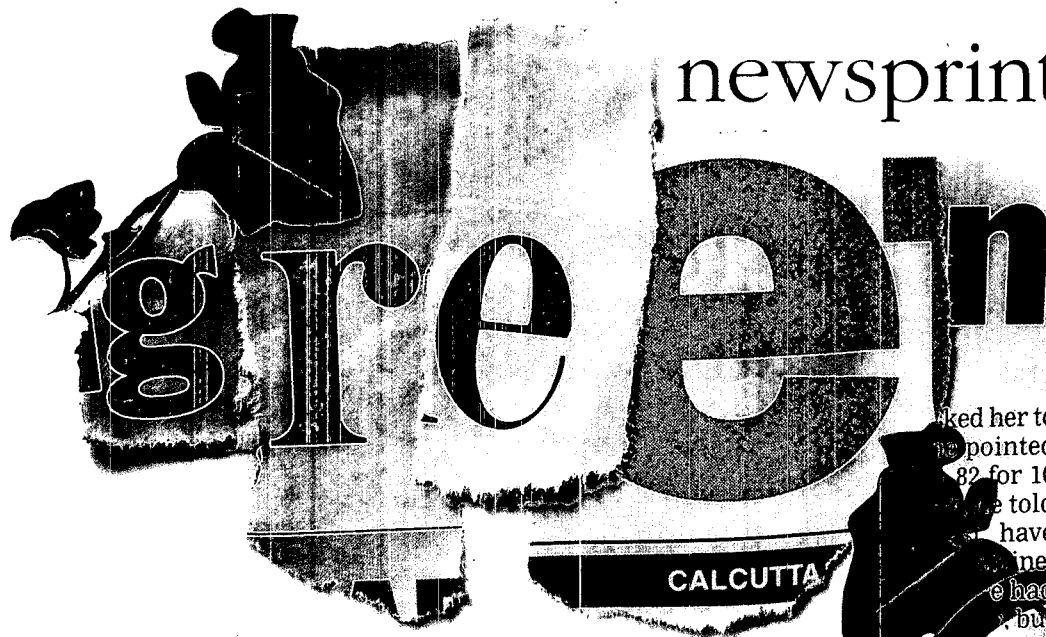


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* Emami Paper Mills Limited
Annual report, 2006-07

Forward-looking statement

In this annual report, we have disclosed forward-looking information to help investors to comprehend our prospects and take informed investment decisions. This report is based on certain forward-looking statements that we periodically make to anticipate results based on the management's plans and assumptions.

We have tried wherever possible to identify such

statements by using words such as 'anticipates', 'estimates', 'expects', 'projects', 'intends', 'plans', 'believes', and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even

inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected.

We undertake no obligation to publicly update or revise forward-looking statements, whether as a result of new information, future events or otherwise.

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Corporate Information

Board of Directors

Shri R. S. Goenka (*Executive Chairman*)

Shri R. S. Agarwal

Shri A. C. Gupta (*Managing Director*)

Shri S. K. Khaitan

Shri A. V. Agarwal

Shri Manish Goenka

Shri P. S. Patwari (*Executive Director*)

Shri S. K. Todi

Shri U. G. Bhat

Shri N. Mishra

Shri J. N. Godbole

Shri S. C. Saha (*IDBI nominee*)

Vice-president (Finance) and Secretary

Shri G. Saraf

Auditors

M/s. S. K. Agrawal & Company

Chartered Accountants

4A, Council House Street,

Kolkata 700 001.

Unit auditors

M/s. Salarpuria Jajodia & Company

Chartered Accountants

7 C R Avenue, Kolkata 700 072.

Cost Auditors

M/s. V. K. Jain & Co.

Cost Accountants

8/1, Lalbazar Street

Kolkata 700 001

Bankers

State Bank of India

State Bank of Bikaner and Jaipur

Indian Overseas Bank

ICICI Bank Ltd.

Works

- Balgopalpur, Balasore 756 020 (Orissa).
- R. N. Tagore Road, Alambazar, Dakhineswar, Kolkata 700 035 (West Bengal).

Registered office

687, Anandapur,

E M Bye Pass

Kasba Golpark,

Kolkata 700 107

Email : emamipaper@emamipaper.in



M

anagement discussion and analysis

Industry structure

The world consumes 40 million tons of newsprint annually. The global demand reached a record level in 2006, indicating that newsprint consumption is linked to global GDP growth. Over the past three years (2003-06) demand grew by 3.7 million tonnes or 5.5 per cent.

