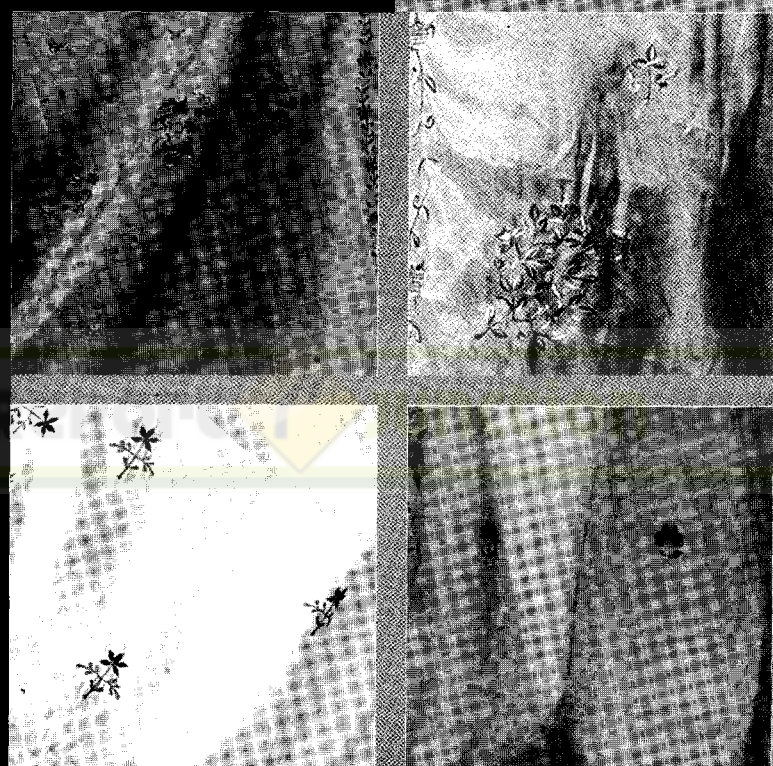


ANNUAL REPORT

2003 - 04



EASTERN SILK INDUSTRIES LTD.



EASTERN SILK INDUSTRIES LTD.

BOARD OF DIRECTORS

S. S. Shah *Chairman & Managing Director*
Ajit Khandelwal
G. D. Harnathka
H. S. Gopalka
O. P. Agarwal
R. S. Rungta
Sundeep Shah *Executive Director*

SECRETARY

K. T. Sheth

REGISTERED OFFICE

19 R. N. Mukherjee Road
Kolkata - 700 001

FACTORY

Kammasandra
Agrahara Village
Kosaba Hobli
Anekal Taluk
Dist. Bangalore

Falta Special Economic Zone
24 Parganas
West Bengal

AUDITORS

B. K. Shroff & Co.
23A, Netaji Subhas Road
Kolkata - 700 001

BANKERS

Allahabad Bank
Bank of Baroda
Canara Bank
Oriental Bank of Commerce
State Bank of India
State Bank of Mysore
State Bank of Hyderabad
The Federal Bank Ltd.

REGISTRARS & SHARE TRANSFER AGENT

ABS Consultant Pvt. Ltd.
99, Stephen House, 6th Floor
4, B.B.D. Bag (East)
Kolkata - 700 001

**CONTENTS**

| | PAGE NO. |
|--|----------|
| Notice of AGM | 1 |
| Directors' Report | 2 |
| Annexure to Directors' Report | 5 |
| Auditors' Report | 13 |
| Balance Sheet | 16 |
| Profit & Loss Account | 17 |
| Schedules | 18 |
| Additional Information, Balance Sheet Abstract and Company's General Business Profile | 32 |
| Cash Flow Statement | 33 |



NOTICE

The Fifty-eighth Annual General Meeting of Eastern Silk Industries Ltd. will be held on Wednesday, the 22nd September, 2004 at 11.00 A.M. at Kala Kunj, 48, Shakespeare Sarani, Kolkata – 700 017, to transact the following business:

1. To receive, consider and adopt the Profit & Loss Account for the year ended 31st March, 2004 and the Balance Sheet as at that date together with the report of the Directors and Auditors thereon.
2. To declare dividend.
3. To appoint a Director in place of Shri O.P. Agarwal who retires by rotation and is eligible for re-appointment.
4. To appoint a Director in place of Shri Ajit Khandelwal who retires by rotation and is eligible for re-appointment.
5. To appoint Auditors and fix their remuneration.

