



Empee Sugars and Chemicals Limited



Annual Report 2006–2007

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

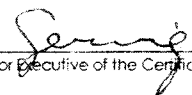
The fulfilment of the standard was verified by a Quality Audit.

Certified in Gosheim,
on April 01, 2007

This certificate is valid
until March 31, 2010



President of the Certification Body



Senior Executive of the Certification Body

GLOBALCERT GmbH
Hauptstraße 39 • D-78559 Gosheim

 GLOBALCERT®



DA-DA-19-94-00



Certificate serial number
7080335399-001

EMPEE SUGARS AND CHEMICALS LTD.

BOARD OF DIRECTORS

Mr. M.P. Purushothaman	Chairman & Managing Director
Mr. M. K. Mohan	
Lt. Gen. R.S. Nagra (Retd.)	
Mr. M.P. Mehrotra	
Mr. K. Jayachandran	Joint Managing Director
(Additional Director w.e.f 28.4.2007)	
Ms. Nisha Purushothaman	
(Additional Director w.e.f 9.8.2007)	

**VICE PRESIDENT (FINANCE)
AND COMPANY SECRETARY**

M.R. Ramachandran

AUDITORS

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

BANKERS

Indian Bank
Union Bank of India
Bank of Maharashtra
The 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

EMPEE SUGARS AND CHEMICALS LTD.**NOTICE TO SHARE HOLDERS**

NOTICE is hereby given that the Seventeenth Annual General Meeting of Empee Sugars and Chemicals Limited will be held on Friday, the 5th October 2007 at 12.30 p.m. at the Registered Office of the Company at Ayyapareddipalem 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 2007 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 Lt.Gen.R.S.Nagra (Retd.), who retires by rotation and being eligible, offers himself for reappointment.
3. To appoint a Director in place of Mr.M.P.Mehrotra, 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 Auditor, 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 Ms.Nisha Purushothaman, who was appointed as an Additional Director pursuant to the Provisions of Section 260 of the Companies Act, 1956, be and is hereby appointed as a Director of the Company liable to retire by rotation.
6. To consider and if thought fit to pass with or without modification the following resolution as an ordinary resolution:
RESOLVED that Mr.K.Jayachandran, who was appointed as an Additional Director pursuant to the Provisions of Section 260 of the Companies Act, 1956, be and is hereby appointed as a Director of the Company liable to retire by rotation.
7. 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 Section 198, 269 & 309 read with schedule XIII to the Companies Act, 1956, the consent of the Company be and is hereby accorded to the appointment of

Mr.K.Jayachandran as Joint Managing Director of the Company for a period of Three years with effect from 28.4.2007 within the following terms as to remuneration as set out hereafter and with further liberty to the Board of Directors from time to time to alter the said terms in such manner as may be agreed to between the Board of Directors and Mr.K.Jayachandran in the best interest of the company within the limitations in that behalf as contained in Schedule XIII to the said Act, viz:

A. Salary : Rs.1,65,000/- per month.

B. Total Perquisites : Rs. 50,767/- per month

In addition contribution to Provident fund, Gratuity will be made, which shall not form part of the remuneration.

The above salary and perquisites shall be subject to the limits specified in Part II of Schedule XIII of the Companies Act, 1956.

Provided that in case of loss or inadequacy of profit in any financial year, the above remuneration will be treated as the minimum remuneration payable to the Joint Managing Director, subject to the overall limits prescribed under Part II of Schedule XIII of the Companies Act, 1956.

By Order of the Board
For Empee Sugars and Chemicals Ltd

Place: Chennai.

Date : 9.8.2007

M.R.Ramachandran
Vice President (Finance)
and Company Secretary

NOTES:

1. A member entitled to attend and vote at the Annual General 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 commencement of the Meeting.
2. The register of members and share transfer books of the company will be closed from 27th September 2007 to 5th October 2007, both days inclusive.
3. Members/proxies should bring the attendance slip duly filed along with copy of annual report 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. An Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 relating to the Special Business to be transacted at the Meeting is annexed hereto.

