

**DIRECTORS' REPORT**

Your Directors have the pleasure of presenting the Thirteenth Annual Report to the members together with the Audited Accounts for the year ended 31st March, 2006.

SOCIO-ECONOMIC ENVIRONMENT

The Indian Economy has shown robust and consistent growth over the past 3 years with abundant foreign exchange reserves, controlled inflation despite high oil prices and fiscal deficit maintained at 4.1% of GDP. Forward looking fiscal policies of the Government have helped instill confidence in the business community which is reflected in the increase in tax to GDP ratio to 10.5%. With early arrival of the monsoon in 2006, there is firm basis in the belief that the GDP growth in 2006 – 07 should reach 8%.

Your Company is committed to the economic and social objectives and is engaged in enlarging its contribution wherever feasible. Highlights of your Company's progress are discussed in the sections that follow :

FINANCIAL RESULTS

	Year ended 31st March, 2006 Rs. in lacs	Yearended 31st March, 2005 Rs. in lacs
Profit Before Tax	30.11	98.67
Less : Provision for Taxation	18.65	23.12
Profit After Tax	11.46	75.55
Add : Balance Brought Forward from last year	168.53	172.56
Amount available for Appropriation	<u>179.99</u>	<u>248.11</u>

APPROPRIATIONS

General Reserves	—	—
Interim Dividend	—	70.22
Income Tax on Interim Dividend	—	9.36
Balance carried to Balance Sheet	179.99	168.53
	<u>179.99</u>	<u>248.11</u>

COMPANY PERFORMANCE

Your company faced an extremely difficult year with turnover reducing by 40% compared to the Previous Year resulting in Profit Before Tax dropping to Rs. 30.11 lacs compared to Rs. 98.67 lacs in the Previous Year. The major reasons for the decrease were as follows :

- Although tea sales volume increased by 20% to 2.62 million Kgs. compared to 2.17 million Kgs. in the previous year, the average selling price per kg fell by 29% to Rs. 41.82 from Rs.58.91 in the previous year, resulting in drop in Turnover by 15%. This trend affected most industries in the tea trade with prices hitting rock bottom levels. Margins were, therefore, eroded although cost of production did not show major increase.
- Coffee turnover dropped by 53% to Rs. 10.32 crores compared to Rs. 22.03 crores in the previous year. Whereas coffee bean prices have risen substantially during the year, international selling prices have not increased proportionately to offset the price increase. This resulted in depressed export demand and



impacted directly on reduced off take. This impact was also felt on Third Party Coffee Commissions which also decreased.

Despite the downward spiral in Turnover, your Company, through effective working capital management and focused cost control, ensured that overall profitability was maintained although at a lower level compared to the Previous Year.

ACTION PLAN

In 2006 – 07 your Company is confident of ensuring overall growth both in the top line and bottom line, with the following driving forces :-

- The expansion program at the Company's Ooty factory has currently resulted in the Production capacity reaching 7.5 million Kgs. per annum. Actual Production will now depend on the market requirement which gives your Company huge flexibility in terms of Product Mix. This will enable your Company to maximize the benefits of economies of scale.
- The devastating drought in Kenya has resulted in the Kenyan Tea Crop reducing by 34.4 million Kgs. between January – April, 2006, compared to the previous year. Foreign buyers, particularly Pakistan, Afghanistan, Egypt and the UK who source teas from Kenya are now focusing on India to place orders since in 2006 the overall fall in the Kenyan crop could be around 15%. Moreover, in May 2006, the average auction price per kg at the Mombasa Tea Auction rose to USD 2.10 compared to USD 1.41 in May 2005. Prices of CTC teas produced by Bangladesh, Indonesia and Vietnam have also shown an upward trend.
- Your Company is seized of the situation and has taken measures to substantially step up exports, particularly to Pakistan and Iraq, at prices which could be substantially higher than those of the Previous Year.
- Your Company has also debonded its Orthodox Tea Factory during the year and is now marketing its CTC and Orthodox Tea through three major channels :-

(a) Exports

(b) Auction Centres

(c) Direct Customer Sale

Tea prices across the board are showing an upward trend which bodes favourably for your Company. These channels of sale give your Company numerous options depending on prevailing market forces and price levels.

