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KESAR ENTERPRISES LTD.

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72nd

ANNUAL REPORT 2005-2006

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KESAR ENTERPRISES LTD.

Company Information	1
Notice	2
Directors' Report	7
Management Discussion and Analysis Report	14
Corporate Governance Report	17
Report of the Auditors to the Members	23
Balance Sheet	26
Profit & Loss Account	27
Schedules to the Balance Sheet	28
Schedules to the Profit & Loss Account	35
Notes forming part of Accounts	40
Quantitative Information	48
Cash Flow Statement	50
General Business Profile	52
Financial Statistics	54
Auditors' Report on Consolidated Accounts	55
Consolidated Statements	56
Statement Pursuant to Section 212	76
Information about Subsidiary Company Amber Distilleries Ltd.	77

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KESAR ENTERPRISES LTD.

(Incorporated under the Indian Companies Act VII of 1913)

COMPANY INFORMATION

BOARD OF DIRECTORS	:	H. R. KILACHAND (Chairman & Managing Director) A. S. RUIA K. KANNAN K. D. SHETH SMT. S. VENKATARAMAN (Nominee of GIC) SMT. M. H. KILACHAND NIMISH J. VAKIL (w.e.f. 25.9.2006)
VICE PRESIDENT (LEGAL) & COMPANY SECRETARY	:	D. J. SHAH
BANKERS	:	Allahabad Bank Uttar Pradesh Co-operative Bank Limited
AUDITORS	:	M/s. N. N. Jambusaria & Co. Chartered Accountants
SUGAR AND SPIRITS DIVISIONS	:	Baheri Dist. Bareilly, U.P.
STORAGE INSTALLATIONS	:	Kandla (Gujarat)
REGISTERED OFFICE	:	Oriental House 7, Jamshedji Tata Road, Churchgate, Mumbai - 400 020
REGISTRAR & TRANSFER AGENTS	:	SHAREX DYNAMIC (INDIA) PVT. LTD. 17/B, Dena Bank Building, 2nd Floor, Horniman Circle, Fort, Mumbai - 400 001
AUDIT COMMITTEE MEMBERS	:	K. D. SHETH (Chairman of the Committee) A. S. RUIA SMT. S. VENKATARAMAN

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NOTICE

NOTICE is hereby given that the **72nd** Annual General Meeting of the Members of **KESAR ENTERPRISES LTD.** will be held on **Friday,** the **27th October 2006** at **3:00 p.m.** at **M. C. Ghia Hall, Bhogilal Hargovindas Building, 2nd Floor, 18/20, Kaikhushru Dubash Marg, Mumbai 400 001** to transact the following business:

1. To receive, consider and adopt the audited Balance Sheet as at 30th June 2006 and the Profit & Loss Account for the year ended on that date together with the Reports of the Directors' and Auditors thereon.
2. To declare dividend on 1% Cumulative Redeemable Preference Shares.
3. To declare final dividend on Ordinary (Equity) Shares.
4. To appoint a Director in place of Shri K. D. Sheth, who retires by rotation but being eligible offers himself for reappointment.
5. To appoint a Director in place of Shri K Kannan, who retires by rotation but being eligible offers himself for reappointment.
6. To appoint Auditors and authorise the Board of Directors to fix their remuneration.

SPECIAL BUSINESS:

7. To consider and, if thought fit, to pass with or without modification/s, the following Resolution as an **ORDINARY RESOLUTION:**

   To appoint a Director in place of Shri Nimish J. Vakil who is appointed as an Additional Director of the Company pursuant to Article 161 of the Articles of Association of the Company and whose term of office expires under Section 260 of the Companies Act, 1956, at this Annual General Meeting but who is eligible for appointment and in respect of whom the Company has received notices in writing from some members specifying their intention to move the following resolution as an Ordinary Resolution proposing the candidature of Shri Nimish J. Vakil for office of Director:

   "RESOLVED THAT Shri Nimish J. Vakil be and is hereby appointed as Director of the Company."