EMPEE SUGARS AND CHEMICALS LTD.**ANNEXURE TO THE NOTICE****EXPLANATORY STATEMENT UNDER SEC 173(2) OF THE COMPANIES ACT, 1956****Item No.5**

The Board of Directors of the Company has appointed, Ms.Nisha Purushothaman as an Additional Director of the Company with effect from August 9, 2007 pursuant to the provisions of Section 260 of the Companies Act, 1956 and Article 75 of the Articles of Association of the Company.

In terms of the provision of Section 260 of the Companies Act, 1956, Ms.Nisha Purushothaman would hold office upto the date of this Annual General Meeting. The Company has received a notice in writing from a member alongwith a deposit of Rs.500/- proposing the candidature of Ms.Nisha Purushothaman for the office of Director of the Company, under the provisions of Section 257 of the Companies Act, 1956.

Ms.Nisha Purushothaman is the daughter of Mr.M.P.Purushothaman. She holds a degree in Masters in Business Administration from London Business School. She has around 10 years of experience in various fields of Sugar, Liquor Industry, Administration and Human Resource Management.

Accordingly ordinary resolution set out under Item No.5 of the Notice is submitted to the Meeting.

None of the directors, except Mr.M.P.Purushothaman and Ms.Nisha Purushothaman are deemed to be concerned or interested in this resolution.

With regard to the details of Ms. Nisha Purushothaman to be furnished under Clause 49 IV(g) of the Listing Agreement, the same is provided in the Directors Report, which may kindly be referred to.

Item No. 6 & 7

Mr. K Jayachandran joined the Company on 14.7.2006 as a Chief Executive. He is a B.Sc., ANSI (Sugar Technology) and has over 39 years of rich experience in Sugar and related areas. He is experienced with the latest technologies and expertise in Sugar and related sectors and is expected to implement the Sugar Expansion Project and the Cogen Project without any major hurdles. He has served in many sugar companies with distinction and with his association he is able to give a good performance.

He was subsequently appointed as the Director in the Board and designated as the Joint Managing Director for a period of three years effective from 28th April 2007. In accordance with the Section 260 of the Companies Act 1956 he vacates the office at the Annual General Meeting of the shareholders and stands for reelection as a Director and Joint Managing Director.

In terms of the provision of Section 260 of the Companies Act, 1956, Mr.K.Jayachandran would hold office upto the date of this Annual General Meeting. The Company has received a notice in writing from a member alongwith a deposit of Rs.500/- proposing the candidature of Mr.K.Jayachandran for the office of Director of the Company, under the provisions of Section 257 of the Companies Act, 1956.

The Remuneration proposed to be paid to Mr.K.Jayachandran has been considered by the Remuneration Committee at its meeting held on 28th April, 2007 and the details of the remuneration as recommended by them are placed before the members for their consideration.

I. GENERAL INFORMATION:**1. Nature of Industry:**

The Company is engaged in the business of manufacture of Sugars and Industrial Alcohol.

2. Date or expected date of commencement of Commercial production:

Not applicable as the Company is an existing Company.

3. In case of new companies, expected date of commencement of activities as per project approved by financial institutions appearing in the prospectus:

Not applicable as the Company is an existing Company.

4. Financial Performance based on given indicators. (Rs. in Lacs)

Particulars	Year ended 30-6-2005	Year ended 30-6-2006	Year ended 30-6-2007
Sales	8810.24	10627.00	6078.39
PBID	1176.61	1500.68	612.30
Net Profit	510.01	1031.08	87.57

5. Export performance : Nil.**6. Foreign investments or collaborations, if any. : Nil**

EMPEE SUGARS AND CHEMICALS LTD.**II. INFORMATION ABOUT THE APPOINTEE :****Mr.K.JAYACHANDRAN****S.NO. DESCRIPTION PARTICULARS**