- In December, 2005, your Company acquired Neelkanth Tea Company Ltd. in North Bengal at a consideration of Rs. 59.76 lacs. Your Company will be upgrading Plant and Machinery in this subsidiary to enhance production capacity to 2.2 million Kgs. of CTC tea in 2006 – 07, which will gradually be increased to reach 3 million Kgs. by 2007 – 2008. This Company is expected to generate higher margins, given the prevailing Tea Market scenario and lower cost of production.
- For the marketing and sale of Tata Coffee's instant coffee products in the International Market, Tata Coffee Ltd. and Beeyu Overseas Ltd. have formed a Joint Venture Company, "Alliance Coffee Ltd.". The Company, in which Tata Coffee will hold 51% stake, has started operating from June 1, 2006. This Joint Venture Company will give a fillip to coffee business since all three qualities of coffee – Powder, Agglomerated and Freeze Dried



coffee will be sold in the global market especially in Russia, CIS, Europe and USA. This joint venture should contribute substantially to the overall growth of the Company.

With these measures in place as well as continuing cost control measures, your Company is buoyant and confident about its overall performance in 2006 – 2007.

DIVIDEND

Owing to inadequacy of profits, your Board of Directors felt it would not be prudent to pay any dividend for the year. At its meeting held on 9th June, 2006, your Board felt that paying dividend by drawing down from General Reserves would not be advisable.

DIRECTORS

Mr. B. P. Singh, Mr. Ravi Singh and Mr. Arabinda Bose retire by rotation at the forthcoming Annual General Meeting, and are eligible for re-appointment.

PARTICULARS OF EMPLOYEES

[Pursuant to Section 217(2A) of the Companies Act, 1956]

The Company has no employee whose salary exceeds Rs. 24 lacs, if employed throughout the year or Rs. 2 lacs per month, if employed for part of the year.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION & FOREIGN EXCHANGE EARNINGS & OUTGO

The particulars in respect of conservation of energy, technology absorption and foreign exchange earnings and outgo are attached and form part of this report.

REPORT ON CORPORATE GOVERNANCE

The report on Corporate Governance in accordance with the guidelines of Securities and Exchange Board of India and Clause 49 of the Listing Agreements with Stock Exchanges is enclosed.

AUDITORS' REPORT

The notes to the accounts referred to in the Auditors' Report are self-explanatory.

DIRECTORS' RESPONSIBILITY STATEMENT

As required under Section 217(2AA) of the Companies Act, 1956, your Directors confirm that:

- (i) in the preparation of the annual accounts for the year ended 31st March, 2006, the applicable accounting standards have been followed.
- (ii) the Directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the Financial Year and of the profit or loss of the Company for that period.
- (iii) the Directors have taken proper and sufficient care for 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.



(iv) the annual accounts have been prepared on a going concern basis.

AUDITORS

M/s Price Waterhouse, Chartered Accountants, the Statutory Auditors of the Company, retire at the forthcoming Annual General Meeting and being eligible, have expressed their willingness to be re-appointed.

ACKNOWLEDGEMENT

The Board wishes to place on record its appreciation of services rendered by the executives, staff and workers at all levels and to the Banks and other authorities for excellent co-operation extended by them to the Company during the year.

On behalf of the Board

Place : Kolkata

Dated : June 9, 2006

B. P. Singh

Executive Chairman



**ANNEXURE TO DIRECTORS' REPORT**

Particulars pursuant to Section 217(1)(e) of the Companies Act, 1956 read with Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 and forming part of the Report.

Conservation of Energy

Energy conservation continues to receive top priority in the Company. Energy consumption is constantly monitored and maintenance systems are regularly improved to reduce energy losses.

a. Specific Energy Conservation Measures :

The Company has replaced the motors of the axial fans of the withering troughs with new improved motors of lower HP rating and has simultaneously altered the alignments of the fans to improve the efficiency level. The conventional 7 HP motors have been replaced by 3 HP motors.

