Director expired on 31st October 2004. The Board of Director's has, at its meeting held on 27th October, 2004 re-appointment Mr. Umesh Katre as Managing Director for a period of five years from the expiry of his present term of office, that is, on and with effect from 1st November 2004. The Board of Directors have also approved the increase in remuneration payable to Mr. Umesh Katre. The draft Agreement to be entered into by the Company with Mr. Umesh Katre in respect of his re-appointment for a further period of five years, inter alia states that :

I. Salary :

Rs. 50,000-75,000 per month with authority to the Board of Directors or a Committee thereof, to fix his salary within the respective scales from time to time. The annual increments will be decided by the Board and will be merit based and take into account the Company's performances.

II. Commission :

1% of the amount of the net profit as appearing in the audited Annual Profit & Loss Account for each completed corporate financial year of the company, unless otherwise decided by the board for any financial year subject, however, that the total remuneration (i.e. salary, commission and perquisites) in any one financial year shall not exceed the limits prescribed or to be prescribed from time to time under sections 198, 309 and other applicable provisions of the Companies Act 1956, read with schedule XIII to the Act, as may for the time being be in force.

III. Perquisites :

In addition to the Salary and Commission as stated above Mr. Umesh Katre shall be entitle to the following perquisites which are classified into three categories 'A', 'B' and 'C' and restricted to an amount equal to annual salary :

CATEGORY 'A'

(i) Housing

(a) Housing I

The expenditure by the Company on hiring furnished accommodation for the Managing Director will be subject to the following ceilings : Sixty percent of the Salary, over and above ten percent payable by himself.

(b) Housing II

In case accommodation is owned by the Company, ten percent of his salary shall be deducted by the Company.

(c) Housing III

In case no accommodation is provided by the Company, he shall be entitled to house rent, allowance subject to ceiling laid down in Housing I.

Explanation : The expenditure incurred by the Company on gas, electricity, water and furnishing shall be valued as per the Income-Tax Rules, 1962. This shall, however, be subject to a ceiling of 10% of his Salary.

(ii) Medical Reimbursement

Expenses incurred for self and his family subject to a ceiling of one month's salary in a year or three month's salary over a period of three years.

(iii) Leave Travel Concession

For him and his family, once in a year incurred in accordance with any rules specified by the Company.

(iv) Club Fees

Fees of clubs subject to a maximum of two clubs. This will not include admission of life membership fee.

(v) Personal Accident Insurance

Premium not to exceed Rs. 4,000 per annum.

CATEGORY 'B'

1. Contribution to provident fund, superannuation fund or annuity fund will not be included in the computation of the ceiling on perquisites to the extent these either singly or put together are not taxable under the Income-Tax Act. Gratuity payable should not exceed half a month's salary for each completed year of service.
2. Encashment of leave at the end of the tenure will not be included in the computation of the ceiling on perquisites.

CATEGORY 'C'

Provision of car for use on Company's business and telephone at residence will not be considered as perquisites. Personal long distance calls on telephone and use of car for private purpose shall be billed by the Company to the Managing Director.

IV. Minimum Remuneration :

Notwithstanding anything to the contrary herein contained, wherein any financial year during the currency of the tenure of the Appointee, the Company has no profits or its profits are inadequate, the Company will pay remuneration by way of Salary and perquisites and allowances specified by the provisions of section II of part II of schedule XIII.

The Agreement may be terminated by either party giving the other party six months notice or the Company paying six months salary in lieu thereof.

In compliance with the provisions of Section 269, 309 and 310 of the Companies Act 1956, the terms of remuneration specified above are now being placed before the shareholders in General Meeting for their approval, which the Director commend for acceptance.

The draft Agreement between the Company and Mr. Umesh M. Katre is available for inspection at its Registered office between 2.00 p.m. and 4.00 p.m. on any working day.

Mr. Umesh M. Katre may be deemed to be concerned or interested in the Resolution.

This may be treated as an abstract of the draft Agreement between the Company and Mr. Umesh M. Katre pursuant to Section 302 of the Act.

For and on behalf of the Board of Directors,

SPICE ISLANDS APPARELS LIMITED

PLACE : MUMBAI
DATE : 29th JUNE, 2005.

UMESH M. KATRE
(Chairman & Managing Director)

DIRECTORS' REPORT

To,

The Members

Your Directors have pleasure in presenting the Seventeenth Annual Report of the Company for the year ended 31st March, 2005.

