



Empee Sugars and Chemicals Limited



Annual Report 2005–2006

CERTIFICATE

QUALITY MANAGEMENT

Empee Sugars & Chemicals Ltd
Ayyapareddypalem, Naidupeta Mandalam,
Nellore District, Andhra Pradesh, Pin Code 524 126
INDIA

has established and applied a Quality Management System
in accordance with the requirements of

DIN EN ISO 9001:2000

with respect to the following scope of supply:

Manufacture of Sugar, Alcohol and allied products

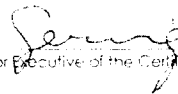
The fulfilment of the standard was verified by a Quality Audit.

Certified in Gosheim,
on April 01, 2004

This certificate is valid
until March 31, 2007



President of the Certification Body



Senior Executive of the Certification Body

GLOBALCERT GmbH
Hauptstraße 39 · D-78559 Gosheim

GLOBALCERT

Deutscher
Akreditierungs-
Rat
DAR

TGA-ZM 19 94-00



Certificate serial number
7082535199-001

BOARD OF DIRECTORS

Mr. M.P. Purushothaman Chairman & Managing Director
Mrs. A.K. Aruna
Mr. M. Ravindran
Mr. M. K. Mohan
Lt. General R.S. Nagra (Retd.)
Mr. M.P. Mehrotra

COMPANY SECRETARY

Mr. S. Ramasundaram

AUDITORS

Mr. R. Rajagopalan
Chartered Accountant
15, Station Road
West Mambalam
Chennai – 600 033

BANKERS

Indian Bank
Union Bank of India
Bank of Maharashtra
Federal Bank Ltd.

REGISTERED OFFICE & FACTORY

Ayyapareddipalem
Naidupet – 524 126
Nellore Dist.
Andhra Pradesh

ADMINISTRATIVE OFFICE

'Empee Tower'
59, Harris Road
Pudupet
Chennai – 600 002

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NOTICE TO SHARE HOLDERS

NOTICE is hereby given that the Sixteenth Annual General Meeting of Empee Sugars and Chemicals Limited will be held on Friday, the 15th December 2006 at 11.30 a.m. at the Registered Office of the Company at Ayyaparedipalem Village, Naidupet Mandal, Nellore District, Pin code - 524 126, Andhra Pradesh to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Balance Sheet of the Company as at 30th June 2006 and the Profit and Loss Account for the year ended on that date together with the reports of the Directors and Auditors thereon.
2. To appoint a Director in place of Mrs A K Aruna,, who retires by rotation and being eligible, offers herself for reappointment.
3. To appoint a Director in place of Mr M.K. Mohan, who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint Auditors of the Company for the period commencing from the conclusion of this Annual General Meeting till the conclusion of the next Annual General meeting and to fix their remuneration. Mr.R.Rajagopalan, Chartered Accountant, Chennai, the retiring Auditors, is eligible for reappointment.

SPECIAL BUSINESS

5. To consider and if thought fit to pass with or without modification the following resolution as an ordinary resolution:

RESOLVED that Mr.M.P.Mehrotra, who holds office as Additional Director under Section 260 of the Companies Act, 1956, till the conclusion of this meeting be and is hereby appointed as Director of the Company, liable to retire by rotation.

EXPLANATORY STATEMENT**Item No. 5**

Mr.M.P.Mehrotra was appointed as an additional director of the company, by the board of directors on 23.12.2005. He retires at the conclusion of this Annual General Meeting. The company has received a notice under section 257 of the Companies Act 1956, from a member proposing his candidature for the office of Director. Mr M P Mehrotra is a Senior Practising Chartered Accountant and is on the Board of various companies and it is in the interest of the company to continue to avail the services of Mr M P Mehrotra. Accordingly this resolution is commended for your consideration.

None of the directors, except Mr M P Mehrotra himself, is deemed to be concerned or interested in this resolution.

/ By order of the Board /

For EMPEE SUGARS AND CHEMICALS LTD

Place : Chennai.