The Indian paper industry continues to outperform the global paper market. Demand in India for newsprint, writing and printing paper grew at a cumulative 8 per cent in 2006-07. This robustness is expected to sustain for the following reasons:

- India's per capita consumption of paper is among the lowest in the world at 4.5 kg compared with China's 28.3 kg, Asian average of 26.9 kg and a global average of 52.6 kg. Going ahead, this aberration is expected to correct with speed.
- India's demand for paper is expected to grow from six million tonnes to eight million tonnes by 2010 and 11 million tonnes by 2015, driven principally by the 'education for all' programme

of the government, a buoyant economy and media growth.

The Asian newsprint industry

Rising literacy and affluence have driven newsprint consumption in Asia. Demand in the non-Japan Far East increased by about 5 per cent in 2006. China and India continued to show strong growth at 7 per cent and 12 per cent respectively.

China evolved from being a net newsprint importer to a net exporter in 2006 because its new capacity exceeded demand growth. Realisations in China declined in 2006 as a result of capacity increases and a weaker market balance. The Chinese export tonnage was primarily directed at the other Asian markets. As a region, Asia remained dependent on substantial imports.

The newspaper industry in Asia remained unaffected by the problems of a stagnating market and declining circulation plaguing the newspaper industry in the West. In fact, the industry is expected to grow in the next 5-10

years, according to a 2006 report by IFRA, the world's leading association for newspaper and media publishing.

Indian overview

India is one of the few global markets where newspaper sales are rising rapidly. Annual newsprint consumption is estimated at 1.70 million tonnes and domestic production is only 0.90 mn tonnes, leaving room for significant imports.

While India's paper sector is expected to grow at a CAGR of 6-7 per cent for the next five years, demand for writing and printing paper is expected to increase at a CAGR of 4.8 per cent – 5.6 per cent.

Key demand driver

The principal demand drivers of the Indian Newsprint industry comprised the following :

Literacy: According to a survey by the National Readership Studies Council released in August 2006, the number of people in India who read newspaper every day grew by 12.6 million

people in a year to 203.6 million (6%) on account of higher literacy and affordability. With India's population growth expected to reach 1.3 billion by 2020, literacy levels are projected at over 70 per cent, influencing newsprint demand.

Market growth: India's media and entertainment industry is growing, the print media being preferred by investors. The Paris-based World Newspaper Association described India as a 'newspaper power' with the largest circulation of dailies in the democratic world and a thriving free press. India's 2,130 dailies enjoyed a whopping circulation of 8,88,63,048 copies (source: Registrar of Newspapers for India, 2006).

Fresh investments: Print media majors are reinvesting in their brands and production capacities. In the last few years, *Hindusthan Times*, *Deccan Chronicle* and *Dainik Jagran* chose to go public, indicating an appetite for funds and onward deployment.

Advertising boom: The Indian print media

success story is being driven by increased advertising revenues and rising economic growth. Print media advertising revenues are expected to increase by 13 per cent from Rs.128 billion in 2007 to Rs.232 billion in 2011 (source: FICCI).

Preference for print: In India, readers prefer news in print form over the internet.

Outlook

The domestic demand for paper is expected to grow at a CAGR of 6.6 per cent over the next five years.

Your Company is likely to benefit substantially following the commissioning of its new project in September 2007, enhancing installed capacity from 85,000 TPA to 145,000 TPA. Depending on market conditions, your Company plans to increase its production of writing and printing paper as well.

Opportunities and threats

Economic development is considered to be an important driver of demand for paper, directly



Your Company will be able to meet the above challenges and manage the constraints through upgradation of technology, focusing on cost control measures and make use of the opportunities for achieving growth in terms of capacity additions, turnover and profits.

linked with population growth, increased urbanisation and higher literacy.

India's low per capita consumption of paper is expected to increase with growth in living standards, literacy and IT usage.

Over the last decade, Asia's surpassed North America and Western Europe to emerge as the largest newsprint consuming region, accounting for 31 per cent of the world's newsprint.

Threats include a probable downward trend in global prices on account of increased competition from Canada, China, Malaysia and Indonesia as well as changes in the raw material to recycled fibre.

To survive in a competitive international market, the Indian paper industry will need to focus on cost reduction, conservation of energy, environment protection, quality upgradation and continuous productivity improvement.

Review of operations

This has been dealt with in the Directors' Report and annexed to the audited annual accounts.

Risks and concerns

- China enhancing its economies of scale.

- Increase in raw material price (waste newspaper) could affect affordability.

Your Company will be able to meet the above challenges and manage the constraints through the upgradation of technology, focusing on cost control, capacity addition leading to a growth in turnover and profits.