Registered Office:

19, R. N. Mukherjee Road

Kolkata – 700 001

Dated : The 17th July, 2004.

By Order of the Board

K. T. SHETH

SECRETARY

NOTES :

1. A member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead and the proxy need not be a member of the Company. The proxy, in order to be effective, must be deposited at the Registered Office of the Company not less than 48 hours before the meeting.
2. The Register of Members and Share Transfer Books of the Company will remain closed from 14th September 2004 to 22nd September 2004, both days inclusive.
3. Dividend, when declared will be made payable to those shareholders whose names appear in the Register of Members of the Company on 22nd September 2004. In respect of shares held in electronic form, the dividend will be payable on the basis of beneficial ownership as per details furnished by the National Depository Ltd. (NSDL) and Central Depository Services (India) Ltd. (CDSL) for this purpose.
4. Pursuant to the amended provisions of Section 205A of the Companies Act, 1956, dividends for the financial year ended 31st March, 1997 and thereafter, which remains unpaid or unclaimed for a period of seven years will be transferred to the Investor Education and Protection Fund of the Central Government. Members, who have not encashed their dividend warrants pertaining to these years, may approach the Company or its Registrars for obtaining duplicate dividend warrants.



DIRECTORS' REPORT

TO THE MEMBERS

Your Directors have pleasure in presenting their fifty-eighth Annual Report together with the Audited Accounts of your Company for the year ended 31st March, 2004.

FINANCIAL RESULTS :

| | 2004 | (Rs. in Lacs) | 2003 |
|---|---------|---------------|---------|
| Profit before depreciation and taxation | 2033.67 | | 1509.81 |
| Less: Depreciation | 114.64 | | 191.09 |
| Profit | 1919.03 | | 1318.72 |
| Less: Provision for Current Taxation | 60.43 | | 130.00 |
| | 1858.60 | | 1188.72 |
| Less: Deferred Tax Liability | 310.44 | | 23.39 |
| | 1548.16 | | 1165.33 |
| Add: Balance brought forward from previous year | 2716.38 | | 2159.27 |
| | 4264.54 | | 3324.60 |
| Which the Directors have appropriated as follows: | | | |
| General Reserve | 223.00 | | 200.00 |
| Preference Share Redemption Reserve | 120.00 | | 120.00 |
| Interim Dividend on Preference Shares | — | | 37.61 |
| Proposed Dividend On Equity Shares | 128.72 | | 107.27 |
| Proposed Dividend On Preference Shares | 35.61 | | 114.76 |
| Corporate Dividend Tax | 21.05 | | 28.58 |
| Balance carried forward to next year | 3736.16 | | 2716.38 |
| | 4264.54 | | 3324.60 |

OPERATIONS AND FUTURE OUTLOOK

The sales and processing income during the year increased from Rs.23634.15 lacs to Rs.27265.42 lacs. The net profit also was higher at Rs.1919.03 lacs as against Rs.1318.72 lacs of the earlier year.

The commercial production at Company's plant at Anekal had commenced in February, 2004. The required machineries imported as well as indigenous were installed and commissioned successfully. The quality of the finished products rolled out from the new plant was satisfactory and were well accepted by the overseas buyers.

With a view to meet the challenges ahead under the WTO regime, your Board of Directors have approved a Scheme of Amalgamation under which Eastern Jingying Ltd. and Sstella Silks Ltd. would be merged with your Company. Under the Scheme there will be synergy of business activities, the benefits of economies of scale, better administration and efficiency in operation.



DIVIDEND

Your Directors recommend payment of the following Dividends for the year:

- | | | |
|---|-----------------|-------------------|
| i) On 4,00,000 – 13% Cumulative Redeemable Preference Shares on prorata basis | Rs. 42,740/- | |
| ii) On 2,00,000 – 13% Cumulative Redeemable Preference Shares | Rs. 26,00,000/- | |
| On 6,00,000 – 8% Cumulative Redeemable Preference Shares on prorata basis | Rs. 9,18,032/- | Rs. 35,60,772/- |
| iii) On 71,51,235 Equity Shares @ 18% | | Rs. 1,28,72,223/- |

SHARE CAPITAL

During the year under review the Company redeemed thirteen percent Cumulative Redeemable Preference shares aggregating to Rupees Four Crores which had been allotted on private placement basis to Industrial Development Bank of India.