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

   "RESOLVED THAT in supersession of the Special Resolution passed earlier by the Members at the Extraordinary General Meeting held on 20th June 2006 and pursuant to the provisions of Section 81(1A) and other applicable provisions, if any, of the Companies Act, 1956 (including any amendment thereto or reenactment thereof) and the provisions of the Foreign Exchange Management Act (FEMA), Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, Issue of Foreign Currency Convertible Bonds and Ordinary Shares (Through Depository Receipt Mechanism) Scheme, 1993 as amended, the Securities and Exchange Board of India (SEBI) Regulations and in accordance with the rules, regulations, guidelines, notifications, circulars and clarifications issued thereon from time to time by the Government of India (GOI), the Reserve Bank of India (RBI), SEBI and any other competent or concerned authority and the enabling provisions of the Memorandum and Articles of Association of the Company, the Listing Agreement entered into by the Company with the Stock Exchanges on which the Company's shares are listed and subject to necessary approvals, permissions, consent and sanctions of the concerned statutory and other authority(ies) and subject to such conditions and modifications as may be prescribed by any of them while granting such approvals, permissions, consent and sanctions and which may be agreed to by the Board of Directors of the Company (hereinafter referred to as the "Board"), which term shall be deemed to include any Committee thereof, which the Board may have constituted or hereafter constitute for the time being exercising the powers conferred on the Board by this resolution, the Board be and is hereby authorised on behalf of the company with powers to delegate such authority to such person or persons as the Board may deem fit, to offer, issue and allot either in India or in the course of international offering(s), in one or more foreign markets, such number of Equity Shares, Global Depository Receipts (GDRs), American Depository Receipts (ADRs), Foreign Currency Convertible Bonds (FCCBs), Qualified Institutional Placements (QIPs), Equity Shares (through Depository Receipt Mechanism), any other Financial Instruments convertible into Equity Shares or otherwise, in the registered or bearer form, any security convertible in or linked to Equity Shares and/or securities with or without detachable warrants with right exercisable by the warrant holders to convert or subscribe to Equity Shares (hereinafter collectively referred to as "Securities") or any one or combination of such Securities, in one or more tranches, whether rupee denominated or denominated in foreign currency, to foreign/resident investors

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(whether institutions, incorporated bodies, mutual funds, individuals or otherwise), Foreign Institutional Investors, Indian/Multilateral Financial Institutions, Mutual Funds, Banks, Insurance Companies, Pension Funds, Qualified Institutional Buyers (QIB's) Non-Resident Indians and/or any other eligible investors, whether they be holders of shares of the Company or not (collectively called the "Investors") through public issue(s), preferential issue, private placement(s) or a combination thereof through prospectus, offer document, offer letter, offer circular or otherwise, at such time or times, at such price or prices, at a discount or premium to market price or prices in such manner and on such terms and conditions including security, rate of interest etc. as may be deemed appropriate by the Board at its absolute discretion including the discretion to determine the categories of Investors to whom the offer, issue and allotment shall be made to the exclusion of all other categories of Investors at the time of such offer, issue and allotment considering the prevailing market conditions and other relevant factors and wherever necessary in consultation with Lead Managers, upto an amount not exceeding US$ 20 million (United States Dollars Twenty Million only) or equivalent Indian Rupees 91 crores (approximately) inclusive of such premium as the Board at its absolute discretion may deem fit and appropriate."

"RESOLVED FURTHER THAT without prejudice to the generality of the above, the aforesaid Securities may have such features and attributes or any terms or combination of terms in accordance with international practice and to provide for the tradability or free transferability thereof as per the prevailing practices and regulations in the capital markets including but not limited to the terms and conditions in relation to payment of interest, additional interest, premium on redemption, prepayment and any other debt service payments whatsoever including terms for issue of additional Equity Shares or variation of the conversion price of the GDRs during the duration of the Depository Receipts and the Board be and is hereby authorised at its absolute discretion, in such manner as it may deem fit, to dispose off such of the Securities as are not subscribed."

"RESOLVED FURTHER THAT the Board be and is hereby authorised to issue and allot such number of Equity Shares as may be required to be issued and allotted upon conversion, redemption or cancellation of any Securities or as may be necessary in accordance with the terms of the offering(s), all such shares ranking *pari passu* with the existing Equity Shares of the Company in all respects."

