



# **EASTERN SILK INDUSTRIES LTD.**

## **NOTICE**

The Sixty-fifth Annual General Meeting of Eastern Silk Industries Ltd. will be held on Wednesday, the 21<sup>st</sup> September, 2011 at 11:00 A.M. at Kala Kunj, 48, Shakespeare Sarani, Kolkata – 700 017, to transact the following business:

### **ORDINARY BUSINESS**

1. To receive, consider and adopt the Profit & Loss Account for the year ended 31<sup>st</sup> March, 2011 and the Balance Sheet as at that date together with the report of the Directors and Auditors thereon.
2. To appoint a Director in place of Sri H.S. Gopaika who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint a Director in place of Sri G.D. Harnathka who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint Auditors and fix their remuneration.

### **SPECIAL BUSINESS :**

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

RESOLVED that 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 re-appointment of Sri S.S. Shah, Managing Director of the Company with effect from 1<sup>st</sup> September 2011 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.

#### **Registered Office:**

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

Dated : The 2<sup>nd</sup> August, 2011.

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 9<sup>th</sup> September 2011 to 21<sup>st</sup> September 2011, both days inclusive on account of Annual General Meeting.
3. Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of Special Business set out in the Notice is annexed hereto.
4. Additional information pursuant to Clause 49 of the Listing Agreement with Stock Exchange regarding the Directors who are proposed to be reappointed at the Annual General Meeting are provided in the Annexure to this Notice.



5. Pursuant to the amended provisions of Section 205A of the Companies Act, 1956, dividends for the financial year ended 31<sup>st</sup> March, 2004 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 this year, may approach the Company's Registrars and Share Transfer Agents for obtaining duplicate dividend warrants.
6. Pursuant to sub-division of each Equity share of Rs.10/- into five Equity shares of Rs.2/- each, members holding shares in physical form, were requested to surrender old share certificates to obtain new share certificates in lieu thereof. Those members, who have not surrendered their old share certificates to the Company's Registrars and Share Transfer Agents, are requested to do so at the earliest.
7. The Ministry of Corporate Affairs (vide circular nos. 17/2011 and 18/2011 dated April 21 and April 29, 2011 respectively), has undertaken a 'Green Initiative in Corporate Governance' and allowed companies to share documents with its shareholders through an electronic mode. Members are requested to support this green initiative by registering/updating their e-mail addresses, in respect of shares held in dematerialized form with their respective Depository Participants and in respect of shares held in physical form with the Company's Registrars and Share Transfer Agents.

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

#### **Item No. 6**

Sri S.S. Shah was reappointed as the Managing Director of the Company for a period of five years with effect from 1<sup>st</sup> September 2006 on the terms and conditions and remuneration as approved by the Members at the Annual General Meeting held on 27<sup>th</sup> September 2006. As such, the present term of office of Sri Shah shall expire on 31<sup>st</sup> August 2011. Sri S.S. Shah has been associated with the Company since 1952 and currently holds overall responsibility for the working of the Company. Keeping in view the contribution made by Sri Shah for the growth of the Company, the Board of Directors of the Company and the Remuneration Committee have recommended the reappointment of Sri S.S. Shah for a period of three years effective from 1<sup>st</sup> September 2011 on the following terms and conditions:

1. Salary : Rs.2,00,000/- per month
2. 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, Sri Shah will be entitled to such remuneration by way of salary, perquisites and allowance as specified above, subject to the approval of the Central Government.

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.

Your Directors recommend the resolution set out at Item No.6 of the Notice for approval of the Members. Sri 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.

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



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### **Annexure to Notice dated 2nd August, 2011**

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

Name of the Director	Shri G.D. Harnathka	Shri H.S. Gopalka
Age	73 years	80 years
Date of Appointment on the Board	20.07.2000	27.11.1991
Qualification	B.Com.	M.Com., LL.B.
Experience	Vast experience in textiles and oil business.	Wide experience in finance and taxation.
Directorship held in other Public Companies	--	Manjari Selections Pvt. Ltd.
Memberships / Chairmanships of Committees of Public Companies	--	--
Shareholding of Non-Executive Directors	Nil	Nil



## DIRECTORS' REPORT TO THE MEMBERS

Your Directors have pleasure in presenting their sixty-fifth Annual Report together with the Audited Accounts of your Company for the year ended 31<sup>st</sup> March, 2011.

