



Ah, Silk!

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Eastern Silk Industries Ltd.

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EASTERN SILK INDUSTRIES LTD.**BOARD OF DIRECTORS**

S. S. Shah *Chairman & Managing Director*
G. D. Harnathka
H. S. Gopalka
O. P. Agarwal
R. L. Gaggar
R. S. Rungta
Sundeep Shah *Executive Director*
Sunil V. Diwakar
(Nominated by IL&FS Investment
Managers Ltd.

COMPANY SECRETARY

K. T. Sheth

REGISTERED OFFICE

19 R. N. Mukherjee Road
Kolkata - 700 001

FACTORIES**Unit 1**

411, Telugarahalli Road, Anekal,
Bangalore - 562 106

Unit 2

Kammansandra Agrahara Kasaba Hobli,
Anekal, Bangalore - 562 106

Unit 3

11A, 2nd Cross Industrial Area, Nanjangud,
Karnataka - 571 301

Unit 4

Falta Special Economic Zone,
24 Parganas (South), West Bengal

AUDITORS

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

BANKERS

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

**REGISTRARS & SHARE
TRANSFER AGENT**

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



NOTICE

The Sixtieth Annual General Meeting of Eastern Silk Industries Ltd. will be held on Wednesday, the 27th September, 2006 at 11.00 A.M. at Kala Kunj, 48, Shakespeare Sarani, Kolkata 700017 to transact the following business:

1. To receive, consider and adopt the Profit & Loss Account for the year ended 31st March, 2006 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 Sri O.P. Agarwal who retires by rotation and is eligible for re-appointment.
4. To appoint a Director in place of Sri G.D. Harnathka who retires by rotation and is eligible for re-appointment.
5. To appoint Auditors and fix their remuneration.

SPECIAL BUSINESS :

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

RESOLVED that in modification of Resolution No. 6 passed at the Annual General Meeting of the Company held on 24th September, 2003 and in accordance with the provisions of sections 198, 269, 309 & 310 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, consent of the Company be and is hereby accorded to the appointment of Shri Sundeep Shah as an Executive Director of the Company with effect from 1st September, 2006 on the terms and conditions including remuneration as set out in the Explanatory Statement annexed to the Notice convening this meeting.

RESOLVED FURTHER that the Board of Directors be and is hereby authorized to do all such acts, deeds and things as may be necessary and expedient to give effect to this resolution.

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

RESOLVED that in modification of Resolution No. 6 passed at the Annual General Meeting of the Company held on 25th September, 2002 and in accordance with the provisions of sections 198, 269, 309 & 310 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, consent of the Company be and is hereby accorded to the appointment of Shri S.S. Shah as the Managing Director of the Company with effect from 1st September, 2006 on the terms and conditions including remuneration as set out in the Explanatory Statement annexed to the Notice convening this meeting.

RESOLVED FURTHER that the Board of Directors be and is hereby authorized to do all such acts, deeds and things as may be necessary and expedient to give effect to this resolution.

8. To consider and if thought fit, to pass with or without modification, the following resolution as a Special Resolution :

RESOLVED that pursuant to section 31 and other applicable provisions, if any, of the Companies Act, 1956, the following Article numbered 115(b) to (i) be added in the Articles of Association of the Company and Article 115 be renumbered as 115(a).

- b) Whenever the Directors enter into a contract with any person or persons for borrowing any money or for providing any guarantee or security or for technical collaboration or assistance or enter into any other arrangement, the Directors shall have subject to the provisions of Section 255 of the Act, the power to agree that such person or persons shall have the right to appoint or nominate by a notice in writing addressed to the Company one or more Directors on the Board for such period and upon such conditions as may be mentioned in the Agreement and that such Director or Directors may not be liable to retire by rotation nor be required to hold any qualification shares. The Directors may also agree that any such Director or Directors may be removed from time to time by the person or persons entitled to appoint or nominate them and such person or persons may appoint another or others in his or their place and also fill in any vacancy, which may occur as a result of any such Director or Directors ceasing to hold that office for any reason whatever. The Directors appointed or nominated under this Article shall be entitled to exercise and enjoy all or any of the rights and privileges exercised and enjoyed by the Directors of the Company including the payment of remuneration and traveling expenses to such Director or Directors as may be agreed by the Company with such person or persons aforesaid.
- c) Notwithstanding anything in the contrary in the proceeding para so long as IL&FS Trust Co. Ltd. A/c. IL&FS Private Equity Trust - Leverage India Fund, IL&FS Employees Welfare Trust and IVC Employees Welfare Trust (hereinafter