"RESOLVED FURTHER THAT the pricing of the Securities shall be made subject to compliance with applicable laws and regulations and, further that the pricing of any GDRs/FCCBs/ADRs that may be issued, shall be made at a price not less than the higher of the following two averages:

i. The average of the weekly high and low of the closing prices of the related shares quoted on a stock exchange during the six months preceding the relevant date;

ii. The average of the weekly high and low of the closing prices of the related shares quoted on a stock exchange during the two weeks preceding the relevant date;

The "relevant date" means the date thirty days prior to the date on which the meeting of the general body of shareholders is held, in terms of Section 81(1A) of the Companies Act, 1956, to consider the proposed issue.

"RESOLVED FURTHER THAT the issue to the holders of the Securities of the Equity Shares underlying the Securities shall be, *inter alia,* subject to the following terms and conditions:

(a) in the event of the Company making a bonus issue by way of capitalisation of its profits or reserves prior to the allotment of the Equity Shares, the number of Equity Shares to be allotted shall stand augmented in the same proportion in which the equity share capital increases as a consequence of such bonus issue and the premium, if any, shall stand reduced pro tanto;

(b) in the event of the Company making a rights offer by issue of Equity Shares prior to the allotment of the Equity Shares, the entitlement to the Equity Shares will stand increased in the same proportion as that of the rights offer and such additional Equity Shares shall be offered to the holders of the Securities at the same price at which the same are offered to the existing shareholders and

(c) in the event of merger, amalgamation, takeover or any other re-organisation or restructuring, the number of shares, the price and the time period as aforesaid shall be suitably adjusted."

"RESOLVED FURTHER THAT the Board be and is hereby authorised to appoint Lead Managers, Underwriters, Guarantors, Depositories, Custodians, Registrars, Trustees, Bankers, Advisors and all such Agencies as may be involved or concerned in such offering(s) of Securities and to remunerate them by way of commission, brokerage, fees or the like and also to enter into and execute all such arrangements, agreements, memoranda, documents etc. with such agencies and to seek the listing of such Securities on one or more National and/or International Stock Exchange(s)."

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"RESOLVED FURTHER THAT for the purpose of giving effect to any offer, issue and allotment of Securities or Equity Shares, as aforesaid, the Board be and is hereby authorised on behalf of the Company to do all such acts, deeds, matters and things as it may at its absolute discretion deem necessary, desirable or expedient including the obtaining of permissions/approvals from various authorities as may be required and to settle any questions, difficulties or doubts that may arise in regard to any such offer, issue and allotment."

"RESOLVED FURTHER THAT the acts, deeds, and things already done by the Board, or any persons designated by the Board, in this regard be and are hereby confirmed, approved and ratified."

By Order of the Board of Directors

D J SHAH
Vice President (Legal) & Company Secretary

Registered Office:

Oriental House
7, Jamshedji Tata Road
Churchgate
Mumbai 400 020

25th September 2006

Notes:

(a) **A Member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a Member. The instrument appointing a proxy should be deposited at the Registered Office of the Company not less than 48 hours before the commencement of the meeting.**

(b) The Register of Members and Share Transfer Books of the Company will remain closed from **Tuesday, the 24th October 2006 to Friday, the 27th October 2006,** both days inclusive. The shareholders are requested to inform of change in address, if any, at the earliest.

(c) The Unclaimed Dividends upto the financial year ended **30th June 1997** of the Company, have been transferred to the Investor Education and Protection Fund set up by the Central Government pursuant to Section 205C of the Companies Act, 1956. Similarly, the Unclaimed Dividend for the financial year ended **30th June 1998** of the Company, will be transferred to the said fund **by 30th November 2006.**

(d) The Members may lodge their shares for transfer/transmission with the office of **M/s. SHAREX DYNAMIC (INDIA) PVT. LTD.** the Registrar and Share Transfer Agents, at 17/B Dena Bank Building, 2nd floor, Horniman Circle, Fort, Mumbai 400 001 or at Unit No. 1, Luthra Industrial Premises, Andheri-Kurla Road, Safed Pool, Andheri (E), Mumbai 400 072 or with the Company.

(e) The Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956 setting out the material facts is annexed hereto.

(f) All documents referred to in the accompanying Notice and the Explanatory Statement are open for inspection at the Registered Office of the Company during office hours on all working days except Saturdays and Sundays between 11:00 a.m. and 1:00 p.m. up to the date of the ensuing Meeting.