### FINANCIAL RESULTS

	(Rs. in Lacs)	
	<u>2011</u>	<u>2010</u>
Profit/(Loss) before depreciation and taxation	(4410.42)	2219.01
Less/Add: Depreciation	<u>2467.22</u>	<u>1533.58</u>
Profit/(Loss) before taxation	(6877.64)	685.43
Less: Provision for Current Taxation	-	275.00
	(6877.64)	410.43
Less/Add: Provision for Earlier Year Taxation	<u>0.37</u>	<u>(5.99)</u>
	(6878.01)	416.42
Less/Add: Deferred Tax Liability	(1084.39)	(157.35)
Profit/(Loss) after tax	(5793.62)	573.77
Add: Balance brought forward from previous year	<u>16935.41</u>	<u>16702.72</u>
	<u>11141.79</u>	<u>17276.49</u>
Which the Directors have appropriated as follows :		
General Reserve	-	100.00
Proposed Dividend On Equity Shares	-	94.74
Proposed Dividend On Preference Shares	-	112.00
Corporate Dividend Tax	-	34.34
Balance carried forward to next year	<u>11141.79</u>	<u>16935.41</u>
	<u>11141.79</u>	<u>17276.49</u>

### PERFORMANCE REVIEW

Although the sales and processing income during the year increased to Rs.62892.52 lacs as against Rs.54393.09 lacs of the previous year, profitability came down considerably due to high cost of raw materials, increased interest rates, pressure on margin due to recession in overseas markets resulting in loss during the year. Your management had to take a decision for reworking of valuation of the closing stock of finished goods due to lower realization and a sum of Rs.34.70 crores was written off during the year for lower realization in the value of stocks. This also increased the loss for the year. It was also decided to downsize the business and only concentrate on profit making products and do away with products with no margin or lower margin.

### FUTURE OUTLOOK

The budget proposal for the year 2011-12 has rendered outsourcing business of the Company totally unprofitable. Your management have decided to do away outsourcing business and only concentrate on the in-house production facilities which will result in a turnover of approx. Rs.150 crores a year. With this change the benefits of the new modernization and expansion programme undertaken during the year for production of velvet fabrics and enhancing capacity of the embroidered fabrics may be reaped during the year.



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Since the Company's turnover would be Rs.150 crores, there will be considerable release of current assets the value of which will be unlocked in a staggered manner over the years. To service the bank loans the Company has filed a flash report of Corporate Debt Restructuring with the CDR Empowered Committee and the same has been admitted for appraisal by the Committee. The scheme envisages a period of 8 – 10 years to bring back the Company on a strong foothold.

## **DIVIDEND**

In view of the accumulated losses the Board of Directors does not recommend any dividend on Equity Shares. The Board of Directors does not also declare dividend on Redeemable Cumulative Preference Shares.

## **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 Exchange form part of the Annual Report.

## **DIRECTORS**

Shri O.P. Agarwal and Shri R.L. Gaggar resigned effective from 11<sup>th</sup> February, 2011. Shri Sunil V. Diwakar ceased to be a Director with effect from 4<sup>th</sup> March, 2011 on withdrawal of his nomination by IL&FS Investment (Managers) Ltd.

The Board would like to place on record the valuable contributions made by Shri O.P. Agarwal, Shri R.L. Gaggar and Shri Sunil V. Diwakar during their tenure as the Directors of the Company.

Shri G.D. Hamathka and Shri H.S. Gopalka, Directors of the Company retire from the office by rotation and are eligible for re-appointment.

The term of office of Shri Sundeep Shah, Executive Director of the Company, expires on 30<sup>th</sup> August, 2011. He has expressed his intention for not to be re-appointed. He will, however, continue to act as a Promoter Director of the Company.

## **DIRECTORS' RESPONSIBILITY STATEMENT**

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

- i) That in preparation of the annual accounts, the applicable accounting standards have been duly followed.
- ii) 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 loss of the Company for the year under review.
- iii) 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.
- iv) That the Directors have prepared the accounts for the financial year ended 31<sup>st</sup> March, 2011 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.

# EASTERN SILK INDUSTRIES LTD.



## AUDITORS

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

The Auditors have qualified that the diminution in the value of stocks has not been fully captured in the accounts. The Auditors have taken the value of the entire inventories as at 31<sup>st</sup> March 2011 at diminished value, whereas the Company adopted the prudent method of only estimating the current assets which could be sold during the next one year and diminution of the value of such stock which worked out to Rs.34.70 crores and hence provided in the books of accounts. Your management believes that there is enough market value that is left in the stock and will review the same at the end of the current year for future write offs, if any.