Date : 25.10.2006

Sd/- S.RAMASUNDARAM

COMPANY SECRETARY

NOTE :

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE ON A POLL ON HIS BEHALF AND THE PROXY NEED NOT BE A MEMBER. THE PROXY FORM DULY COMPLETED AND STAMPED MUST REACH THE REGISTERED OFFICE OF THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE TIME FOR HOLDING THE AFORESAID MEETING.
2. The register of members and share transfer books of the company will be closed from 8th December 2006 to 15th December 2006, both days inclusive.
3. Members/proxies should bring the attendance slip duly filed in for attending the meeting.
4. Members are requested to intimate change if any, in their address to the company at its registered office quoting their folio numbers.
5. Members/ proxies attending the meeting are requested to bring their copy of the annual report for reference at the meeting.

DIRECTORS REPORT

To the members,

Your Directors are pleased to present the Sixteenth Annual Report together with the Audited Accounts for the financial year ended 30th June 2006.

FINANCIAL RESULTS

	Financial year ended 30.6.2006	Financial year ended 30.6.2005 (15 months)
	(Rs.in Lakhs)	(Rs.in Lakhs)
Sales Income	10627	9272
Profit before Interest, Depreciation and tax	1501	1170
Interest and Depreciation	670	698
Profit before tax	831	472
Profit after tax	1031	510

The company has turned around and is making profit continuously since 2003-04. The Board records its appreciation for the team work of all employees and staff in this context. Looking to the on-going efforts and favourable conditions in the Sugar and Liquor industries, it is felt that by next year, the entire accumulated loss will be wiped off.

DIVIDEND

In view of the accumulated losses, your directors have not recommended any dividend for the financial year 2005-06.

OPERATIONS

(i) Sugar Division:	Financial Year ended 30.6.2006	Financial year ended 30.6.2005 (15 months)
Quantity of cane crushed (Tonnes)	331063	216553
Recovery (%)	8.40	9.45
Quantity of Sugar produced (Qtls)		
From Sugar cane	269110	187720
From Raw Sugar	241490	200960
TOTAL	510600	388680

(ii) Industrial Alcohol Division:	Financial Year ended 30.6.2006	Financial year ended 30.6.2005 (15 months)
Quantity of RS produced (Ltrs)	5133785	8195946
Quantity of ENA produced by redistillation of the RS stock (Ltrs)	987841	5643125

PERFORMANCE OF THE COMPANY

From a situation of unmanageable production surplus in year 2002-03 (20.1 million tons), sugar production in India moved to a state of deficit for two consecutive seasons i.e. 2003-04 & 2004-05. Sugar production registered a fall of almost 31% to 13.8 million tons in 2003-04 and then further fall of 7% to 12.8 million tons in season 2004-05, owing to acute drought conditions and consequent drop in sugar cane output.

Season 2005-06 has seen a revival of fortunes with sugar production picking upto 190 lakh Mt. Cane crushing in your company increased over the previous season and the company crushed 3,31,063 Mt of sugarcane and produced 2,69,110 quintals of sugar. In addition to this, your company processed raw sugar under advanced license scheme and produced 2,41,490 quintals of sugar.

Realisations

Decline in production in the country in the last two consecutive seasons led to correction in imbalance between demand and supply and to a reasonable improvement in sugar prices. Your company capitalized effectively on this improvement through enhanced operational scale, product integration, and enhanced capacity utilization, ongoing cost cutting, and optimization.

Cane dues

The company has paid the cane price in time . It has embarked on measures to expand cane cultivation in new areas in the command area. The company is consistently endeavoring to convert the other crops to sugar cane by extending timely financial and other assistance, educating the farming community, providing required seed and manures including better varieties, fertilizers etc.

Distillery

During 2005-06, there was a decline in Industrial alcohol production. This was due to the high cost of Molasses and also correspondingly lower realisation from sale of Industrial alcohol. However in the coming financial year, we have already made firm arrangements for Molasses & Industrial alcohol production will improve.

The new plant – wash to ENA 30KL capacity - is almost ready for operation. Being a high tech plant, it will help us producing better quality of alcohol and will give much better yield per tonne of molasses. Needless today, it will have a very positive impact on the profitability of the company.

OPPORTUNITIES AND OUT LOOK

Indian Sugar Industry

After two years of consistent drop in production, sugar output of the country has shown an increasing trend and production in year 2005-06 was 190 lakh Mt. With remunerative price of cane, growers in the entire country are attracted towards cane cultivation and are extending area under cane. Sugar production during the current year is expected to increase over 20 % as compared to the year 2005-06.