- | | | |
|----|---------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. | Background details | He is a B.Sc., ANSI (Sugar Technology) and has over 39 years of rich experience in Sugar and related areas. He has served in many sugar companies with distinction. |
| 2. | Past Remuneration for the Financial year 2006-07. | Nil |
| 3. | Recognition or awards / job profile and suitability. | He brings with him the latest technologies and expertise in Sugar and related sectors and is expected to implement the Sugar Expansion Project and the Cogen Project without any major hurdles. |
| 4. | Remuneration Proposed | Salary : Rs.1,65,000/- per month
Perquisites : Rs. 50,767/- per month |
| 5. | Comparative remuneration profile with respect to industry, size of the company, profile of the position and person. | The remuneration proposed to be paid is consistent with the responsibility of the position and is comparable with the remuneration in similar industries in the same segment of business. |
| 6. | Pecuniary relationship directly or indirectly with the company, or relationship with managerial personnel, if any. | He has no pecuniary relationship directly or indirectly with the Company. |
| 7. | No. of shares held in the company | Nil |

III. OTHER INFORMATION**S.NO. DESCRIPTION PARTICULARS**

- | | | |
|----|-------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. | Reason of loss or inadequate profits. | Substantial fall in the net realization of Sugar under the free sale category. |
| 2. | Steps taken or proposed to be taken for improvement. | Since the price of sugar is not in the control of the Company, steps are being taken to achieve maximum profitability by increasing the production improving the recovery of the sugar and optimization of IAP Production and bring out new products in IAP division i.e. Ethanol and bottling of Carbon dioxide |
| 3. | Expected increase in productivity and profits in measurable terms | |

Accordingly special resolution set out under Item No.6 of the Notice is submitted to the Meeting. Following the information required under Schedule XIII of the Companies Act, 1956.

None of the directors, except Mr.K.Jayachandran is deemed to be concerned or interested in this resolution.

The information contained in the foregoing paragraphs may also be treated as a notice to be issued to the shareholders pursuant to Section 302 of the companies Act. The Articles of Association together with the draft agreements to be entered into between the Company and Mr. K.Jayachandran are open to inspection to the members of the Company on any working day during Business hours until the date of the annual General Meeting.

By Order of the Board
For Empee Sugars and Chemicals Ltd

Place : Chennai.
Date : 9.8.2007

M.R.Ramachandran
Vice President (Finance)
and Company Secretary

EMPEE SUGARS AND CHEMICALS LTD.**DIRECTORS REPORT**

To the members,

Your Directors take pleasure in presenting their Report together with the audited Accounts for the year ended 30th June 2007

FINANCIAL RESULTS

(Rs. in lacs)

	2006-07	2005-06
Operating Profit before Interest and Depreciation	612.30	1500.68
Less Interest	346.70	459.75
Depreciation	211.34	210.44
Profit before Tax	54.26	830.49
Provision for Taxation (MAT) including FBT	6.25	1.55
Deferred Tax (Liability)/Asset	39.56	202.14
Profit /(Loss) After Tax	87.57	1031.08
Brought Forward Loss	653.62	1684.71
Carried Forward Loss	610.08	653.62

Performance of the year under Review

Quantitative Particulars	2006-07	2005-06
Cane Crushed (Mts)	394789	331063
Recovery of Sugar from Cane (%)	8.59	8.40
Production of Sugar (Qtls)	339030	269110
Production of Sugar from Raw Sugar (Qtls)	-	241490
Total Production of Sugar (Qtls)	339030	510600
Production of Spirits (Ltrs)	8092172	6121626
Sale of Sugar (Qtls)	284248.50	293180
Sale of Sugar from Processed Raw Sugar (Qtls)	-	200000
Total Sale of Sugar (Qtls)	284248.50	493180
Sale of Spirits (Ltrs)	7772565	5872724

In view of the past accumulated losses, the Directors not in a position recommend any Dividend for the year under review.