The Company has in its expansion program accorded high priority to energy conservation and has procured latest machinery that meet the highest level of energy efficiency without compromising the output. Thermax boiler is being used for dual purpose of firing the two dryers as well as for the withering troughs.

b. Proposed Measures for Energy Conservation :

Among the proposed energy conservation measures are efficient use of sunlight and solar energy as substitute to electricity in the daytime lighting in the factories and guesthouse at Ooty and also the rainwater harvesting facilities.

c. Impact of the Measures Taken :

Substantial electricity cost savings have taken place due to replacement of the motors of the withering troughs with smaller efficient motors of lower HP rating. The estimated cost saving will be Rs.10 lacs per annum. The use of the boiler will also result in 20% saving in fuel cost.

Total energy consumption and energy conservation per unit of produce :

As per Form A hereunder :

FORM – A**FORM FOR DISCLOSURE OF PARTICULARS WITH REGARD TO
CONSERVATION OF ENERGY****A. Power and Fuel consumption :**

		Current Year 1-4-2005 to 31-3-2006		Previous Year 1-4-2004 to 31-3-2005	
1. Electricity					
(a) Purchased					
Unit	KWH	13,69,144	KWH	11,94,792	
Total Amount	Rs.	66,72,808	Rs.	59,82,492	
Rate/Unit	Rs.	4.87	Rs.	5.01	
(b) Own Generation					
(i) Through Diesel Generator					
Units	KWH	91,944	KWH	51,581	
Units/Litre of LDO	KWH/ltr	3.11	KWH/ltr	3.36	
Cost/Unit	Rs.	6.88	Rs.	7.80	
(ii) Through Steam Turbine		—	—	—	—



		Current Year 1-4-2005 to 31-3-2006		Previous Year 1-4-2004 to 31-3-2005
2. Gas				
Quantity	Kgs	—	Kgs	8,305
Total amount	Rs.	—	Rs.	1,49,490
Average rate	Rs./Kg	—	Rs./Kg	18.00
3. Fire Wood				
Quantity	Kgs	37,42,450	Kgs	26,66,695
Total amount	Rs.	60,34,477	Rs.	44,07,181
Average rate	Rs./Kg	1.61	Rs./Kg	1.65

B. Consumption per unit of production :

	Standards	Current Year 1-4-2005 to 31-3-2006	Previous Year 1-4-2004 to 31-3-2005
Electricity	There is no specific standard as the consumption per unit depends on the quality of leaf and the type of tea to be produced	0.73 units	0.69 units
Gas		—	0.22 Kg
Firewood		1.98 Kg	1.48 Kg

RESEARCH AND DEVELOPMENT (R&D)

The Company is continuously upgrading its manufacturing process to achieve the best possible results in terms of tea production and reduction in cost of production.

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

1. Efforts in brief made towards technology absorption, adaptation and innovation:

Indigenously developed technologies for the improvement of both plantation and factory were adopted and modifications and innovations, wherever required, were done.

2. Benefits derived as a result of the above efforts:

Higher yield, reduction of cost of production and improvement in quality of product.

3. Imported Technology

None

FOREIGN EXCHANGE EARNINGS AND OUTGO

Earnings and outgo of Foreign Exchange as detailed in Notes and in Schedule 19 to the Accounts were as under :

	Current Year 1-4-2005 to 31-3-2006	Previous Year 1-4-2004 to 31-3-2005
Foreign Exchange Earnings :	15,95,54,873	32,81,61,156
Foreign Exchange Outgo :	3,60,966	9,16,087



REPORT ON CORPORATE GOVERNANCE

Company's Philosophy

Your Company believes that any meaningful policy on Corporate Governance must provide executive freedom to the management to drive the enterprise forward without undue hindrance and simultaneously create a framework of effective accountability within which the freedom of management is to be exercised so that the decision making power vested in the executive management is used with care and responsibility to meet stakeholders' aspirations and expectations of society. These core principles form the cornerstone of the corporate governance philosophy of your Company, namely trusteeship, transparency, empowerment and accountability, control and ethical corporate citizenship. Your Company believes that the practice of each of these leads to the creation of right corporate culture that enables the Company to be managed in a manner fulfilling the purpose of Corporate Governance.