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collectively referred to as 'IL&FS') holds or continues to hold in aggregate at least 3,55,000 Equity shares in the Company as a result of private placement, and till such time Subscription-cum-Shareholders Agreement (hereinafter referred to as 'SSA') dated 18th May 2006 entered into by the Company and IL&FS remains in force, IL&FS shall be entitled to appoint (remove and replace) from time to time at their sole discretion Director(s) [hereinafter referred to as 'Investor Director'] on the Board of the Company in proportion to their shareholding in the Company, subject to a minimum of one Director at all times. Such Director(s) shall also, if required, be appointed on all committees of the Board.

- d) In the event that upon the appointment of the Investor Director, the number of Directors on the Board exceed, the maximum permissible under the Articles or the Act, the Company shall retire any one or more Directors appointed by the Promoters and shall appoint the person nominated as Investor Director(s) in his stead.
- e) In case the Investors have not appointed an Investor Director, the Investors shall be entitled to appoint an observer to the Board of the Company.
- f) In the event that either the Investor or the Investor Director wishes to appoint an alternate Director for the Investor Directors, the Board of the Company will upon receipt of a written notice to that effect, appoint an alternate Director for such Investor Director.
- g) Such Investor Director(s) shall not be required to hold any share qualification in the Company. Investor Director(s) shall not be liable to retirement by rotation of Directors. In addition to the Investors' rights under SSA, they shall be entitled to the same rights and privileges as any other Non-Executive Directors of the Company including sitting fees expenses, commission and other remuneration as payable to other non-executive directors.
- h) The Investor Director(s) shall be entitled to receive all notices, circulars, minutes of meetings, agenda etc. and attend all General Meeting, Board Meeting and of the Meetings of the Committee of which the Investor Director/s is/are member/s.
- i) If at any time the Investor Director is not able to attend a meeting of the Board, then the Investor may depute any person authorized by the Investor as an observer to attend the meeting and the Company shall permit such observer to attend the meeting.

Registered Office:

19, R. N. Mukherjee Road
Kolkata - 700 001

Dated : The 24th August, 2006

By Order of the Board

K. T. SHETH

COMPANY 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 12th September 2006 to 27th September 2006, 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 27th September 2006. 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. An Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 relating to the Special Business is annexed hereto.
5. Additional information pursuant to Clause 49 of the Listing Agreement with Stock Exchange regarding the Directors who are proposed to be appointed / reappointed at the Annual General Meeting are provided in the Report of Corporate Governance forming part of the Annual Report.
6. Pursuant to the amended provisions of Section 205A of the Companies Act, 1956, dividends for the financial year ended 31st March, 1999 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.



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Explanatory Statement under Section 173(2) of the Companies Act, 1956:

Item No. 6

Shri Sundeep Shah was appointed as the Executive Director of the Company for a period of five years with effect from 1st June 2003 on the terms and conditions and remuneration as approved by the members at the Annual General Meeting held on 24th September 2003. As such, the present term of office of Shri Shah shall expire on 30th June 2008. Sri Sundeep Shah has been associated with the Company in various positions since last two decades and is presently heading the export division of the Company. In order to implement new projects and expansion programmes the Executive Director has been assigned greater role, responsibility and accountability and therefore, he has to devote considerable time and attention to the business of the Company. Keeping in view the contribution made by Shri Shah for the growth of the Company, the Board of Directors of the Company and the Remuneration Committee have recommended the appointment of Sri Sundeep Shah afresh for a period of five years effective from 1st September 2006 on the following terms and conditions:

1. Salary : Rs.1.50 lakhs per month in the scale of Rs.1.50 lakhs - Rs.3.00 lakhs, with such annual increment from 1st April every year as may be decided by the Remuneration Committee of the Company.
2. Commission : 1% of the net profit of the Company in any financial year as computed under section 198 of the Companies Act, 1956 commencing from the financial year ended 31st March 2006.
3. Perquisites : Sri Sundeep Shah will be entitled to the perquisites / benefits of residential accommodation or house rent allowance in lieu thereof; Gas, Electricity, Water, Furnishings, Medical expenses reimbursement for self and family, leave travel concession, club fees and personal accident insurance in accordance with the rules of the Company subject to limit of an amount equal to the annual salary.