The Company also allotted eight percent Cumulative Redeemable Preference Shares aggregating to Rupees Six Crores on private placement basis to an overseas corporate body.

PUBLIC DEPOSIT SCHEME

During the year, your Company has not accepted any deposits. There are no outstanding deposits as on date.

CORPORATE GOVERNANCE

A separate section on Corporate Governance and Management Discussion and Analysis together with the Auditors' Certificate confirming the compliance of conditions on Corporate Governance as per Clause 49 of the Listing Agreement with the Stock Exchanges form part of the Annual Report.

DIRECTORS

Shri O.P. Agarwal and Shri Ajit Khandelwal, Directors of the Company retire from the office by rotation and are eligible for re-appointment.

DIRECTORS' RESPONSIBILITY STATEMENT

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

- That in preparation of the annual accounts, the applicable accounting standards have been duly followed.
- That the Directors 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 at the end of the financial year and of the profit of the Company for the year under review.
- That the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- That the Directors have prepared the accounts for the financial year ended 31st March, 2004 on a going concern basis.

DISCLOSURE OF PARTICULARS

The information required under Rule 2 of the Companies Act, 1956 (Disclosure of Particulars in the Report of Board of Directors Rules, 1988) relating to conservation of energy, technology absorption, foreign exchange earnings and outgo is annexed.



AUDITORS

Messrs B.K. Shroff & Company, Chartered Accountants, retire at the forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment.

The observations of Auditors are explained where necessary in the appropriate notes to the Accounts.

COST AUDITORS

Pursuant to the directives of the Central Government under the provisions of Section 233 B of the Companies Act, 1956, qualified Cost Auditors have been appointed to conduct Cost Audits relating to products of the Company subject to the approval of the Central Government.

PERSONNEL

The Board of Directors wishes to express its appreciation to all the employees of the Company for their valued contributions to the operations of the Company during the year.

There was no employee during the financial year or part of the financial year who was in receipt of remuneration for that year or any part of that year at a rate as prescribed under Sec. 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules 1975 as amended.

ACKNOWLEDGEMENT

Your Directors would like to express their grateful appreciation for the assistance and co-operation extended by the Financial Institutions, Bankers, Agents and Customers of the Company.

Registered Office:
19 R N Mukherjee Road
Kolkata 700 001
Dated: The 17th July, 2004.

By Order of the Board
S. S. SHAH
Chairman & Managing Director



ANNEXURE TO DIRECTORS' REPORT

Information pursuant to 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, forming part of Directors' Report:

CONSERVATION OF ENERGY:

The Company has undertaken energy conservation measures on ongoing basis.

FORM A

(A) Power and Fuel Consumption

| | | Current Year | Previous Year |
|----------------------------|-----------|-----------------|------------------|
| 1. Electricity | | | |
| (a) Purchased | Units | 1,162 | 5,24,772 |
| Total amount | Rs. | 18,900 | 28,22,517 |
| Rate/Unit | Rs. | 16.27 | 5.38 |
| (b) Own Generation through | | | |
| Diesel Generator | Units | 2,44,138 | 40,796 |
| Total Amount | Rs. | 15,73,025 | 2,82,803 |
| Cost/Unit | Rs. | 6.97 | 6.93 |
| 2. Furnace Oil | | | |
| Quantity | Kilo Ltr. | 18,412 | 4,51,778 |
| Total Amount | Rs. | 3,27,600 | 65,02,010 |
| 3. Others/Internal Diesel | Ltrs. | — | 14,395 |
| Total Cost | Rs. | — | 2,82,803 |

(B) Consumption per unit of products:

| | | | |
|--------------|-------|--------|-----------|
| Products | | | |
| Silk Fabrics | Mtrs. | 62,284 | 2,94,474 |
| Synthetics | Mtrs. | — | 20,17,376 |
| Silk Yarn | Kgs. | — | — |
| Electricity | Rs. | 0.30 | 0.82 |
| Furnace Oil | Rs. | 5.26 | 2.81 |
| Diesel | Rs. | 25.26 | 0.12 |

The current year's figures are related to the Company's new factory at Anékal which was in operation only for a part of the year and hence are not comparable with the previous year.