Crushing started in the last week of November 2006 and continued till May 2007. Your company was able to increase crushing of cane by -19.25% over the previous year due to the availability of cane and by increasing the operational efficiency of crushing. Steps are underway to further raise the operational efficiency in the current year. On account of the excess production of sugar the price realization of sugar registered a steep fall which severely hampered the profitability of the Sugar unit considerably. The policy of Government of India with regard to export of sugar was actually misplaced and contributed to the misfortune of sugar industry to an extent. Exports were banned when the price of sugar was favourable and was reopened when the International sugar prices were unfavourable. Further the sluggish off take of sugar in the local market and the non lifting of sugar by the Public Distribution System resulted in huge piling of sugar in the godowns. The country witnessed a peculiar situation of the free sugar being sold at a price lesser than the levy sugar. All these factors resulted in a substantial drop in the profitability of the Sugar unit. The series of measures taken by the Government in providing relief to the sugar industry is a belated move to salvage this industry and its results are to be seen in future in the current year. The Central Government and the State Government are still uncertain about any relief measures to the sugar industry. Notwithstanding these difficulties the company was able to increase the cane crushing and the production of sugar significantly during the year.

The Industrial Alcohol plant's remained satisfactory. There was growth in production and sale compare the previous year. Operational efficiency was also higher in terms of yield of molasses and other higher operation norms.

In spite of the highly depressed sugar realization, your company has been able to settle the entire SMP of sugar cane to the farmers as on date.

Irrigation Development

The Government of Andhra Pradesh is in the verge of completing the Irrigation-barrage cum bridge in the Swarnamukhi river near Vakadu in the company's command zone. This is expected to provide irrigation

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and also recharge the ground water in a big way which would increase the command area for Sugar cane as well.

The Telugu Ganga Canal which traverses through this area is also bringing more and more assured areas under irrigation which also promises to augment the area under sugar cane.

The entire cane command area is divided into 6 divisions. Each division is being looked into by a qualified Agri Officer who looks after the 2000 acres under his direct supervision. Each division is further broken down into six/seven circles under various well experienced Cane Assistants. These officials take care of the entire gamut of supervision right from selection of soil, quality of seeds and appropriate integrated pest and disease management, judicious application of organic and inorganic fertilizer and close monitoring of the yield of these individual fields.

Cane Development Programmes

The intensive Cane Development Programme is implemented in a systematic manner in the entire cane command area which take care of the following interalia:

- Soil Enrichment – thru green manure and bio fertilizer after considering the nature of the soil.
- Seed Development – Nursery Programme – Farmers are encouraged to avail the high yield variety suited to the soil and climatic conditions in a three phased seed nursery programme.
- Input supplies – Your company has tied up with a bank which gives the farmers directly loans at concessional interest for the purchase of seeds and fertilizer. These loans are recovered from the farmers from the payments towards cane.
- Organization of Demonstration plots – Your company has taken upon itself to educate the farmers of the benefits of the right kind of fertilizer application which the farmers can learn and implement the same in their plots.

- Reduction of Cutting to Milling time – Steps are being taken to minimize the time taken from cutting to milling in order to ensure the maximization of the recovery of sugar from cane. Various modern methods of communication are being provided to the Cane development assistants for ensuring that no waiting time and unnecessary traffic at the gate arise.

Outlook for the Future

Your company has already taken up the expansion capacity to 3500 TCD and is also going for a Bagasse based Co-gen Plant of 20MW which is being set up though the wholly owned subsidiary viz. Empee Power Company (India) Ltd. Your company also takne steps required for the production of Ethanol. It is also expected during 2008-09 the sugar production will increase based on the expanded crushing capacity.

Your company has also obtained necessary permission to put up an integrated Sugar Complex (Consisting of Sugar, Cogen and Industrial Alcohol includng Ethanol) in Tamilnadu. Land has been identified and is being acquired. Your company has already recieved the Industrial Enterprise Memorandum (IEM) for the same for the crushing of sugar, Cogeneration and Industrial Alcohol facilities.