The Auditors have further referred to delay in payment of statutory dues amounting to Rs.42.93 lacs. Your Directors have to state that this amount pertained to a demand of Income Tax for the assessment year 2007-08 and the same was adjusted by the Income Tax authorities on 28<sup>th</sup> June 2011 against the refund due to the Company for the assessment year 2010-11.

The Auditors have also pointed out that there was delay in repayment of term loan installment of Rs.150 lacs and interest installment thereon to State Bank of India and one interest installment to Exim Bank. Your Directors have to explain that the delay in the said payments had occurred due to liquidity crisis arising from non realization of payments from the buyers in time.

## COST AUDITORS

Pursuant to the directives of the Central Government under the provisions of Section 233 B of the Companies Act, 1956, the Cost account records maintained by your Company are subject to yearly audit by qualified Cost Auditors. Your Company has appointed M/s. N. Radhakrishnan & Co., a firm of Cost Auditors, for conducting the audit of such records for the financial year 2010-11.

## RESEARCH & DEVELOPMENT

Your Directors are pleased to inform that in house R&D unit of the Company at both the units of Anekal, Bangalore have been accorded recognition by the Department of Scientific and Industrial Research, Government of India. The Company has always given due importance to the R&D and has been investing regularly in this area. Capital expenditure of Rs. 16.58 lacs (Previous year - Rs. 307.28 lacs) and revenue expenditure of Rs. 259.90 lacs (Previous year - Rs. 156.77 lacs) incurred by the Company's R&D unit constituting 0.44% (Previous year - 0.85%) of the turnover were approved by the Board of Directors of the Company.

## PERSONNEL

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

## ACKNOWLEDGEMENT

Your Directors wish to convey their appreciation for the co-operation and assistance received from the government, financial institutions, bankers and stakeholders of your Company. The Board wishes to place on record its deep appreciation for the integrity and hard work of its employees at all levels to meet challenging markets.

**Registered Office:**  
19, R. N. Mukherjee Road  
Kolkata 700 001  
Dated: The 2<sup>nd</sup> August, 2011.

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



# EASTERN SILK INDUSTRIES LTD.

## 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 is engaged in the continuous review of energy costs, reduction in energy generation cost through improved operational and maintenance practices.

### FORM A

#### (A) Power and Fuel Consumption

			Current Year	Previous Year
1.	Electricity			
(a)	Purchased	Units	45,46,141	41,86,232
	Total Amount	Rs.	2,47,66,590	2,21,09,672
	Rate/Unit	Rs.	5.45	5.28
(b)	Own Generation through Diesel Generator	Units	3,95,797	7,03,200
	Total Amount	Rs.	47,03,851	86,91,554
	Cost/Unit	Rs.	11.88	12.36
2.	(a)	Furnace Oil		
	Quantity	Kilo Ltr.	2,190	2,83,634
	Total Amount	Rs.	53,225	71,02,194
	Cost/Unit	Rs.	24.30	25.04
(b)	Briquettes			
	Quantity	Kgs.	21,17,698	-
	Total Amount	Rs.	93,69,533	-
	Cost/Unit	Rs.	4.42	-

#### (B) Consumption per unit of products:

<u>Silk Fabrics</u>	Mtrs	14,51,741.45	13,76,458.20
Electricity	Rs.	16.67	12.10
Briquettes	Rs.	6.45	-
Furnace Oil	Rs.	-	3.54
Diesel	Rs.	3.18	5.83
<u>Silk Yarn</u>	Kgs.	17,528.330	1,33,659.270
Electricity	Rs.	32.27	40.82
Furnace Oil	Rs.	3.04	16.64
Diesel	Rs.	4.87	5.02

# EASTERN SILK INDUSTRIES LTD.



## 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 activities are carried out for development of new products.

Improvement in quality and customer satisfaction.

Development of new varieties of products.

Capital	Rs. 16.58 lakhs
Recurring	Rs. 259.90 lakhs
R&D Expenditure as a percentage of turnover	0.44%

#### 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

Latest softwares are used for better design development.

Improved products.

Not Applicable.

## 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) (i) Overseas Travelling  
(ii) Commission to Agents  
(iii) Consultation Fees  
(iv) Others

The sales personnel of the Company regularly undertake export promotion tours to communicate with the existing customers and tap prospective buyers. They also participate in International Trade Fairs to display the vast range of the Company's products to procure bulk orders.

The information on foreign exchange earnings and outgo is contained in Schedule 14 item 23 (i & j)

Kolkata 700 001  
Dated: The 2nd August, 2011.