In the event of loss or inadequacy of profits of the Company in any financial year, Sri Sundeep Shah will be entitled to such remuneration by way of salary, perquisites and allowance as specified above

Provisions for the use of the Company's car for official and personal use and telephone at residence shall not be included in the computation of the perquisites for the purpose of calculating the said ceiling.

The Company's contribution to provident fund, gratuity payable as per rules of the Company and encashment of the leave at the end of the tenure shall not be included in the computation of the limits for the remuneration and perquisites as aforesaid.

Directors recommended the resolution set out at item No. 6 of the Notice for approval of the Members.

The above may be treated as an abstract of the terms of appointment and Memorandum of concern or interest, pursuant to Section 302 of the Companies Act, 1956.

Shri Sundeep Shah, the Executive Director of the Company and Shri S.S. Shah being a relative of Shri Sundeep Shah may be deemed to be interested in the resolution.

Item No. 7

Shri S.S. Shah was reappointed as the Managing Director of the Company for a period of five years with effect from 1st August 2002 on the terms and conditions and remuneration as approved by the members at the Annual General Meeting held on 25th September 2002. As such, the present term of office of Shri Shah shall expire on 31st July 2007. Shri S.S. Shah has been associated with the Company since 1952 and currently holds overall responsibility for the working of the Company. In order to implement new projects and expansion programmes, the Managing Director has been assigned greater role, responsibility and accountability and therefore, he has to devote considerable time and attention to the business of the Company which benefits by his matured advice. Keeping in view the contribution made by Shri Shah for the growth of the Company, the Board of Directors of the Company and the Remuneration Committee have recommended the appointment of Shri S.S. Shah afresh for a period of five years effective from 1st September 2006 on the following terms and conditions:

1. Salary : Rs.2.50 lakhs per month in the scale of Rs.2.50 lakhs - Rs.5.00 lakhs, with such annual increment from 1st April every year as may be decided by the Remuneration Committee of the Company.
2. Commission : 1% of the net profit of the Company in any financial year as computed under section 198 of the Companies Act, 1956 commencing from the financial year ended 31st March 2006.

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3. **Perquisites :** Sri Shah will be entitled to the perquisites / benefits of residential accommodation or house rent allowance in lieu thereof; Gas, Electricity, Water, Furnishings, Medical expenses reimbursement for self and family, leave travel concession, club fees and personal accident insurance in accordance with the rules of the Company subject to limit of an amount equal to the annual salary.

In the event of loss or inadequacy of profits of the Company in any financial year, Shri S. Shah will be entitled to such remuneration by way of salary, perquisites and allowance as specified above.

Provisions for the use of the Company's car for official and personal use and telephone at residence shall not be included in the computation of the perquisites for the purpose of calculating the said ceiling.

The Company's contribution to provident fund, gratuity payable as per rules of the Company and encashment of the leave at the end of the tenure shall not be included in the computation of the limits for the remuneration and perquisites as aforesaid.

Directors recommended the resolution set out at item No. 7 of the Notice for approval of the Members. Shri Shah has completed 70 years of age and hence the Special Resolution.

The above may be treated as an abstract of the terms of appointment and Memorandum of concern or interest, pursuant to Section 302 of the Companies Act, 1956.

Shri S.S. Shah, the Managing Director of the Company and Shri Sundeeep Shah being a relative of Shri S.S Shah may be deemed to be interested in the resolution.

Item No. 8

As you are aware that your Company made preferential allotment of 20,18,650 Equity shares of Rs.10/- at a price of Rs. 250.16 per share including premium of Rs.240.16 per share to Private Equity Investors namely IL&FS Trust Co. Ltd. A/c. IL&FS Private Equity Trust-Leverage India Fund, TAIB Bank B.S.C.(C), EIF-Coinvest V, IL&FS Employees Welfare Trust and IVC Employees Welfare Trust. For this purpose Shareholders-cum-Subscription Agreement (SSA) was executed by the Company with the said investors. Some clauses of SSA mainly pertaining to Investor Directors require amendment in the Articles of Association of the Company. It is, therefore, proposed that the Company's Articles of Association be suitably altered as set out in the resolution at Item No.8 to reflect the provisions of the said SSA.