Ethanol

Ethanol is an efficient, environment-friendly fuel whose use is being encouraged world over for reasons of economy and environment-friendliness. The government of India is bringing in long-term policy to facilitate the blending of ethanol with petrol, which will impart a long-term viability to the alcohol business and ensure better realisations. Your company is planning to supply Ethanol to the oil companies from the year 2007-08 onwards.

Co-generation of Power

The Central and State Governments are encouraging the generation of power from non-conventional renewable energy sources. Electricity Act 2003 has made it mandatory for power suppliers to buy a certain percentage of clean power generated from renewable energy sources. Various state governments in the country have come forward to announce their policy initiatives to encourage the cogeneration of power. This trend will result in a long term sustainability of India's sugar industry.

Your company is steadily increasing cane crushing capacity and also is in the process of establishing a Cogeneration unit to utilize the bagasse produced from sugar mill as fuel along with other available biomass.

PRESENT AND FUTURE

Command Area

The Govt. of A.P. has declared 12 revenue mandals of Gudur division in Nellore district comprising of 396 villages as the reserved zone for your company. Sugarcane cultivation is mainly in Nayudupet, Gudur, Kota, Vakadu, Chittamuru, Ozili and Pellakuru mandals. About 2500 families cultivate sugarcane from these mandals. The size of the land holdings large and the source of irrigation is mainly ground water sourced through bore wells and filter points. Crops cultivated in these areas are mainly paddy followed by commercial crops i.e. sugarcane and Ground nut. For the past 10 years considerable area under cultivation from different crops was converted to Aqua Culture. However now, aquaculture is slowly vanishing due to immunity deficiency against infections . Therefore, farmers are now switching over to cultivation of agricultural crops. Due to power deficiency the

farmers were not able to irrigate paddy crop, which needs water 2-3 times as much as sugar cane. Hence most of the farming communities prefer to switch over to sugarcane crop.

Pricing Policy:

The policies of the Govt. of India in respect of cane price are also remunerative to the farmers. Sugarcane is the only crop, which is totally protected in respect of statutory minimum price fixed by the Govt. of India. The State Govt. also encourage sugarcane cultivation by passing on the purchase tax @Rs.60/MT to the growers.

Irrigation development:

i) Major Irrigation Project – Vakadu Barrage :

The Swarnamukhi river is traversing through the command area. The Govt. of A.P has taken up a major irrigation-barrage cum bridge project on this river near Vakadu located in company's reserved zone with balancing reservoir. The up coming project is likely to be completed shortly. Once the project is completed there will not be any dearth of ground water in the command area. There is ample scope to develop further area under sugarcane crop by extensive field work .

ii) Telugu Ganga Canal:

The Govt. of A.P. has taken up the development of irrigation channels through Telugu Ganga Canal – which will help the farmers of Gudur, Venkatagiri, Pellakuru, Naidupeta, Ozili and Balayapalli Mandals, in bringing additional areas under assured irrigation. This will also help to re-charge the ground water in these areas in a big way.

iii) Bank loan for Bore wells & PVC Pipes:

To improve the irrigation facilities, we are discussing with banks for obtaining loan facilities at reduced interest for digging borewells and providing pipelines.

Structure of cane development department:

The Company has a strong Cane Department headed by a Deputy General Manger (Cane) who is a Post Graduate in Agriculture and having 25 years

experience in sugar industry supported by Chief Cane Manager & Cane Managers.

The entire command area is divided into 6 divisions. Each division is being looked after by a qualified Sr. Agrl. Officer, who looks after 2000 acres under his supervision. Each division is again divided into six/seven circles. Each circle is looked after by a qualified and well-experienced Field Assistant, who takes care of 300 to 350 acres. Cane development starts right from selection of soil, quality seed, appropriate packages of practices, integrated pest, and disease management, judicious application of organic and inorganic fertilizer management and close monitoring/supervision of the individual field.

Cane development programmes:

An intensive Cane Development Programme is implemented in an extensive manner in the reserved area.

A) Soil Enrichment – Through Green manure & Bio-Fertiliser supply:

The majority of the soils in area are light soils. Your Company is encouraging the growers to raise green manure crops and in the application of bio-fertiliser, which is rich in nutrients, in their fields before sugarcane planting. Your company is manufacturing and supplying bio-fertiliser to growers at a subsidized rate.

B) Seed Development – Nursery Programme:

The success of the sugar factory mainly depends on selection of sugarcane seed material. Your company is identifying and procuring suitable varieties with high vigor and sugar content in different maturity groups from sugarcane research stations for its multiplication in three tier seed nursery programme.