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





# EASTERN SILK INDUSTRIES LTD.

## REPORT ON CORPORATE GOVERNANCE

### COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE :

Adequate internal control systems and procedures, risk management and code of conduct for observance by the Company's directors and employees are conducive in achieving good Corporate Governance practices in the Company.

Pursuant to Clause 49 of the Listing Agreement with the Stock Exchange, a Report on Corporate Governance for the year 2010-11 is given below.

### BOARD OF DIRECTORS

The Board comprises of five members – two Executive Directors and three Non-Executive Independent Directors. The composition of the Board of Directors and also the number of the Board of Directors or Board Committees of which he is a member / Chairperson are as under.

Name of the Director	Category	No. of other Directorship	No. of Membership of other Board Committee	No. of Board Committee for which Chairperson
Shri S.S. Shah	Promoter, Executive	–	–	Nil
Shri Sundeep Shah	Promoter, Executive	–	–	Nil
Shri G.D. Harnathka	Non-Executive, Independent	–	–	Nil
Shri H.S. Gopalka	Non-Executive, Independent	1	–	Nil
Shri R.S. Rungta	Non-Executive, Independent	1	–	Nil

During the year under review, Board Meetings were held on 29<sup>th</sup> April 2010, 10<sup>th</sup> August 2010, 10<sup>th</sup> November 2010 and 11<sup>th</sup> February 2011. The attendance of the Directors for the Board Meeting and the last Annual General Meeting (AGM) was as follows:

Name of the Director	Meeting Attended	Whether attended the last AGM
Shri S.S. Shah	4	Yes
Shri Sundeep Shah	4	Yes
Shri G.D. Harnathka	2	No
Shri H.S. Gopalka	3	Yes
Shri O.P. Agarwal	2	Yes
Shri R.S. Rungta	3	Yes
Shri R.L. Gaggar	4	Yes
Shri Sunil V. Diwakar	–	No



## BOARD COMMITTEES

### Audit Committee

#### I. Constitution

The Audit Committee of the Company was constituted to exercise powers and discharge functions as stipulated in Section 292A of the Companies Act, 1956, Clause 49 of the Listing Agreement with Stock Exchange and other relevant statutory / regulatory provisions.

#### II. Composition

The Audit Committee of the Company comprises three Directors of which two are non executive independent Directors namely Shri H.S. Gopalka and Shri R.S. Rungta and one Executive Director namely Shri Sundeep Shah. All these directors have knowledge of corporate finance, accounts and company law. The Chairman of the Committee is Shri H.S. Gopalka. The Company Secretary acts as the Secretary of the Committee. Besides the Committee members, Financial Officer and partners / representatives of the firm of Statutory Auditors and Internal Auditors are permanent invitees at the meetings of the Committee.

#### III. Meetings and Attendance

During the financial year ended 31<sup>st</sup> March 2011 four Audit Committee meetings were held on 28<sup>th</sup> April 2010, 9<sup>th</sup> August 2010, 9<sup>th</sup> November 2010 and 10<sup>th</sup> February 2011 which were attended by all the members of the Committee.

### REMUNERATION COMMITTEE

#### I. Constitution

The Remuneration Committee of the Company was formed to recommend remuneration packages for whole-time Directors. Such recommendation are based on the overall financial performance and profitability of the Company and on evaluation of the personal contribution of the individual directors.

#### II. Composition

The Members of the Remuneration Committee are Shri H.S. Gopalka, Shri R.S. Rungta and Shri G.D. Harnathka. Shri R.S. Rungta acts as the Chairman of the Committee.

#### III. Meeting and Attendance

During the financial year ended 31<sup>st</sup> March 2011 no Remuneration Committee Meeting was held.

The details of the remuneration to the directors for the year ended 31<sup>st</sup> March 2011 are as under:

Name of the Director	Salary	Perquisites	Sitting Fees for Board & Committee Meetings	Total Rs.
Shri S.S. Shah	20,04,000	3,96,000	—	24,00,000
Shri Sundeep Shah	20,83,000	3,17,000	—	24,00,000
Shri H.S. Gopalka	—	—	31,000	31,000
Shri R.S. Rungta	—	—	21,000	21,000
Shri G.D. Harnathka	—	—	10,000	10,000
Shri O.P. Agarwal	—	—	14,000	14,000
Shri R.L. Gaggarr	—	—	20,000	20,000
Shri Sunil V. Diwakar	—	—	—	—