


**ANNUAL
REPORT
FOR THE
YEAR ENDED
30TH JUNE
2006**

 **Eastern Sugar & Industries Limited**



Eastern Sugar & Industries Limited

ANNUAL REPORT

2005 - 2006

Board of Directors

Shri B. K. Nopany, *Chairman*

Shri M. P. Dhandhanian

Shri D. Y. Manawwar

Shri K. L. Darak

Auditors

M/s. Santosh Jain & Co.

Chartered Accountants

2, Draper Lane,

Kolkata-700 069

Compliance Officer & Company Secretary

Shri M. L. Lahiri

Bankers

Bank of India

Registered Office

P. O. : Hanuman Sugar Mills
Motihari, Dist. East Champaran,
Bihar - 845401

Registrar & Share Transfer Agent

MCS Ltd.
77/2A, Hazra Road
Kolkata - 700 029
Phone No. : 033 - 2454-1892 / 1893



Eastern Sugar & Industries Limited

NOTICE

NOTICE is hereby given that the Annual General Meeting of Eastern Sugar & Industries Limited will be held on Friday, 29th day of December, 2006 at 1.00 P.M at the Registered Office of the Company at P.O.Hanuman Sugar Mills, Motihari, Dist East Champaran, Bihar - 845401 to transact the following business as :

Ordinary Business:

1. To receive, consider and adopt the audited Balance Sheet of the Company as at 30th June, 2006 and Profit & Loss Account for the Year ended, 30th June, 2006 along with Reports of the Auditors and Directors thereon.
2. To appoint a Director in place of Mr. B. K. Nopany who retires by rotation and being eligible, offers himself for re appointment.
3. To appoint an Auditor in place of M/s. Santosh Jain & Co, Chartered Accountants, Kolkata, who retires and being eligible, offers himself for re appointment.
4. To transact any other business with the permission of the chairman.

Notes :-

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself and a proxy need not be a member. Proxies in order to be effective must be received at the registered office not less than forty-eight hours before the meeting.
2. The members are requested to intimate the company about any change in their registered address quoting their registered Folio No.
3. Members/ Proxies should bring their Attendance Slips duly filled in, for attending the meeting.
4. All documents referred to in the Notice are open for inspection at the Regd. Office of the Company on all working days up to the date of the meeting.
5. The Register of members and Share transfer Books shall remain closed from the 23rd December, 2006 to 29th December 2006 (both days inclusive).
6. Members desirous of obtaining any information as regards to Accounts and operations of the company are requested to write at least one week before the meeting, so that the same could be compiled in advance.
7. Members desirous of making a nomination in respect of their shareholding in the company as permitted under Section 109A of the Companies Act, 1956, are requested to write to the company for prescribed Form 2B.
8. As per SEBI directive, the shares of all the companies have to be traded compulsorily in dematerialised form by all investors. The Company has appointed M/s. MCS. Ltd. of 77/2A, Hazra Road, Kolkata - 700 029 as common agency to act as Registrars for the purpose of electronic connectivity for effecting dematerialisation of shares as well as for transfer of physical shares.

For & on Behalf of the Board

Place : Kolkata
Date : 25.11.2006

M. L. Lahiri
Company Secretary



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DIRECTORS' REPORT

TO THE MEMBERS

Your directors have pleasure in presenting this Annual Report of the Company together with its Audited Accounts, for the year ended 30th June, 2006.

FINANCIAL RESULTS :

(Rupees in Lacs)

	Year ended 30 th June'06	Year ended 30 th June'05
Profit Before Int., Depreciation. & Tax	108.75	-63.19
Less: Interest	49.35	49.35
Profit before Depreciation & Tax	59.40	-112.54
Less: Depreciation.	4.57	7.69
Profit Before Tax	54.82	-120.23
Less: Provision For Taxation	0.34	0.00
Profit After Tax	54.48	-120.23
Add: Balance b/f from Previous Year	-1055.70	-935.47
Balance Carried to Balance Sheet	-1001.22	-1055.70

DETERMINATION OF LEASE :

The lease of the Sugar factory at Motihari was due for renewal but on the request of Shree Hanuman Sugar & Industries Ltd., it was determined w.e.f. 1.05.2006. The Company plans to enter into lease agreement with another sugar factory from the coming season. No manufacturing activities were carried on during the year. The income from operation shown in the above financial result was from the sale of stocks.