(g) Members are informed that in case of joint holders attending the Meeting, only such joint holder who is higher in order of the names will be entitled to vote.

(h) Members/Proxies should fill the Attendance Slip for attending the Meeting. Members who hold shares in dematerialised form are requested to bring their Client ID and DP ID numbers for easy identification for attendance at the Meeting.

(i) Reappointment/Appointment of Directors: In terms of Clause 49 of the Listing Agreement, the information in detail about Shri K. D. Sheth and Shri K. Kannan, the retiring Directors at the ensuing Annual General Meeting and also about the Appointment of Shri Nimish J. Vakil as Director of the Company, is given in para 2 of the Corporate Governance Report.

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ANNEXURE TO THE NOTICE

Explanatory Statement as required under Section 173 of the Companies Act, 1956.

Item No. 7:

The present strength of the Board of Directors of the Company is seven, which includes two Directors from the Promoters and five Independent Directors including one Nominee of GIC representing Shareholders.

The Directors have appointed Shri Nimish J. Vakil as an Additional Director on 25.9.2006 as per Article 161 of the Articles of Association of the Company. Under Section 260 of the Companies Act, 1956, Shri Nimish J. Vakil holds office only up to this Annual General Meeting.

As required by Section 257 of the said Act, notices have been received from some members signifying their intention to propose Shri Nimish J. Vakil as a Director.

Shri Nimish J. Vakil is an Advocate and Solicitor. He is 42 years of age. He is a partner of M/s Tyabji Dayabhai, Advocate, Solicitors and Notary, Mumbai, one of the oldest and well reputed firm established in the year 1872. After having qualified as Solicitor in Mumbai in the year 1991 and thereafter in London in the year 1992, he has been actively associated with aircraft transactions in India. He deals in matters relating to banking, finance, real estate, litigation and arbitration. He has represented various domestic and international banks, aircraft leasing Companies, aircraft manufacturers and airlines. He also holds Directorship in Johnson Pump (India) Limited.

Shri Nimish J. Vakil does not hold any equity shares of the Company.

None of the Directors of the Company is in any way concerned or interested in the aforesaid resolution.

Item No. 8:

The proposed resolution is an enabling resolution, which was approved earlier by the Shareholders at the Extraordinary General Meeting held on 20.6.2006. However, in view of the changed projections of the Modernisation/Expansion plans, the said resolution is proposed once again for your approval and the earlier resolution be treated as lapsed.

Thus, this resolution relates to the proposal of the Company to offer, issue and allot either in India or in the course of an international offering in one or more foreign markets, by way of Equity Shares/Depository Receipts/Foreign Currency Convertible Bonds (FCCB)/Fully Convertible Debentures/Partly Convertible Debentures/Qualified Institutional Placements (QIP's) any other financial instruments convertible into or linked to equity shares or otherwise, or any one or combination of such securities, in one or more tranches and on the terms and conditions as may be decided by the Board of Directors or any Committee thereof, at its absolute discretion, for an amount not exceeding US $ 20 million (United State Dollars Twenty Million only) or equivalent Indian Rupees 91 crores (approximately) inclusive of premium payable on conversion, if any.

The objects of this issue is to enhance financial flexibility of the Company to fund the capital expenditure plans of the Company and/or to part finance expansion/modernisation of the Sugar Factory/Cogeneration projects at Baheri and/or acquisition/investments in similar facilities and also expansion of the Storage Terminals at Kandla. The Company is exploring alternatives to mobilise resources from various available sources. Presently, it is proposed to raise a sum upto US $ 20 million (United States Dollars Twenty Million only) or equivalent Indian Rupees 91 crores (approximately).

