

McLEOD RUSSEL



The world's cup of tea

McLEOD RUSSEL INDIA LIMITED

ANNUAL REPORT AND ACCOUNTS 2005 - 06

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Allahabad Bank *Bankers*

Central Bank of India

HDFC Bank Ltd.

ICICI Bank Ltd.

Indian Bank

State Bank of India

State Bank of Bikaner and Jaipur

UCO Bank

United Bank of India

Khaitan & Co. *Solicitors*

Board of Directors

B. M. Khaitan *Chairman*
 Deepak Khaitan *Vice-Chairman*
 Aditya Khaitan *Managing Director*
 R. S. Jhawar *Directors*
 R. Srinivasan
 Bharat Bajoria
 Ranabir Sen
 Utsav Parekh
 Ajay Saraf (*Nominee of ICICI Bank Ltd.*)

R. Takru *Wholetime Directors*
 A. Monem
 K. K. Baheti

A. Guha Sarkar *Company Secretary*

Audit Committee of the Board
 R. Srinivasan *Chairman*
 Bharat Bajoria
 Ranabir Sen
 R. S. Jhawar
 Ajay Saraf (*Nominee of ICICI Bank Ltd.*)

Shareholders'/Investors' Grievance Committee of the Board
 Ranabir Sen *Chairman*
 R. S. Jhawar
 Bharat Bajoria
 Utsav Parekh

Remuneration Committee of the Board
 Bharat Bajoria *Chairman*
 R. Srinivasan
 Ranabir Sen

Price Waterhouse *Auditors*
 Plot No.Y-14, Block-EP, Sector-V
 Salt Lake Electronic Complex, Bidhan Nagar,
 Kolkata - 700 091

Registered Office
 Four Mangoe Lane
 Surendra Mohan Ghosh Sarani
 Kolkata - 700 001

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REPORT OF THE DIRECTORS

For the financial year ended 31st March 2006

Your Directors have pleasure in presenting the Annual Report with the audited Accounts of your Company for the financial year ended 31st March 2006.

ACQUISITION OF BORELLI TEA HOLDINGS LIMITED, U.K.

During the year under review the Company completed acquisition of Borelli Tea Holdings Limited, U.K. ('Borelli') by acquiring its entire share capital being 2,78,026 Ordinary Shares of £1 each. By virtue of the aforesaid acquisition the Company had also gained control over Williamson Tea Assam Limited ('WTAL'), a Company incorporated in India and listed on certain Stock Exchanges, whose 70% share capital was held by Borelli. The acquisition of control of WTAL which was engaged in the same industry as your Company i.e. growing and manufacturing of bulk tea has proved beneficial to the Company. WTAL had 17 Tea Estates to which one more Tea Estate i.e. Nilpur Tea Estate had been added by virtue of amalgamation of Nilpur Tea Company Private limited with WTAL with effect from 1st April 2005.

In terms of the requirements of Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 your Company alongwith four other companies belonging to the same Group namely, Williamson Magor & Co. Limited, United Machine Company Limited, Ichamati Investments Private Limited and Nitya Holdings Properties (P) Limited made an Open Offer to acquire 28,35,000 fully paid up Equity Shares of Rs.10/- each of WTAL representing 20% of the paid up share capital of the said Company from the non-promoter shareholders of the company at a price of Rs.145/- per share. Only 22,192 Equity Shares were offered by the shareholders of WTAL in the Open Offer all of which were acquired by Williamson Magor & Co. Limited.

AMALGAMATION OF WILLIAMSON TEA ASSAM LIMITED WITH THE COMPANY

Subsequent to the acquisition of Borelli, the Boards of Directors of your Company and WTAL considered it prudent to merge WTAL with your Company with effect from 1st April 2005. Accordingly, an application was made to the Hon'ble High Court at Calcutta and Gauhati High Court by your Company and WTAL respectively for approving the Scheme of Amalgamation. The Hon'ble High Courts after following the legal procedure and obtaining the approval of the Members of the respective Companies sanctioned the Scheme of Amalgamation on 19th May 2006 and 7th June 2006 respectively. Upon completion of the legal requirements the Scheme has become effective on 28th June 2006 with retrospective effect from the 'Appointed Date' i.e. 1st April 2005.

The amalgamation has resulted in formation of a larger and stronger Tea Company with a larger asset and capital base having greater capacity for conducting its operations more effectively and competitively and being more resilient to any cyclical or other downturn in tea business. The amalgamated Company should be able to derive synergy benefits with greater economies of scale, pooling and more efficient utilisation of their resources, reduction in overheads and other expenses and improvement in various other operating parameters of the business in which the Company is engaged. The amalgamation is expected to strengthen the position of the Company and should have beneficial results for the shareholders, employees and all concerned.