DIVIDEND :

In view of inadequate profit your directors express their inability to declare any dividend for the year.

DIRECTORS :

During the year Mr. B. K. Nopany, Director of the Company retires by rotation and being eligible, offers himself for re appointment.

AUDITORS :

The Auditors of the company, M/s. Santosh Jain & Co, Chartered Accountants, retire at the conclusion of the forthcoming AGM and have confirmed their eligibility and willingness to accept the office, if reappointed. The Notes to the accounts referred to in the Auditors' Report are self explanatory and therefore do not call for any further comments.

DIRECTORS' RESPONSIBILITY STATEMENT PURSUANT TO SECTION 217(2AA) OF THE COMPANIES ACT, 1956.

The Directors hereby confirm :-

- that in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;



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- ii) that the directors have 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) that the directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- iv) that the directors have prepared the annual accounts on a going concern basis.

PARTICULARS OF EMPLOYEES:

There was no employee who was in receipt of remuneration required to be disclosed under section 217(2A) of the Companies Act, 1956.

CORPORATE GOVERNANCE:

Your company has taken adequate steps to ensure that all the provisions of Corporate Governance as prescribed under the amended listing Agreement of the Stock Exchanges with which the shares of the Company are listed are complied with. Pursuant to clause 49 of the Listing Agreement with Stock Exchanges, a section on management discussion and analysis is given in Annexure A attached hereto and forms part of this Report.

Pursuant to clause 49 of the Listing Agreement with Stock Exchanges, a report on Corporate Governance is given in Annexure B attached hereto and forms part of this Report.

SEGMENT REPORTING :

The Company operates only in one segment and hence the segment reporting under AS 17 is not applicable.

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

Since there was no production during the year and the company was facing financial crunch statement containing particulars in respect of Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo as required U/s 217(1)(e) of the Companies Act, 1956 is not given.

ACKNOWLEDGEMENT :

Your Directors record their sincere appreciation for the valuable co-operation and support extended by the Financial Institution, Bankers to the Company, Central and State Governments and the Sugar Directorate. The Directors are thankful to the Indian Sugar Mills Association for the dynamic role it has been playing in behalf of the Sugar Industry. The Directors also place on record their appreciation of the devoted services rendered by the workers, Staff and Executives of the Company which have largely contributed to its efficient management.

12, Govt. Place East
Kolkata – 700 069
Dated : 25th November, 2006

For and on behalf of the Board
K. L. Darak
Director



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ANNEXURE "1" TO THE DIRECTORS' REPORT

MANAGEMENT DISCUSSION AND ANALYSIS:

A. Sugar

Global Overview

1. Production

- More than 100 countries produce sugar. Nearly 74 per cent is made from sugarcane grown primarily in the tropical and sub tropical zones of the southern hemisphere and the rest from sugar beet grown in the temperate zones of the northern hemisphere.
- The global sugar production during 2005-06 was estimated at 149.85 million tones (raw sugar equivalent), 79 per cent of which was produced by the top 10 global sugar producers. This corresponded to an increase of 4.20 per cent over 2004-05 when the production was 143.81 million tones.

The bulk of the growth in production was accounted for by developing countries, where aggregated production was forecast to reach 106 million tones by 2006, let by a record harvest in Brazil and a recovery in India.

By the end of the 2005-06 sugar season, world sugar stock is estimated at 57.22 million tones marginally higher than 2004-05.

2. Consumption

Global sugar consumption in 2006-07 was forecast to rise to 152.50 million tones (increasing at a rate of 1.83 per cent per annum) due to consumption growth in the developing countries of the Far-East and Latin America.

Sugar consumption in developing countries was estimated to reach 100 million tones in 2006 in line with rising income and population growth.

After two seasons of world production deficit vis-à-vis world consumption in 2003-04 and 2004-05 and balance demand and supply in the last season (the production – consumption gap being 0.092 mtrv) the world sugar economy is facing the first season of a statistically significant gap between world production and consumption since 2002-03.