The detailed terms and conditions for the offer will be determined in consultation with Advisors, Lead Managers, Underwriters and such other authority or authorities and agencies as may be required to be consulted by the Company considering the prevailing market conditions and other relevant factors. The pricing of the international offering(s), if any, will be free market pricing and may be at a premium or discount to market price in accordance with international practice, subject to applicable rules, regulations etc. As the pricing of the offering(s) will be decided at a later stage, the exact number of securities or shares to be issued will depend upon the price so decided. For the aforesaid reasons, an enabling resolution is being proposed to give adequate flexibility and discretion to the Board to finalise the terms of the issue. However it may be noted that according to the recent amendment to the Foreign Currency Convertible Bonds and Ordinary Shares (Through Depository Receipt Mechanism) Scheme, 1993, (the FCCB Scheme) the pricing of GDR/FCCB issues should be made at a price not less than the higher of the following two averages:

(i) The average of the weekly high and low of the closing prices of the related shares quoted on the stock exchange during the six months preceding the relevant date;

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(ii) The average of the weekly high and low of the closing prices of the related shares quoted on a stock exchange during two weeks preceding the relevant date.

The relevant date means the date thirty days prior to the date of this Annual General Meeting.

Securities issued pursuant to the international offering(s), if any, will be listed on Luxembourg Stock Exchange and/or London Stock Exchange and/or Singapore Stock Exchange and/or other Exchange(s) outside India and may be represented by Securities outside India.

The Special Resolution seeks to give to the Board powers to issue Securities in one or more tranches, at such time or times, at such price or prices and to such person(s) including institutions, incorporated bodies, individuals or otherwise as the Board may at its absolute discretion deem fit. Section 81(1A) of the Companies Act, 1956 provides, *inter alia,* that when it is proposed to increase the issued capital of the Company by allotment of further shares, such further shares shall be offered to the existing shareholders of the Company in the manner laid down in Section 81(1A) unless the shareholders in a general meeting decide otherwise.

The Listing Agreement entered into by the Company with the Bombay Stock Exchange on which the Company's shares are listed provides, *inter alia,* that the Company in the first instance should offer all the shares to be issued by the Company for subscription on pro rata basis to the equity shareholders unless the shareholders in a general meeting decide otherwise.

The said Special Resolution, if passed, shall have the effect of allowing the Board on behalf of the Company to offer, issue and allot the Securities otherwise than on pro rata basis to the existing shareholders.

The Board of Directors believes that such issue is in the interest of the Company and therefore recommends the resolution for your approval. No Director of the Company is interested or concerned in the said resolution.

By Order of the Board of Directors

D J SHAH
Vice President (Legal) & Company Secretary

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Registered Office:

Oriental House
7, Jamshedji Tata Road
Churchgate
Mumbai 400 020

25th September 2006

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DIRECTORS' REPORT

To
The Members

KESAR ENTERPRISES LTD.

Dear Members,

Your Directors present to you the 72nd Annual Report and Audited Statement of Accounts for the year ended 30th June 2006.

FINANCIAL RESULTS:

(Rs. in Lacs)

	2005-2006	*2004-2005*
Profit before interest, depreciation & taxation	3,310.46	3,238.86
Less: Interest and Finance Charges	947.80	862.46
Profit before Depreciation & taxation (Cash Profit)	2,362.66	*2,376.40*
Less: Depreciation	537.97	*512.96*
Profit/(Loss) before tax	1,824.69	*1,863.44*
Provision for Taxation		
(i) Income Tax – Current	377.63	*61.00*
(ii) Income Tax – Deferred	335.11	*139.88*
(iii) Wealth Tax	0.95	*0.83*
Profit/(Loss) after tax	1,111.00	*1,661.73*
Add/(Less):		
Balance brought forward from previous year.	1,452.78	*74.79*
Prior period adjustments.	(23.04)	*(11.41)*
Profit available for appropriation	2,540.74	*1,725.11*
Appropriation:		
(i) Transferred to General Reserve	1,300.00	*123.45*
(ii) Proposed Preference Shares Dividend	2.00	*3.78*
(iii) Interim Dividend on Equity Share	95.09	*95.09*
(iv) Proposed Final Dividend on Equity Share	63.39	*31.70*
(v) Corporate Tax on Dividend	22.51	*18.31*
(vi) Balance carried forward to Balance Sheet	1,057.75	*1,452.78*
Total	2,540.74	*1,725.11*

The Profit before interest, depreciation and tax for the year ended 30th June 2006, is Rs. 3310.46 lac as against Rs. 3238.86 lac in the previous year. However, the Net Profit is Rs. 1111.00 lac as against Rs. 1661.73 lac in the previous year, due to a substantial increase in the provision for current taxation from Rs. 61 lac last year to Rs. 377.63 lac. Additionally, provision for Deferred Tax has also increased from Rs. 139.88 lac last year to Rs. 335.11 lac. The Operating Profit before tax is higher by Rs.124.35 lac to Rs.1,786.18 lac as against Rs.1,661.83 lac in the previous year.