TECHNOLOGY ABSORPTION

FORM B

Research & Development

1. Specific areas in which R&D carried out by the Company
2. Benefits derived as a result of above R&D
3. Future plan of action
4. Expenditure on R & D

R&D department is engaged not only in cost reduction but also in developing new fabrics and designs to cater to the needs of the fast-changing fashion habits of the West.

The Company's in-house research wing has successfully developed indigenous technology for fast colour printing on fabrics which is the basic need for selling in the overseas market. The Design Studio of the Company has developed some exclusive designs which are well accepted in the global market.

The Company by using advance technology is developing new products in terms of design, quality and value addition.

Negligible.

Technology Absorption, Adaptation & Innovation

1. Efforts in brief, made towards technology Absorption, adaptation and innovation
2. Benefits derived as a result of the above
3. Details of imported technology

The Company's State-Of-The-Art modern weaving-cum embroidery unit at Anekal in Bangalore will focus on machine made silk fabrics. Latest processing equipment for silk yarn and fabric dyeing, designing, weaving, printing, processing and computerised embroidery technology have been sourced from the leading international manufacturers.

Besides enhancing the Company's production capacity, this will further strengthen its overall product mix and value addition.

Latest machineries have been imported from the renowned manufacturers across the globe. World class CAD systems will support the Company's advanced design studio.

FOREIGN EXCHANGE EARNINGS & OUTGO

- (a) Activities relating to exports, initiatives taken to increase exports, development of new export markets for product and services and export plans.
- (b)

| | |
|--|---|
| <ol style="list-style-type: none"> i) Overseas Travelling ii) Commission to Agents iii) Consultation Fees iv) Others | } |
|--|---|

Export promotion tours are regularly undertaken by the marketing personnel and they also participate in International Trade Fairs to improve the product range and augment exports..

The information on foreign exchange earnings and outgo is contained in Schedule 14, items (i) and (j).

Kolkata 700 001

Dated: the 17th July, 2004.

By Order of the Board

S.S. SHAH

Chairman & Managing Director



MANAGEMENT DISCUSSION AND ANALYSIS

Industry Structure and Developments

The Company has moved from handloom sector and elevated itself to machine-made fabrics with the State-Of-The-Art technology at its unit in Anekal. This development has enabled the Company to look at new horizons to focus on the top-end of the market. The demand recession witnessed in the global market has undergone a noticeable change for the better. The quality products are always in demand and if industry keeps itself abreast with the latest development, successful marketing of the finished products is not difficult to achieve.

Opportunities and Threats

Lower interest cost reduced custom duty on capital goods and increased globalisation of trade may provide the required impetus to the exports. However, the fluctuation in raw material cost, appreciation of Indian rupee against dollar are a few bottlenecks to the growth of the industry.

Segmentwise Performance

The Company's business activities falls within a single primary segment viz., Textiles.

Outlook

Silk has always fascinated the fashion world. With use of the latest technology to weave the wonder fabric it will always be in demand in the market and with several third world countries promoting themselves to the level of developed countries will open up great opportunities for marketing the silk products in such markets. The Company's new modern weaving-cum-embroidery unit can take advantage of such opening up of new markets.

Internal Control System

The Company has adequate system of internal controls to ensure that all assets are safeguarded and protected against loss and that all transactions are authorised, recorded and reported correctly. The systems are designed to support the reliability of the financial and other records for preparing financial statements and other data.

Human Resources

The Company continues to recognise the importance of good human relation in the smooth working of the organisation. Upgradation of the skills of the employees is a continuous process pursued by the Company.

Cautionary Statement

The statement in the Management Discussion and Analysis Report detailing the Company's objectives, projections, estimates, expectations or predictions may be forward looking within the meaning of applicable laws and regulations. As these assessments are based on certain assumptions and expectations of future events, actual results could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include economic conditions that affect the global demand or supplies, political and economic developments in India or other countries, government regulations and taxation policies, prices and availability of raw materials, prices of finished goods, abnormal climatic and geographical conditions etc. The Company assumes no responsibility for forward-looking statements that may be revised or modified in the future on the basis of subsequent developments, information or events.