	(Rs. IN LACS) <u>2004-2005</u>	(Rs. IN LACS) <u>2003-2004</u>
FINANCIAL RESULTS		
Sales & Operating Income	1407.98	729.71
Other Income	59.90	91.38
Profit / (Loss) before Taxation / Extra Ordinary item	(193.12)	(65.02)
Prior Period Adjustments	0.00	0.20
Provision for Taxation - Current Year	(2.79)	(7.29)
Short Provision for Tax - for earlier years	(22.47)	0.00
Profit (Loss) after Taxation	(218.39)	(72.52)
Add : Brought forward profit	168.83	241.35
	<u>49.56</u>	<u>168.83</u>
APPROPRIATION		
Balance Profit (Loss) carried forward	<u>(49.56)</u>	<u>168.83</u>

OPERATIONS

Pursuant to Accounting Standard (AS28) - Impairment of Assets issued by the Institute of Chartered Accountants of India, your Company made an assessment for any indication of impairment loss on Fixed Assets as at 1st April 2004. The Company has adjusted an amount on Account of Rs. 19,23,023 (Gross Rs. 30,32,800 less deferred tax 11,09,777) against the opening balance of revenue reserves, being the impairment loss pertaining to prior periods. Details of the Provision for impairment loss on fixed assets are stated in note 6 of schedule '22' being notes on balance sheet and profit and loss account.

In the year under review, the gross revenue of the Company has gone up by almost 95% compared to that of the previous year. Almost the major part of this jump in revenue has occurred in the period December 2004 to March 2005. This has been because of extremely high concentration of demand for supply of orders by the Company's customers, reason - all customers were wanting to avail of the quota free regime which came into effect from, 1st January 2005 as per the WTO treaty. Despite this quantum jump in revenue your Company has not performed to expected levels due to a host of factors and this therefore has resulted in a negative position to the extent of Rs. 193.12 Lacks.

Several critical reason which have resulted in the above status are the extremely compressed margins on account of cut throat competition from China, midway policy decisions by the Government of India effectively changing the duty drawback rate from an average of 9.5% to that of approx 2½ to 3%. Such decisions affect your Company's working as prices are quoted and confirmed to our customers six months prior to actual delivery dates. In addition to this, there were factors such as lower productivity on account of lower efficiency especially at the Bangalore facility which resulted in backlog of orders in the period December to March and we were therefore left with little choice but to ship this delayed merchandise by air as against the usual sea freight mode. This contributed significantly to the negative numbers. Another element of increase in cost is the set up of infrastructure and other related aspects which are basically in place to cater to a higher revenue stream than that achieved, such costs obviously had to be

DIRECTORS' REPORT Contd..

apportioned to lower levels of production despite higher capacities being in place. Other areas such as communication, travel and so on have also resulted in increased cost, these have obviously come up on account of we being located at three different regions & also personnel having to travel overseas to generate new business. There has also been a significant increase in commission paid compared to the previous year, this has purely been on account of monies paid to agencies in India and overseas for generating business.

Your Company is now in the process of completely restructuring the business model to achieve the optimum out of the factories as well as the personnel in place. The entire process of restructuring of personnel & other related activities with the help of consultants and experts is expected to be achieved no later than the conclusion of the first half of the current year. This essentially would mean that the first half of the current year is also likely to suffer.

Coming to the brighter side, post restructuring, we expect the Company to be more cost effective in terms of cost/unit produced and also achieve higher revenues in both its woven & knits divisions. Here your Directors also have the pleasure of informing you that your Company is now SA-8000 approved, a norm which not many garment manufacturing facilities have. This certification effectually means that your Company's industrial policies such as payment of minimum wages, provision of benefits, adherence to all compliances expected as per the Industrial Relations Act.

Considering all this, your Directors expect to turn around the Company in the next two years.

DIVIDEND

Due to losses incurred by the Company during the financial year under review, your Directors express their inability to recommend any dividends.

TAXATION

Due to loss position no provision for tax is required. However provision of Rs. 2,79,364/- is made towards deferred tax liability.

DIRECTORS

Mr. Karl Dantas retires by rotation and being eligible offers himself for re-appointment.

Mr. Umesh M. Katre's continued association as a Managing Director is in the interest of the growth of the Company and suitable resolution is proposed in the forthcoming Annual General Meeting for his reappointment for a further period of 5 years. The Board recommends the resolution.