Board of Directors

In terms of the Company's Corporate Governance Policy, all statutory and other significant and material information are placed before the Board to enable it to discharge its responsibility of strategic supervision of the Company as trustees of the Shareholders.

Your Board comprises an optimal complement of independent professionals as well as company executives having in-depth knowledge of the business of the industry. It represents an optimum mix of professionalism, knowledge and experience. The size and composition of the Board conforms to the requirements of the Corporate Governance code under the Listing Agreement with the Stock Exchanges.

During the Financial Year under review, five Board Meetings were held on the following dates :

30.04.2005**14.06.2005****27.07.2005****27.10.2005****30.01.2006**

None of the Directors on the Board holds the office of director in more than 15 companies or memberships in committees of the Board in more than 10 committees or Chairmanship of more than 5 committees.

Composition and Category of Directors

Name of the Director	Category	Designation
1. Mr. B. P. Singh	Executive Director	Executive Chairman
2. Mr. Ravi Singh	Executive Director	Managing Director
3. Ms. Rajinie Singh	Executive Director	Dy. Managing Director
4. Mr. F. J. Kapadia	Executive Director	Director – Finance
5. Mrs. Usha Singh	Promoter Director	
6. Mr. Arabinda Bose	Independent Director	
7. Mr. S. K. Jain	Independent Director	
8. Mr. Harish Parekh	Independent Director	
9. Dr. R. Srinivasan	Independent Director	
10. Mrs. L. Poonawalla	Independent Director	
11. Mr. Sajjan Bagaria	Independent Director	
12. Mr. B. K. Banerjee*	Independent Director	

* Mr. B. K. Banerjee was appointed a Director w.e.f. 27th July, 2005.

**Attendance of each Director at the Board Meetings and the last AGM**

Name of the Director	No. of Board Meetings held	No. of Board Meetings Attended	Attendance at the last AGM
1. Mr. B. P. Singh	5	5	Present
2. Mr. Ravi Singh	5	2	Present
3. Ms. Rajinie Singh	5	2	Absent
4. Mr. F. J. Kapadia	5	5	Present
5. Mrs. Usha Singh	5	5	Present
6. Mr. Arabinda Bose	5	4	Present
7. Mr. S. K. Jain	5	4	Present
8. Mr. Harish Parekh	5	5	Absent
9. Dr. R. Srinivasan	5	4	Present
10. Mrs. L. Poonawalla	5	4	Present
11. Mr. Sajjan Bagaria	5	5	Present
12. Mr. B. K. Banerjee*	5	3	Present

* Mr. B. K. Banerjee was appointed a Director w.e.f. 27th July, 2005.

Number of other Directorship held, number of Board Committees of which Member/Chairman

Name of the Director	No. of other Directorship held	No. of Membership (s) of Board Committees of other companies	No. of Chairmanship (s) of Board Committees of other companies
1. Mr. B. P. Singh	2	Nil	—
2. Mr. Ravi Singh	2	Nil	—
3. Ms. Rajinie Singh	Nil	Nil	—
4. Mr. F. J. Kapadia	Nil	Nil	—
5. Mrs. Usha Singh	Nil	Nil	—
6. Mr. Arabinda Bose	Nil	Nil	—
7. Mr. S. K. Jain	Nil	Nil	—
8. Mr. Harish Parekh	10	8	2
9. Dr. R. Srinivasan	8	7	2
10. Mrs. L. Poonawalla	3	1	—
11. Mr. Sajjan Bagaria	2	—	—
12. Mr. B. K. Banerjee	—	—	—

- Membership of Committees include Chairmanship.
- Number of directorships / memberships held in other companies excludes directorships/ memberships in private limited companies, foreign companies, membership of managing committees of various committees of various chambers / bodies and alternate directorships. Further, only the three committees viz. the Audit Committee, the Shareholders' Grievance Committee and the Remuneration Committee have been considered for this purpose.