C) Input Supplies :

Application of fertilizer on time increases the cane yield and recovery. Your Company is providing recommended quantity of fertilizers on loan basis for timely application to the cane crop. The company also educates the farmers about the different methods of fertilizer application like plough furrow method, pocketing and foliar spray etc.,

Your company is also providing weedicide, pesticides, agricultural implements on subsidized prices.

D) Organizing Demonstration Plots:

Your company is conducting field demonstrations like trash mulching, paired row planting, drip irrigation, green manuring, ratoon management, different methods of fertilizer applications etc., in the growers fields to bring these recent cultivation techniques to all growers for immediate adoption in their respective fields. Your company is also providing financial help to growers for conducting demonstrations.

E) Imparting Technical Knowledge:

Your company is conducting Karshaka Sadassus (Growers meetings with eminent scientists) to clear the doubts in sugar cane cultivation and to know about new technologies to improve yield and quality. Your company releases pamphlets regularly to the cane growing community on sugar cane cultivation, pest and disease management.

Your company is conducting agricultural tours for progressive cane growers to different cane growing areas with in and outside the state for studying the different techniques implemented.

F) Infrastructure Development:

Your company is taking utmost care in developing internal roads from field point to the public road for easy transportation of cane to factory.

G) Harvest and Transport Management:

In sugarcane cultivation harvesting of cane is a major activity. Your company is arranging experienced and well trained harvesting labour to the cane growers at reasonable rates mobilising them from different places to motivate farmers for cane cultivation.

Your company always works to maintain a cordial relationship with the growers and follow the philosophy that "LET US CULTIVATE THE GROWER, THE GROWER IN TURN CULTIVATES QUALITY CANE FOR US"

Distillery operation

With the increased sugar cane crushing, sufficient molasses will be available for spirit production. Demand for spirit is consistently firming up coincident to the growth of the IMFL industry. Spirit prices are also firming up. Your Company has undertaken expansion of the spirit manufacturing facility from 30 KL to 60 KL per day.(License for capacity expansion already in place). The expanded facility will be based on the latest technology of spirit manufacturing.

Your Directors expect consistent growth in turnover and profitability. Keeping in view the upcoming business opportunities your company will consciously expand its volume of operation and also diversify in allied activities and the company will consciously plough back to fund for the expansion activities.

By 2006-07, your company will have a well diversified business model with revenue streams for Sugar, Alcohol, Ethanol and Power.

DIRECTORS

Mrs.A.K.Aruna, Director is retiring by rotation at the ensuing Annual General Meeting and being eligible offers herself for reappointment.

Mr.M.K.Mohan, Director is retiring by rotation at the ensuing Annual General Meeting and being eligible offers himself for reappointment.

Mr.M.P.Mehrotra was appointed as an additional director of the company, by the board of directors on 23.12.2005. He retires at the conclusion of this Annual General Meeting. Company has received a notice under section 257 of the Companies Act 1956, from a member proposing his candidature for the office of the Director. Accordingly a resolution is proposed in the notice for the Annual General Meeting for the appointment of Mr.M.P.Mehrotra as Director of the Company, liable to retire by rotation.

AUDITORS AND AUDITORS' REPORT

Mr. R. Rajagopalan, the Auditors of the Company will retire at the conclusion of the ensuing Annual General Meeting and being eligible offer themselves for reappointment. The company has received a

EMPEE SUGARS AND CHEMICALS LTD.

certificate from the Auditors to the effect that their reappointment, if made would be in accordance with Section 224 (1B) of the Companies Act, 1956. The Board recommends their re-appointment.

The Notes to the Accounts referred to in the Auditors' Report are self-explanatory and therefore do not call for any further explanation.

EMPLOYEES

Your Directors place on record their appreciation of the efforts and valuable contributions put in by the employees at all levels of the Company.

There is no employee falling within the provision of Section 217(2A) of the Companies Act, 1956 read with companies (Particulars of Employees) Rules 1975.

FIXED DEPOSITS

Your Company has not accepted any fixed deposits from the public, during the year.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE OUTGO

Information regarding conservation of Energy, Technology absorption and Foreign Exchange earnings and outgo in accordance with the provisions of Section 217(1)(e) of the Companies Act, 1956 read with Companies (Disclosure of particulars in the Report of Directors) Rules 1988 is annexed to this Report.