International Sugar Organisation's first forecast for the next season (October 2006 – September 2007) puts world production at 2.173 million tones higher than world consumption.

3. Export

Global export trade is dominated by Brazil, European Union, Thailand and Australia. About 69% of the total world sugar production is consumed in the country of its origin, with the rest being traded on the world sugar markets. Exports from Brazil and Thailand



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are expected to have an impact through lower production, primarily as a result of unfavorable weather conditions.

Among the developed countries, where demand had been relatively stable, consumption is forecast to remain relatively unchanged in the EU, South Korea and US.

The European Union's reform of the Common Market Organisation will have a radical change in the global sugar market. In the WTO order, the European Union has limited exports to the world market to 1.3 million tones and has stopped issuing sugar export licenses from 22nd May, 2006. In the long term, the European Union is expected to become a net sugar importer.

Global sugar scenario – production, consumption and inventory

World Total	Production	Domestic Consumption	Surplus/ Deficit	Import Demand	Exports Availability	Ending stock	Stock/consumption Ratio in %
2005-06	149852(4.20%)	149760(1.66%)	92	46678	46964	57223	38.21
2006-07 (Estimated)	154670(3.22%)	152497(1.83%)	2173	45469	46215	58650	38.46

Source : ISO August, 2006 (Figures in bracket are %-wise growth over previous year)

4. Pricing

As a result of the ongoing global sugar production cut, together with significant longer term structural changes within the world sugar market during the past 16 months, world sugar prices increased significantly (by 100%) from US 8.0 cents/lb in April 2005 to US19.7cents/lb in February 2006, and ended the financial year in the US17.0-18.0 cents/lb range. The prices have since come down to 12.58 cents/lb.

5. Reasons for price volatility in sugar

There have been a number of factors that have been affecting sugar prices.

Record oil prices and low sugar prices prompted Brazil, the world's biggest sugar producer, to turn more cane into ethanol. In fact, Brazil had at one time mandated 24 per cent blending of ethanol into petrol.

The last two years saw sugar production dip considerably in India, Pakistan and Brazil. The European Union undertook to remove their subsidy on a time bound schedule that resulted in sugar prices soaring new heights.

However, the contraction in European Union sugar output will not trigger a global deficit due to expansion in sugar production in India and Brazil. The high sugar prices also prompted Brazil to reduce its blending of ethanol into petrol to 20 per cent leaving more cane for sugar production. All these factors have contributed in a downward correction in sugar prices.



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Indian Sugar Overview

Industry Scenario

- India is the largest consumer and second largest producer of sugar in the world. The Rs. 500 billion Indian sugar industry is also the second largest in the country's agro-processing sector.
- It is a fragmented sector (453 operational sugar factories) with the largest private sector player accounting for a mere 3 per cent of the market.
- There are 571 installed sugar mills in the country with a production capacity of 19 million tones (MT) of sugar.
- India, as the world's second largest producer of sugarcane (after Brazil), accounts for around 5 per cent of the global sugar production.
- Although export restrictions and duties have gradually been relaxed, the government still largely controls the industry, particularly the pricing of sugarcane and allocation of land designated for cane growing.
- More than 50% of the area of sugarcane cultivation in the Country is located in UP.
- Cane cultivation acreage in UP increased from 2.03 million hectares in 2003-04 to 2.4 million hectares in 2005-06.

Factors affecting the Indian Sugar Industry

The board dynamics that affect the Indian Sugar Industry revolve around certain parameters.

1. **Capacity growth** : The Indian Sugar Industry has grown horizontally with a large number of small-sized plants being set up throughout the country. The government granted licenses to new units with an initial capacity of 1,250 tonnes crushing per day (TCD) in the 1980s, which was increased to 2,500 TCD. Subsequently, de-licensing of the industry in 1998 provided a growth impetus to the country's sugar units.
2. **Production** : Sugar production in India has been driven by factors like cane acreage, yield per hectare, drawal (cane crushed by the plant/total cane produced in plants cultivable area) and recovery percentage which in turn depend on rainfall and competitive advantage over other crops. Currently around 4 million hectares of land i.e., around 2.7 per cent of the cultivated area, is under sugarcane production. The average recovery is around 10 per cent.