Pursuant to the aforesaid Scheme, the shareholders of WTAL will be eligible to be allotted three shares of Rs.5/- each of the Company against every share of Rs.10/- held by them in WTAL as on the record date. Upon allotment of the equity shares of Rs.5/- by your Company to the shareholders of WTAL, the paid up share capital of your Company will stand increased to Rs.49,21,52,010 consisting of 9,84,30,402 equity shares of Rs.5/- each.

REVIEW OF PERFORMANCE

The Financial results of the Company for the year ended 31st March 2006 are summarized below :

	2005-06 Rs. in Lakhs	2004-05 Rs. in Lakhs
Profit before Interest, Depreciation and Taxation	5,860.50	1,322.84
Less : Interest and Exchange Fluctuation (Net)	3,591.27	2,326.67
	<u>2,269.23</u>	<u>(1,003.83)</u>
Less : Depreciation & amortisation	(1,066.76)	1,380.95
Profit / (Loss) before Taxation	<u>3,335.99</u>	<u>(2,384.78)</u>
Taxation Charge / (Credit)		
Current Tax	72.00	—
Deferred-tax	839.79	(410.00)
Fringe Benefit Tax	<u>132.00</u>	<u>—</u>
Profit / (Loss) after Taxation	2,292.20	(1,974.78)
Balance brought forward from previous year	(1,974.78)	(193.68)
Less : Capital Reduction (Pursuant to Scheme of Arrangement)	—	193.68
Adjustment as per Scheme of Amalgamation	1,974.78	—
Debit balance (net) added pursuant to Schemes of Amalgamation	(231.02)	—
Balance carried forward	<u>2,061.18</u>	<u>(1974.78)</u>

As mentioned earlier, Williamson Tea Assam Limited was amalgamated with the Company with retrospective effect from 1st April 2005 and as such, the figures for the year under review are not comparable with the figures of the previous year.

The operation of the Company during the year under review resulted in a Profit before Interest, Depreciation and Taxation (PBITD) of Rs. 58.61 crores. This includes non-operating income of Rs. 19.98 crores on sale of certain fixed assets and investments.

While it is little early to assess the trend of prices of tea for the current year, with strong domestic consumption resulting in increase in prices, synergy benefits on merger of WTAL and the continuing cost rationalization measures, the improvement in the operations of the Company is expected to be satisfactory in the current year.

DIVIDEND

In view of the past losses and for consolidation of the financial position of the Company your Directors considered it prudent not to recommend any dividend for the year under review.

REVIEW OF OPERATIONS

During the year under review the Company produced 65 million kgs. of tea as compared to the production of 60 million kgs. in the previous year by the Company and WTAL together. Better distribution of rainfall during the year and conducive growing conditions attributed to the increased crop.

A high standard of cultivation practices continued to be implemented on the Estates which are in an excellent standard of maintenance. The nurseries have been established well. This would contribute to the success of the uprooting and replanting programme being implemented on all the estates. The young tea is growing well and will make valuable additions to crop in the forthcoming year.



Quality teas were produced which commanded a premium in both the domestic as well as in the international market. Your Company continued with the Upgradation and modernization of tea factories. As part of the upgradation programme coal stoves were installed on nine estates, which would contribute to a major saving in cost, over the use of Tea Dryer oil. New tea processing machines were installed on four estates. Withering facilities were improved/increased on four estates and factories of five estates streamlined.

Seven factories were awarded the Hazard Analysis and Critical Control Point (HACCP) certification. More factories are being prepared to undertake the certification in the coming year.

The average price realization for the Company's tea for the year was Rs.79.51 per kg. which is higher than the North Indian average by Rs.14.40.

The Company achieved a total export quantum (both direct as well as Deemed combined) of 21.87 million kgs. during the year with an overall export turnover of Rs.199.37 crores. Favourable feedback was received from the buyers both in terms of quality and deliveries.