Discharge of Company's social responsibility

Your company has been able to obtain loans from the Bank on behalf of its farmers for providing quality seeds and fertilizers at a concessional rate of interest. The farmers therefore would be able to get a higher remuneration thru better yield of cane per acre. However the escalating cost of Harvesting is a constraint to the farmers. Harvesting Labour has to be obtained from far off places at a higher cost for the cutting of cane. The company is taking steps to encourage farmers to take up local labour in order to reduce the cost of harvesting which in turn would increase the realization to the farmers. Efforts are also being made to get Hawestar Machines to reduce the burden on cane growers.

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Further with a twin objective of reducing the pollution of the soil and to provide enriched manure to the farmers the company has gone in for a bio composting in a big way and is providing the farmers with quality manure for a better yield for the future.

Your company is sparing no efforts in providing quality cane to the farmers in order to obtain a better yield. Various programmes are also being arranged to educate the farmers in modern techniques of cane cultivation. **"Karshaka Sadassus"** programme (Growers meet with eminent Scientists) has also been well appreciated by the farmers which provides them with the latest technologies in cane cultivation.

Sugar is still considered to be more profitable than other crops like rice and ground nut and a series of measures have been taken to increase the command zone for cane which in turn also enables the company to increase its crushing capacity.

The expected expansion of the cane crushing capacity of cane to 3500 TCD and the Bagasse Cogen plant would also bring about an increase in the engagement of manpower resulting in increase in the welfare of the local community.

Industry Scenario

Sugar and allied industry is witnessing turbulent times with a bumper crop of 37% over the previous year is in the offing. The spectrum of the cane payment to farmers not being related to the prices of sugar is also causing a heavy burden on the mills. Delicensing of the sugar industry is the need of the hour.

Unremunerative export prices and plummeting domestic prices in the background of a record high sugar production points out to a dangerous possibility of arrears to the farmers which will jeopardize the entire sugar industry as they are the backbone. Realising the gravity of the situation, the Government has come out with a series of measures like increasing the buffer stock to 50 lacs Mts and in providing other series of relief. The

various State Governments has also followed suit in providing relief to the beleaguered Industry. The outcome of these measures is to be seen in the current year.

It is now evident that a standalone sugar mill is no longer competitive and need to have other products like Cogeneration, Industrial Alcohol including Ethanol to make it a viable unit.

Subsidiary

During the year under review, Empee Power Co (India) Ltd (EPCIL) became a wholly owned subsidiary of the company. EPCIL is currently implementing a project for a Bagasse based Cogen Power Plant at the factory site at Naidupet.

Directors

Lt.Gen.R.S.Nagra (Retd.), Director is retiring by rotation at the ensuing Annual General Meeting and being eligible offers himself for reappointment.

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

During the year under review, Mr.M.Ravindran and Mrs.A.K.Aruna resigned from the Board. The Board places on record its appreciation of the valuable services rendered by them during their tenure.

Ms.Nisha Purushothaman joined the Board on 9th August 2007 as a Director under Section 260 of the Companies Act, 1956. In accordance with the said Section she vacates the office at the AGM and stands for election as a Director.

During the year under review, Mr. K Jayachandran joined the company as the Executive Director. He has over 39 years of rich experience in Sugar and related areas. He brings with him the latest technologies and expertise in Sugar and is expected to implement the increase of Sugar Expansion Project and the Cogen Project without any major hurdles. He has served in many sugar companies with distinction.

EMPEE SUGARS AND CHEMICALS LTD.

He was subsequently appointed as the Director in the Board and designated as the Joint Managing Director for a period of three years effective from April 28, 2007. In accordance with the Section 260 of the Companies Act 1956 he vacates the office at the Annual General Meeting of the shareholders and stands for election as a Director and Joint Managing Director.

Auditors

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 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 his 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 2007 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

M.P. PURUSHOTHAMAN

Date : 9.8.2007

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.