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Area and production

Year	Area under Cane (million hectares)	Cane Production (million tones)
1981	2.67	154
1991	3.69	241
2001	4.32	296
2002	4.41	297
2003	4.36	282
2004	3.99	236
2005	3.75	270

- Consumption :** Sugar consumption depends on population growth and per capita consumption. Sugar consumption in India increased at a CAGR of 4 per cent in the last five years and is expected to grow at the same pace of the coming years. The per capita consumption of sugar is around 19 kgs in India, one of the lowest in the world.
- Production & consumption statistics :** The difference between production and consumption reduced inventory from 11.3 MT in FY2001-2002 to a projected 3.5 MT in 2007. Also, the stock-to consumption ratio, which was around 67 per cent in FY2001-02, declined to 26 per cent in FY2004-05.

Year	2001-02	2002-03	2003-04	2004-05	2005-06
Opening Stock	106.63	113.17	116.14	85.00	48.25
Production	185.29	201.40	139.95	126.91	189.00
Imports	-	0.41	4.00	21.38	-
Total supply	291.92	314.98	260.09	233.29	237.25
Consumption	167.81	183.84	172.85	185.00	185.00
Exports	10.94	15.00	2.24	0.04	8.00
Closing stock	113.17	116.14	85.00	48.25	44.25
Closingstock/ consumption	67.44%	63.17%	49.18%	26.08%	23.92%

Bihar, the next sugar destination in India

In 1940, Bihar accounted for 32 sugar units out of 148 sugar units in India (over 20 per cent), while presently Bihar is left with only nine functional units out of a total of 480 sugar mills in India. The state's contribution to the total sugar produced by the country declined from 28 per cent in the 1930s to below 2 per cent. But according to a comprehensive study by the Bihar Industries Commission, this scenario could correct following various initiatives that the State Government has already embarked upon.



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1. **Infrastructure revival :** Bihar's per capita expenditure on infrastructure of Rs. 44.60 (as against a national average of Rs. 118) and irrigation cum flood control of Rs. 104.40 (compared to a national average of Rs. 200) is expected to correct faster than ever before in view of the new State Government and a stated emphasis on infrastructure expansion.
2. **Central grant :** A grant of Rs. 8250 crores was made to Bihar by the Central Government on 14th February, 2006 under the Annual Plan for 2006-07 which includes an additional Central assistance of Rs. 50 crores of priority schemes to be initiated in the State.
3. **Unexplored room :** At a time when there is a severe competition for cane in the other parts of the country, a mere four cane growing districts have been explored in Bihar (out of 15), offering an attractive opportunity for sustainable expansion.
4. **Fiscal incentives :** The Bihar government announced several incentive programmes, which include a capital subsidy of 10% or Rs. 10 crores, whichever is less, on the total investment made on plant and machinery, reimbursement of excise duty on the production of sugar, exemption from the payment of purchase tax on the purchase of sugarcane and from the payment of stamp duty and registration fee on the purchase of land etc. These incentives will be available for a period of five years from the date of commencement of production.

Sugarcane Pricing

In India, the government announces a minimum support price of sugarcane. The price announced by the central government is termed as Statutory Minimum Price (SMP). The central government fixed the SMP for sugarcane at Rs. 79.5 per quintal linked to a recovery of 9 per cent for the sugar season 2005-06. An additional payment of 88 paise had to be made for every additional 0.1 per cent recovery over the base rate of 9 per cent.

Furthermore, factories are required to pay an additional price under Clause 5A of Sugarcane (Control) Order, 1966, which is calculated by the Government based on any additional sugar price realised by the factories. Basic SMP of sugarcane for Motihari, Bihar has been fixed @ Rs. 80.25/- per qntl. for the year 2006-07.

Levy Sugar Prices

The Government is yet to fix the Levy Sugar Prices for the seasons 2004-05 and 2005-06. The industry has represented to the Government to finalize the levy prices urgently.

Industry Outlook

The long-term outlook for the industry appears stable due to a sustainable increase in demand, rising population and increased per capita consumption. The balanced demand and supply position in the global industry for the next couple of years should support a stable medium-term price outlook.

Expanded growth opportunities in cane (through higher cane acreage of 15-20 per cent in 2006) and milling are possible where suitable farmland is available.