ACQUISITION OF DOOM DOOMA TEA COMPANY LIMITED

During the year under review your Company has acquired yet another Tea Company i.e. Doom Dooma Tea Company Limited (Doom Dooma) from Hindustan Lever Limited on 23rd January 2006. The Company has acquired the entire equity and preference capital of Doom Dooma by virtue of which Doom Dooma has become a wholly owned subsidiary of your Company. The Tea Estates of Doom Dooma are located in the quality tea belt in Assam where your Company has a very strong presence by virtue of which both the Companies should be able to derive synergy benefits and convenience in operations which will result in reduction in overheads and other expenses. With the amalgamation of WTAL with your Company and acquisition of Doom Dooma as a wholly owned subsidiary, your Company now controls production of around 70 million kgs. of tea annually by virtue of which it has become one of the major tea producers in the world.

EDUCATIONAL, CULTURAL AND WELFARE MEASURES

The Assam Valley School has emerged as a premier public school of the country and continues to provide excellent opportunity to the children of the planting community of the North East in terms of academics and overall development.

With the Company's continued support The Assam Valley Literary Award has gained wide recognition. This year the award was conferred on eminent Assamese writer Arun Sarma in acknowledgement of his contribution in the field of Assamese literature. Scholarships were provided to meritorious students from the North East and this was funded by Williamson Magor Education Trust.

The Company continued with the welfare activities around its area of operation. The emphasis was on the development of education, literature, culture and sports. Medical assistance was also provided to the nearby village through medical camps.

A high standard of medical care is provided to the work force through well-equipped individual estate hospitals and a specialized treatment at the central hospitals. The Company continued to support the Mother's Club and Well Baby Clinics to look after mothers and childcare, respectively.

The Tea Tourism at Balipara in Assam will be formally inaugurated shortly. More such opportunities are being studied to develop it in other areas of Assam.

SUBSIDIARY COMPANIES

A copy each of the Annual Report and Accounts of Borelli Tea Holdings Limited, U.K. and Doom Dooma Tea Company Limited are annexed to this report as required under Section 212 of the companies Act, 1956. In accordance with Accounting Standard 21, a consolidated financial statement incorporating the Accounts of Borelli forms a part of this Report and Accounts.

DIRECTORS

The appointments of and remuneration payable to Mr. A. Khaitan as the Managing Director and Mr. R. Takru, Mr. A. Monem and Mr. K.K. Baheti as the Wholetime Directors of the Company for a period of three years each with effect from 1st April, 2005 were approved by the Members at the Extraordinary General Meeting held on 29th March 2005. In view of inadequacy of profits, in terms of Schedule XIII to the Companies Act, 1956 ('the Schedule') during the year under review, it is necessary pursuant to Paragraph 1(B) of Section II of Part II of the Schedule to obtain the approval of the Members by way of Special Resolutions to the remunerations of Mr. A. Khaitan as the Managing Director and Mr. R. Takru and Mr. K. K. Baheti as the Wholetime Directors of the Company for the year under review. Approval of the Members by way of Special Resolutions will be sought at the forthcoming Annual General Meeting of the Company to the remunerations of the Managing Director and the Wholetime Directors, namely, Mr. R. Takru, Mr. A. Monem and Mr. K.K. Baheti as approved by the Members at the Extraordinary General Meeting as aforesaid as minimum remuneration in terms of the Schedule in case of inadequacy of profits in any year including the year under review during the tenure of their appointments.

During the year under review Mr. Balaji Swaminathan was nominated as a Director by ICICI Bank Limited who became a member of the Board with effect from 31st October 2005 but ceased to be so with effect from 28th November 2005. ICICI Bank Limited subsequently nominated Mr. Ajay Saraf as a Director who was appointed by the Board on 13th December 2005. Pursuant to Section 260 of the Companies Act, 1956 Mr. Saraf holds office upto the date of the forthcoming Annual General Meeting. Notice in writing under Section 257 of the Companies Act, 1956 has been received from a Member signifying his intention to propose the candidature of Mr. Ajay Saraf for the office of Director at the ensuing Annual General Meeting of the Company.

In accordance with the Articles of Association of the Company, Mr. D. Khaitan, Mr. R. S. Jhavar and Mr. K. K. Baheti will retire by rotation at the forthcoming Annual General Meeting, and being eligible, offer themselves for re-appointment.

AUDITORS

Messrs. Price Waterhouse retire as the Auditors at the conclusion of the forthcoming Annual General Meeting and, being eligible, offer themselves for re-appointment.

AUDITORS' REPORT

In regard to the observations made by the Auditors in their Report relating to non ascertainment of value of green leaf consumed and managerial remuneration awaiting Shareholders' approval reference is made to Note Nos.18(b) and 17.2 respectively on Schedule 17 to the Accounts, which are self-explanatory.