**BOARD COMMITTEES**

Currently, the Board has four committees viz., the Audit Committee, the Remuneration Committee, the Investors' Grievance Committee and the Share Transfer Committee. The terms of reference of the Board Committees are determined by the Board from time to time. Minutes of Board Committee meetings are placed for the information of the Board. Matters requiring the Board's attention/approval are placed in the form of notes to the Board by the respective Committees. The role and composition of these Committees, including the number of meetings held during the financial year and the related attendance, are provided below:

Audit Committee

The Audit Committee of the Company *inter alia*, provides reassurance to the Board on the existence of an effective internal control environment that ensures :

- Efficiency and effectiveness of operations both domestic and overseas
- Safeguarding of assets and adequacy of provisions for all liabilities
- Reliability of management and other management information and adequacy of disclosures.
- Compliance with all relevant statutes.

Presently, the Audit Committee comprises three Directors viz. Dr.R.Srinivasan as the Chairman, Mr.Harish Parekh and Mrs.Lila Poonawalla as members.

Dr. R. Srinivasan is an ex-banker with finance background.

Mr.R.Chattopadhyay, the Company Secretary acts as the Secretary of the Committee.

The terms of reference to the Audit Committee include the matters specified in Clause 49(II) of the Listing Agreement with the Stock Exchanges and also as required under Section 292A of the Companies Act, 1956.

Terms of reference

The terms of reference stipulated by the Board to the Audit Committee contained under Clause 49(II) of the Listing Agreement and applicable for the Company are as follows:

1. Overview of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
2. Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.
3. Approval of payment to statutory auditors for any other services rendered by the statutory auditors.
4. Reviewing, with the management, the annual financial statements before submission to the Board for approval, with particular reference to:
 - a. Matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of clause (2AA) of Section 217 of the Companies Act, 1956
 - b. Changes, if any, in accounting policies and practices and reasons for the same
 - c. Major accounting entries involving estimates based on the exercise of judgement by management
 - d. Significant adjustments made in the financial statements arising out of audit findings
 - e. Compliance with listing and other legal requirements relating to financial statements
 - f. Disclosure of any related party transactions
 - g. Qualifications in the draft audit report.
5. Reviewing, with the management, the quarterly financial statements before submission to the Board for approval



6. Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems.
7. Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure, coverage and frequency of internal audit.
8. Discussing with internal auditors any significant findings and follow up thereon.
9. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.
10. Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.
11. To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.
12. To review the functioning of the Whistle Blower mechanism, in case the same is existing.
13. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

Dates of meetings of the Audit Committee and Attendance

Date of Committee Meeting	Attendance
30.04.2005	Dr. R.Srinivasan, In the Chair Mr. Harish Parekh Mrs. Lila Poonawalla
27.10.2005	Dr. R. Srinivasan, In the Chair Mr. Harish Parekh Mrs. Lila Poonawalla
30.01.2006	Dr. R.Srinivasan, In the Chair Mr. Harish Parekh Mrs. Lila Poonawalla

Notes : A meeting of the Committee was scheduled for 27th July, 2005. However due to floods in Mumbai, two of the three members could not attend the meeting and the meeting could not be held due to lack of quorum

Remuneration Committee

The Remuneration Committee of the Company, *inter alia*, recommends to the Board of Directors the compensation terms of Executive Directors and senior-most level of management immediately below the Executive Directors.

Presently, the Remuneration Committee of the Company comprises three Directors viz. Mr. Harish Parekh as the Chairman, Mr.S.K.Jain and Mr.Sajjan Bagaria as other members.

Mr.R.Chattopadhyay the Company Secretary acts as the Committee's Secretary.

Terms of reference

The terms of reference are :

- i. To determine the Remuneration Policy for the Executive Directors and Senior Executives by way of Salary and perquisites.
- ii. To periodically review the Remuneration Policy.

During the year under review, no meeting of the Committee was held.