DIRECTORS RESPONSIBILITY

Pursuant to Section 217 (2AA) of the Companies (Amendment) Act, 2000, the Director's confirm that ;

1. In the preparation of the annual accounts, the applicable accounting standards have been followed.
2. Appropriate accounting policies have been selected and applied consistently, and have made judgements and estimates that are reasonable and prudent so as to give true and fair view of the state of affairs of the company as at 31st March, 2005 and of the loss of the company for the year ended on 31st March, 2005.
3. Proper and sufficient care has been taken 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.
4. The annual accounts have been prepared on a going concern basis.

CORPORATE GOVERNANCE

A report on the Corporate Governance Code alongwith a certificate from the Auditors of the Company regarding the

DIRECTORS' REPORT Contd..

compliance of conditions of Corporate Governance as also the Management Discussion and Analysis Report as stipulated under Clause 49 of the Listing Agreements are annexed to this Report.

DEPOSITORY SYSTEM

Trading in Equity Shares of your Company is permitted in dematerialised form in terms of notification issued by Securities and Exchange Board of India (SEBI). Your Company has entered into agreements with National Securities Depository Ltd. (NSDL) & Central Depository Services (India) Ltd. (CDSL) to enable shareholders to hold shares in dematerialised form. Since dematerialisation facilitates quick share transfers and prevents forging of documents, those shareholders who have not opted for this facility are advised to dematerialise their shares with either of the Depositories.

SUBSIDIARY COMPANY

A statement under section 212 of the Companies Act, 1956 is enclosed.

PARTICULARS OF EMPLOYEES

The particulars required under Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rule, 1975 are not furnished since none of the employees of the Company are drawing remuneration in excess of the limit laid down under the said provisions.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNING AND OUTGO

The details as required under the Companies (disclosure of particulars in the Report of Board of Directors) Rules 1988, are set out in the annexure forming part of this Report.

AUDITORS

Members are requested to appoint Auditors for the current year and to authorise the Board of Directors to fix their remuneration. M/s. P. R. Gandhi & Company, the retiring Auditors, have furnished a certificate of their eligibility for re-appointment under section 224 (1B) of the Companies Act, 1956.

NOMINATION

Articles of Association of the Company were suitably amended to permit nomination facility. Members of the Company are requested to avail themselves of the nomination facility.

APPRECIATION

Your Directors acknowledge with gratitude the co-operation extended by Bankers of the Company, Stock Exchange, SEBI, and other Government / Semi-Government Authorities.

Your Directors also wish hereby to place on record their appreciation of the efficient and loyal services rendered by all the staff and workmen of the company, without whose whole hearted efforts, the overall satisfactory performance would not have been possible.

For and on behalf of the Board of Directors,

SPICE ISLANDS APPARELS LIMITED

PLACE : MUMBAI
DATE : 29th JUNE, 2005.

UMESH M. KATRE
(Chairman & Managing Director)



ANNEXURE TO DIRECTORS' REPORT

STATEMENT PURSUANT TO SECTION 212 OF THE COMPANIES ACT, 1956 RELATING TO SUBSIDIARY COMPANY :

Name of the subsidiary	:	BHUPCO ALLOYS LIMITED.
1. Financial Year of the subsidiary ended on	:	31st March, 2005.
2. Shares of the subsidiary held by the Company on the above date		
a) Number and face value	:	6,08,600 equity shares of Rs. 10/- each fully paid up
b) Extent of holding	:	99.93%
3. Net aggregate amount of profits/(losses) of the subsidiary for the above financial year so far as they concern members of the company.		
a) Dealt with in the accounts of the Company for the year ended 31st March, 2005.	:	NIL
b) Not dealt with in the accounts of the Company for the year ended 31st March, 2005.	:	(Rs. 5,58,541)
4. Net aggregate amount of profits / (losses) for previous financial years of the subsidiary so far as they concern members of the company.		
a) Dealt with in the accounts of the Company for the year ended 31st March, 2005.	:	NIL
b) Not dealt with in the accounts of the Company for the year ended 31st March, 2005.	:	(Rs. 27,03,757)

For and on behalf of the Board of Directors,

PLACE : MUMBAI
DATE : 29th JUNE, 2005

UMESH M. KATRE
(Chairman & Managing Director)