MANAGEMENT DISCUSSION & ANALYSIS REPORT AND REPORT ON CORPORATE GOVERNANCE

As required in terms of the Listing Agreement with the Stock Exchanges, a Management Discussion and Analysis Report and a Report on Corporate Governance are annexed forming part of this Report.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 217(2AA) of the Companies Act, 1956, the Directors state as follows :-

1. That in the preparation of the annual accounts for the financial year ended 31st March 2006, the applicable accounting standards had been followed with no material departures;
2. That the Directors had selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period;



3. That the Directors had 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;
4. That the Directors had prepared the annual accounts on a going concern basis.

CONSERVATION OF ENERGY AND TECHNOLOGY ABSORPTION

A statement giving details of conservation of energy and technology absorption in accordance with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988, is annexed.

EMPLOYEE RELATIONS

Your company has a large workforce in its Tea Estates. The Company continued to have cordial and harmonious relations with its employees.

The Board of Directors wish to record its appreciation for the dedication and support received from the employees at all levels throughout the period under review.

Particulars of employee/s required under Section 217(2A) of the Companies Act, 1956 are given in the Annexure forming part of this Report.

Kolkata, 30th June 2006

For and on behalf of the Board

A. Khaitan – *Managing Director*
K. K. Baheti – *Wholetime Director*

Annexure to the Directors' Report 2005-2006

Information in accordance with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988, and forming part of the Directors' Report for the year ended 31st March 2006.

A. CONSERVATION OF ENERGY

- i) The Company has been installing energy efficient coal fired boilers since 2005 and six of our Tea Factories have been provided with these boilers producing 91.00 lakh kgs. of tea.
- ii) In order to conserve the petroleum fuel the Company has converted tea drying in nine Estates producing 105.00 lakh kgs. from furnace oil to coal using energy efficient coal stocks.
- iii) Utilisation of captive generating sets have been rationalized with improved efficiency and lesser consumption of fuel.
- iv) The energy consumption for domestic purposes has been rationalized through creation of awareness and regular monitoring.

B. POWER & FUEL CONSUMPTION

	Year ended 31.03.2006	Year ended 31.03.2005
1. Electricity		
(a) Purchased :		
- Units (Kwh)	36396256	24547845
- Total Amount (Rs.)	226222811	147751692
- Rate / Unit (Rs.)	6.22	6.02
(b) Own Generation :		
Through Diesel Generator		
- Units (Kwh)	19943205	11722424
- Units per Ltr of Disel Oil	2.80	2.87
- Cost / Unit (Rs.)	10.53	8.59
2. Coal		
- Quantity (Tonnes)	8520	5726
- Total Amount (Rs.)	25639433	14327358
- Average Rate (Rs.)	3009.32	2502.31
3. Furnace Oil		
- Quantity (Litres)	10123143	6905810
- Total Amount (Rs.)	216324029	112623585
- Average Rate (Rs.)	21.37	16.31
4. Total Power and Fuel consumption per unit of production of Tea		
- Saleable Production - Tea (Kgs)	64653994	40114221
- Electricity (Kwh)	0.87	0.90
- Furnace Oil (Litre)	0.16	0.17
- Coal (Kg.)	0.13	0.14
- Others (Rs.)	0.78	0.75

C. RESEARCH AND DEVELOPMENT

The Company continues with the policy of reviewing clone blend to improve the yield and quality of teas being planted.

Vermi Compost is being developed by the Estates to improve upon the organic status of the soil. This will result in improved yield in all areas of planted or replanted in the years to come. This being a long-term process will be carried on with required improvement from time to time, in future.



Expenditure on R&D :

	Year ended 31.03.2006	Year ended 31.03.2005
(a) Capital	Nil	Nil
(b) Recurring (Rs. in Lakh)	69.85	47.53
(c) Total	69.85	47.53
(d) Total R&D Expenditure as % of turnover	0.14	0.15

D. TECHNOLOGY ABSORPTION, ADAPTATION & INNOVATION

1. The Company undertakes modernization and upgradation of factory on regular basis with improved technology.
2. Seminars and group discussions with the feed back from the field workers are regularly held.
3. Effective Staff training with the definite approach towards improvement of their efficiency are conducted routinely.
4. Innovative achievements of the operating people in the agriculture and manufacture of tea are highly encouraged in the Company's interest.

E. FOREIGN EXCHANGE INCOME & OUTGO

During the year the Company's direct exports were 11.13 million kgs. (2004-05 : 5.25 million kgs.) of Tea.