The Directors commended the resolution for acceptance by the Members.

Copy of the Memorandum & Articles of Association of the Company together with the proposed alternations is available for inspection by the Members of the Company at its Registered Office during business hours on any working day.

None of the Directors is interested in the resolution.



EASTERN SILK INDUSTRIES LTD.

Annexure to Notice dated 24th August, 2006

Details of Directors seeking Appointment/Re-Appointment at the forthcoming Annual General Meeting
(Pursuant to Clause 49 of the Listing Agreement)

| | | | | |
|--|--|---|--|--|
| Name of the Director | Shri S.S. Shah | Shri Sundeep Shah | Shri O.P. Agarwal | Shri G.D. Hamathka |
| Age | 71 years | 43 years | 55 years | 58 years |
| Date of Appointment on the Board | 01-09-1952 | 25-10-2002 | 23-04-1999 | 27-07-2000 |
| Qualification | B.Com., LL.B. | B.Com. | C.A. | B.Com. |
| Experience | Five decades of experience in Silk Industry | Over 18 years of experience in Silk Industry | About 32 years of experience in export business | Vast experience in Textile & Oil business |
| Directorship held in other Public Companies | Lucky Goldstar Co. Ltd. | -- | Ambo Exports Ltd. Capricon Oil Ltd Ambo Agro Products Ltd. | -- |
| Memberships / Chairmanships of Committees of Public Companies | -- | -- | -- | -- |
| Shareholding of Non-Executive Directors | Not Applicable | Not Applicable | Nil | Nil |

EASTERN SILK INDUSTRIES LTD.**DIRECTORS' REPORT**

Dear Shareholders

Your Directors have utmost pleasure in presenting their Sixtieth Annual Report together with the Audited Accounts of your Company for the year ended 31st March 2006.

FINANCIAL RESULTS

| | 2006 | (Rs. in Lacs) 2005 |
|---|----------|-----------------------|
| Profit before depreciation and taxation | 5,576.40 | 4,233.73 |
| Less: Depreciation | 1182.96 | 898.42 |
| Profit before taxation | 4,393.44 | 3,335.31 |
| Less: Provision for current taxation | 275.00 | 175.00 |
| | 4,118.44 | 3,160.31 |
| Less: Provision for Earlier Year Taxation | 298.94 | - |
| | 3,819.50 | 3,160.31 |
| Less: Provision for Fringe Benefit Tax | 7.65 | - |
| | 3,811.85 | 3,160.31 |
| Less/Add: Deferred Tax Liability | (60.66) | 698.50 |
| | 3,872.51 | 2,461.81 |
| Add: Balance brought forward from previous year | 5,495.36 | 3,736.16 |
| | 9,367.87 | 6,197.97 |
| Which the directors have appropriated as follows: | | |
| General reserve | 400.00 | 250.00 |
| Preference share redemption reserve | 360.00 | 120.00 |
| Interim dividend on equity shares | - | 107.27 |
| Proposed dividend on equity shares | 472.17 | 134.91 |
| Proposed dividend on preference shares | 112.00 | 64.00 |
| Corporate dividend tax | 81.93 | 41.91 |
| Balance carried forward to next year | 7,941.77 | 5,479.88 |
| | 9,367.87 | 6,197.97 |

PERFORMANCE REVIEW

Your Company recorded a 15.71% increase in sales amounting to Rs.39049.11 Lacs. EBIDTA margin increased by 1.50% to 18.80% and there was Rs.1504.63 Lacs increase in EBIDTA to Rs.7340.05 Lacs during the year under review. As a result, profit before tax enhanced by 31.72% to Rs.4393.44 Lacs and profit after tax increased by 57.30% to Rs.3872.50 Lacs during 2005-06.

SCHEME OF AMALGAMATION

The fully paid Equity shares of your Company allotted to the shareholders of erstwhile Eastern Jingying Ltd. and Sstella Silks Ltd. pursuant to the Scheme of Amalgamation, have been either credited to their demat accounts or physical share certificates dispatched as the case may be. The new shares have been listed with National Stock Exchange of India Ltd.