DIVIDEND

The Board recommends dividend for the year 2005-06 @ 1% on 20,00,000 Cumulative Redeemable Preference Shares of Rs. 10/- each issued to IDBI Ltd. under the One Time Settlement Scheme, amounting to Rs. 2,00,000/- plus dividend tax as applicable.

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During the year, on 10th February 2006, the Board had declared an Interim Dividend @ 15% i.e. Rs. 1.50 per share on 63,39,315 equity shares of Rs. 10/- each amounting to Rs. 95.09 lac plus dividend tax as applicable. Further to this, the Directors recommend a final dividend @ 10% i.e. Re. 1.00 per share amounting to Rs. 63.39 lac plus dividend tax as applicable for the year 2005 - 2006. Thus, the total dividend for the year for your approval is 25% i.e. Rs. 2.50/- per share aggregating to Rs. 158.48 lac plus dividend tax as applicable (Previous year 20%).

WORKING OF THE DIVISIONS

Sugar Division

The Crushing Season 2005-2006 started on 4.11.2005, the same as that in the previous season and ended on 12.4.2006 as against 11.4.2005, one day later than the previous season. During the season, the plant crushed 83.85 lac quintals of sugar cane in 155 days as against 84.88 lac quintals crushed in 158 days. The overall crushing would have been much higher had it not been for various sugar factories in the vicinity of Baheri sourcing cane from areas not allocated to them including the area allocated to the Company. Poor climatic condition resulted in poor cane quality etc. The sugar recovery was lower at 9.43% as against 9.90% in the previous season. The production of sugar was slightly lower at 7.91 lac quintals as against 8.41 lac quintals in the previous season.

During the season 2005-2006, Molasses produced was marginally higher at 3.95 lac quintals as against 3.76 lac quintals in the previous season and surplus Bagasse produced was also higher at 28 lac quintals as against 25 lac quintals.

The Central Government had raised the Statutory Minimum Price (SMP) of sugar cane by Re. 5.00 per quintal over the last year's one time price to Rs. 79.50 per quintal for the season 2005-2006 based on a recovery of 9.00%. Accordingly, the cane price for the Company for the season 2005-2006 was fixed as under.

(Rs. Per Qtl)

	SMP for the Season 2005-2006		SMP for the Season 2004-2005	
	At Gate	At Centre	At Gate	At Centre
Ordinary Varieties	87.42	81.67	86.82	81.07
Early Varieties	92.42	86.67	91.82	86.07

For the crushing season 2005-2006, the U. P. Government had directed the sugar mills to pay Rs. 115 per quintal for general variety and Rs. 120 per quintal for early variety of sugar cane to farmers. There was a transportation rebate of Rs. 5.75 per quintal for cane supplied at outcentres.

The Levy sugar price for the season 2005-2006 was announced by the Central Government at Rs. 1,330.77 per quintal, the same as that in the previous season.

Union Budget 2005 –2006:

(1) The following financial package was passed for the revitalisation of the Sugar Industry, which was under financial stress since 2001 & the position had become worse due to two successive droughts in certain parts of the country:

- Sugar Factories that were operational in 2002-2003 sugar season would be assisted to restructure by devising a scheme for providing financial package.
- Reduction of interest by 2% below the Bank rate on loans from the Sugar Development Fund, which were outstanding as on 21.10.2004.

(2) Central Excise Duty on Molasses was increased from Rs. 500/- to Rs. 750/- per ton.

(3) Customs Duty on Molasses and Industrial (Denatured) Ethyl Alcohol was reduced from 15% to 10%.

Spirits Division

During the year under review the production of Rectified Spirit (RS) was the highest ever at 147.65 lac bulk litres as against 113.82 lac bulk litres in the previous year. The production of Extra Neutral Alcohol (ENA) was lower at 14.42 lac bulk litres as against 15.48 lac bulk litres in the previous year. This was due to high prices and shortage of molasses and also modifications of the plant.

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