	Year ended 31.03.2006 Rs. lakhs	Year ended 31.03.2005 Rs. Lakhs
Foreign Exchange Earnings	10649.36	4989.45
Foreign Exchange Outgo	672.19	349.39

Statement of particulars of Employees pursuant to the Provision of Section 217(2A) of the Companies Act, 1956.

Name	Designation/ Nature of Duties	Remuneration (Rs. in Lakhs)	Qualifications	Experience (Years)	Date of Employment	Age	Previous Employment/ Position held
Khaitan A	Managing Director	56.16	B. Com. (Hons.)	15	01.04.2005	38	N. A.
Takru R	Wholetime Director	30.36	B. Com. (Hons.)	31	01.04.2005	51	Eveready Industries India Limited Senior Vice-President
Monem A	Wholetime Director	26.98	B. Com. (Hons.)	26	01.04.2005	46	Eveready Industries India Limited Senior Vice-President
Baheti K K	Wholetime Director	29.82	B. Com. (Hons.) FCA., ACS., GRAD. CWA.	17	01.04.2005	43	Eveready Industries India Limited Vice-President

Notes :

1. Remuneration as shown above includes, inter alia, value of perquisites and Company's contribution to retiral funds as applicable.
2. The above employee were the Wholetime employees during the financial year ended 31 March 2006.
3. None of the above employees is related to any Director of the Company within the meaning of Section 6 of the Companies Act, 1956 except Mr. A. Khaitan, who is a relative of Mr. B.M. Khaitan and Mr. D. Khaitan.

For and on behalf of the Board

A. Khaitan – *Managing Director*
K. K. Baheti – *Wholetime Director*

Kolkata, 30th June 2006

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY STRUCTURE AND DEVELOPMENT

India is the largest producer of tea in the world, annually producing approximately over 900 million kgs, representing 28% of the world production of 3.2 billion kgs. The other main producing countries are China with over 750 million kgs. (mainly green tea), Sri Lanka with 315 million kgs. and Kenya with 325 million kgs. During the last decade, Indonesia and Vietnam have also emerged as important producers with production of approx. 100 million kgs. each.

During 2005 almost all tea producing countries registered higher production when global and Indian tea production increased by around 50 million kgs. and 35 million kgs. respectively. The tea production in India during 2005 was at its peak at 928 million kgs. due to favourable climatic conditions.

During the last few years, exports out of India have been languishing owing to the low international prices particularly for teas from Africa and Vietnam. This has also resulted in cheap imports into India for re-exports thus affecting domestic price levels. With the Tea Board's active participation in curbing inferior quality teas from being imported there has been a gradual shift in the image of Indian tea abroad which now is no longer viewed as a supplier of cheap teas. As a result more of Indian teas are being exported to countries such as Iraq, Pakistan and Middle East. This has resulted in a significant fall in the level of imports for re-exports to 31 million kgs. in 2004 compared to 16 million kgs. in 2005. Although overall exports during 2005 were lower at 188 million kgs. the net exports were higher at 172 million kgs. compared with 167 million kgs. in the earlier year.

Due to increased availability of tea, the tea prices in India had witnessed a declining trend. However, since November 2005, due to strong domestic demand, tea prices slightly firmed up still leaving the overall auction prices for the year lower than the previous year by about Rs.8/- per kg.

Over the last few years Indian teas have suffered significantly in the export market and this has brought to light the Industry's comparative low level of competitiveness due to lower productivity and higher levels of labour and social costs. These aspects have been receiving serious attention of the Commerce Ministry and the State Governments.

The Commerce Ministry had recently announced support for promotion of Orthodox teas to increase exports and a Special Purpose Tea Fund (SPTF) for encouraging replanting and rejuvenation of tea bushes is in the process of formulation. Recent announcement by the Government of West Bengal for deferment of Agricultural tax for a period of three years is another welcome step. It is hoped that similar measures will be taken by the Government of Assam to help the Industry.

OPPORTUNITIES AND THREATS

India is the largest consumer of tea with tea consumption growing by almost 3% per annum. The domestic consumption was estimated at 790 million kgs. during 2005 and is likely to go up to 815 million kgs. during the year 2006. Despite this large volume of consumption, the per capita consumption of tea in India is still very low and offers a significant potential for the industry. The recent steps taken by Tea Board and the Industry to promote tea in the domestic market highlighting the health qualities should further accelerate growth in consumption. The improved road connectivity in the rural areas resulting from the implementation of the Pradhan Mantri Gram Panchayat Yojna is beginning to offer more opportunities for promotion of tea in the rural markets where purchasing power is gradually rising.