CORPORATE GOVERNANCE REPORT

A Report in line with the requirement of clause 49 of the Listing Agreement on the Corporate Governance practices followed by the Company and the Certificate from the Statutory Auditors on Compliance of mandatory requirements along with Management Discussion and Analysis, are given as an annexure to this report.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirements under Section 217 (2AA) of the Companies Act, 1956 your Directors hereby state and confirm that:

- a) in the preparation of the annual accounts, the applicable accounting standards have been followed;
- b) the Directors have selected 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 as at 30th June 2006 and of the profit or loss of the company for the year ended on that date;
- c) 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;
- d) the Directors have prepared the annual accounts on a 'going concern' basis.

ACKNOWLEDGEMENT

Your Directors wish to express their gratitude for the continuous assistance and support extended by the Banks, Financial Institutions, Cane Growers, Customers and Government authorities and also to the shareholders for their forbearance and their faith in the management. Further, your Directors also place on record their deep sense of appreciation for the contributions made by employees at various levels to the growth and success of the company.

For and on behalf of the Board of Directors

Place : Chennai **Sd/- M.P. PURUSHOTHAMAN**
Date : 25.10.2006 Chairman & Managing Director

"Note: Figures, statistics, observations, inferences etc. stated/ made herein relating to national/global industry scenario are based on reliable reports gathered from various sources such as news articles/ websites etc. The accuracy of which is not vouched by us"

ANNEXURE TO THE DIRECTORS REPORT

Information pursuant to the Companies (Disclosure of Particulars in the Report of Board of Director) Rules, 1988 and forming part of the Directors report for the period ended 30th June 2006.

A. CONSERVATION OF ENERGY

The Company has installed necessary energy conserving machinery as per the standard specification list prescribed by the Government of India for the factory of its size.

FORM A

2005-2006 2004-2005
(12 months) (15 months)

(A) POWER AND FUEL CONSUMPTION

1. Electricity

a. Purchased units(Kwh)	659898	965481
Total Amount (Rs.)	3595118	4693719
Rate / Unit (Rs.)	5.44	4.86

b. Own generation

(i) Through Diesel Generator Units (Kwh)	40928	49803
Units/(liter) of Diesel Oil Cost / Unit (Rs.)	2.29	2.54
	14.36	10.50

(ii) Through steam turbine (generated out of our own bagasse Consumption) units (Kwh)	9765934	9765960
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2. Coal	600.00	1118.00
Cost / Ton (Rs.)	2200.00	2040.35

3. Furnace Oil	Nil	Nil
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4. Others/Internal generation

a) Fire wood (MTs)	483.500	7003
Rate per Mt(Rs.)	1174.00	991.16
b) Husk (MTs)	788	15876
Rate per Mt (Rs.)	1285	931.50

(B) CONSUMPTION PER QUINTAL OF SUGAR

Sugar Produced (Qtl)	510600	388680
Electricity (Kwh/Qtl)	1.29	2.48
Coal (M.T/Qtl)	0.001	0.003
Furnace Oil (K.L/Qtl)	Nil	Nil
Fire wood (M.T/Qtl)	0.001	0.018

(C) TECHNOLOGY ABSORPTION AND RESEARCH AND DEVELOPMENT

Your Company has been carrying out research and development in the following specific areas :

- i) Selection of sugar cane seed materials and multiplication in three tier seed nursery programme.
- ii) Innovative techniques and methods of fertilizer.
- ii) Heat therapy to eradicate seed born diseases.
- iii) Pest control measures to protect cane from diseases & Soil testing Laboratory.
- iv) Ratoon crop management helping increase yield and recovery.
- v) Biological control laboratory for sugarcane pest management.

With the above efforts a higher yield of disease free cane will be available to the company, resulting in a higher return to the company and the cane growers.

The expenditure incurred in research and development cannot be segregated because of its nature of expenses. Such expenses are clubbed under the head of expenses "Cane development expenses".

(D) FOREIGN EXCHANGE EARNINGS Rs.2,000.00 Lakhs
FOREIGN EXCHANGE OUTGO Rs.2,684.97 Lakhs

For and on behalf of the Board

Place : Chennai. **Sd/- M.P. PURUSHOTHAMAN**
Date : 25.10.2006 Chairman & Managing Director