PREFERENTIAL ALLOTMENT OF SHARES

The Board of Directors of the Company at their meeting held on 26th May 2006 allotted 20,18,650 Equity shares of Rs.10/- each to private equity investors at a premium of Rs.240.16 per share aggregating to Rs.50.50 crores. Further the Board of Directors also allotted on 8th August, 2006, 2,81,350 Equity shares at the same price to the promoters of the Company aggregating to Rs.7.04 crores. The paid-up Equity capital after the private placement and promoters' contribution stands at Rs.15.79 crores. The funds raised are being deployed in the expansion project at Anekal and the made-ups project at Bommasandra.



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CORPORATE HIGHLIGHTS

During the year your Company successfully launched a new product line viz. 'Rustle' in the segment of home furnishing and response from the customers in Europe have been very encouraging. In spite of the global competition your Company successfully enhanced the value of its products by specializing in ethnic designs and brocaded materials. These steps undertaken by the Company have been successful not only for retaining market share but also improving the same.

POST-BALANCE SHEET DEVELOPMENTS

To cater to discerning customers in Europe the Company has entered into an arrangement with the manufacturers of home furnishings like readymade curtains, Roman blind / Venetian blind by supplying the fabrics to them and getting it converted to European specifications. This will help the Company in establishing its own image of quality manufacturers in overseas demanding markets. Besides, the Company is also discussing with printers and velvet manufacturers for making a similar arrangement in order to help the Company in placing its products as and when the manufacturing commences in Bommasandra and Anekal units. The demand for handloom fabrics is slowly improving in the segment of wall-coverings. Interior decorators across Europe have recognized the uniqueness of using silk wall-coverings which not only gives a good effect of a 3-dimensional profile but also the same tactual feeling. Operations in the current year have been quite satisfactory until now. The growth in the Company's top-line has been in line with the Company's future marketing plans. Barring unforeseen circumstances the Company's new plans for Bommasandra and Anekal units should be streamlined by April/May 2007.

PERFORMANCE ANALYSIS

Your Company recorded 72% increase in the net profit in the quarter ended 30th June 2006 raised at Rs.14.35 crores against Rs.8.35 crores in the corresponding quarter last year. The top line also registered a 30% rise from Rs.86.65 crores in the corresponding quarter last year to Rs.113 crores in the year under review.

The operating profit margin registered significant improvement. It rose to 19.93 per cent compared to 15.84 percent in the first quarter of 2005. This is the direct result of higher value addition and increasing share of machine made fabrics in the Company's production.

SUBSIDIARY COMPANY

In June, 2005, your Company had set up on temporary basis a wholly owned subsidiary in Singapore in the name of Trade Internation (S) Pte Ltd. to undertake trading activities in fast moving consumer items. However, the said Company was disposed off in the current year. The provisions of Clause 49 of the Listing Agreement are not applicable to the overseas subsidiary.

PROJECTS UNDER IMPLEMENTATION

The Company is expanding fabric capacity at the Anekaet plant from existing 8 lakh metres per annum to 12 lakh metres. It will include double width jacquard and velvet fabrics. The estimated cost of the expansion project works out to Rs.52.20 crore including a foreign exchange component of Rs.30.25 crore.

Coming up as a parallel project is the plant for manufacture of made-ups (made from natural silk fabrics) at Bommasandra on the Hosur Road. This plant is expected to become fully operational in the next 12 months and will utilize about 90 per cent of the fabrics made at Anekal besides fabrics procured from the market. The estimated cost of the made-ups project is Rs. 16.57 crore. The planned capacity is for 1500 set/day, where each set has three/four pieces.

DIVIDEND

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

- | | |
|--|------------------|
| 1) On 14,00,000 - 8% Cumulative Redeemable Preference Shares | Rs.1,12,00,000/- |
| 2) On 1,34,90,524 Equity Shares @ 35% | Rs.4,72,16,834/- |

SHARE CAPITAL

The paid-up share capital of the Company was increased from Rs.13,49,05,240/- to Rs.15,79,05,240/- consequent upon a preferential allotment of 23,00,000 Equity Shares of Rs.10/- each to the private equity shareholders and the promoters of the Company.

PUBLIC DEPOSIT SCHEME

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