Internal control systems and their adequacy

Your Company continues to ensure proper and adequate systems and procedures commensurate with its size and nature of the business. This control system ensures that:

- All assets are safeguarded and protected against any loss, wastage and unauthorised usage or disposition.
- All transactions are authorised, recorded and reported correctly.
- Accounting records are properly maintained with an adequate internal control system which is properly documented with policy guidelines, authorisation and approval procedures.
- Reliable financial statements are prepared according to an established Management Information System (MIS).

These internal control systems are subject to

review by the Audit Committee and Board of Directors. Your Company's statutory auditors, in their report, confirmed the adequacy of the internal control procedure adopted by the Company.

Your Company's extensive system of internal controls comprises the following features:

- Clearly defined organisational structure.
- Transparency in all spheres of activities in line with the Quality Management System.
- Adherence with and monitoring of the internal control system through independent internal auditors reporting directly to the Audit Committee, which reviews the functioning and findings of the Audit Department.

Your Company received the TPM Excellence Award in the first category from Japan Institute of Plant Maintenance (JIPM), Japan. It is in the process of getting the ISO 14001 and OHSAS 18001 certifications for its Balasore and Kolkata units. Its internal audit system and procedures were certified as ISO 9001:2000 compliant by Det Norske Veritas, Netherlands.

Human resource development

- The development of people skills is critical to success. In view of this, the Company formulated a human resource development strategy comprising need-based training.

Employees were sponsored to attend seminars, lectures and training programmes organised by professional trade bodies. It rewarded employees through recognition and awards.

- Key performance indicators by all Heads of Departments were subjected to a management review at the monthly management review meetings.
- The Company enjoyed harmonious industrial relations in 2006-07.

Cautionary statement

Statement in the 'Management Discussion and Analysis' describing the Company's objectives, projections, estimates, expectations or predictions may be 'forward looking statements' within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. The important factors that could make a difference to the Company's operations include global and Indian demand and supply conditions, finished goods prices, raw material availability and prices, cyclical demand, changes in the Government regulations, environmental laws, tax regimes, economic developments within India and the world as well as other factors such as litigation and industrial relations.




Directors' Report

To
The Members of
Emami Paper Mills Limited

Your Directors take pleasure in presenting their twenty-fifth Annual Report together with the Audited Statement of Accounts for the year ended 31st March 2007.

Financial results

		2006-07		2005-06
Sales		15871.00		13567.72
Profit before interest, depreciation and exceptional items		4170.83		2710.79
Less: Interest (net)		748.44		309.99
		3422.39		2400.80
Depreciation	1143.19		823.84	
Less: Transfer from revaluation reserve	121.59	1021.60	144.61	679.23
Profit before tax and exceptional items		2400.79		1721.57
Add: Exceptional items				
Profit on sale of long term investments		513.99		4961.59
Profit before taxation		2914.78		6683.16



Operations and outlook

During the year under review, production increased by 11 per cent from 50679 MT in 2005-06 to 56300 MT in 2006-07 and your Company recorded a 17 per cent growth in the turnover from Rs.135.68 crores in 2005-06 to Rs.158.71 crores in 2006-07.

Profit before depreciation and tax substantially increased by 43 per cent from Rs.24.01 crore in 2005-06 to Rs.34.22 crore in 2006-07.

The improvement in the performance is attributed to a sustained buoyancy in the domestic demand for newsprint and paper, increased productivity and all round improvement in efficiency.

Your Company is optimistic of a robust growth in the demand for newsprint and with the commissioning of its expansion project in September 2007, its performance will improve significantly.

Environment management

The importance of clean production cannot be over-emphasized in paper manufacture.

Your Company is totally committed to protect the environment, uphold human safety and promote people's health. It is with this view that the management of your Company

institutionalised its environment management through enunciated policies pertaining to the environment, safety, quality and energy. The principal features of the policy comprised:

- Compliance with all relevant legislative requirements.
- Reduction in pollution load through the rationalisation of liquid discharge and air emission on the one hand as well as land conservation on the other.
- Conservation of energy and preservation of natural resources like water, raw material and fuels.
- Enhanced cross-organisational awareness in the areas of environment, safety and health.
- Promotion of meaningful programmes to propagate health and environmental safety.

The management considers this environment policy as an index to a genuine and sustainable development. In fact, your Company can confidently assert that it is among the most environmentally compliant paper mills in India, which is the result of a series of measures covering process changes, proactive investment in effluent treatment plants, sludge dewatering system as well as the efficient management of solid wastes through recycling

and continuous monitoring. The result of this priority was reflected in declining water consumption and the responsible management of effluents in line with the norms of the Orissa State Pollution Control Board.

During the year under review, your Company invested Rs.21.25 crore in the installation and commissioning of a sludge dewatering system and effluent treatment plant. The sludge dewatering system which burns waste sludge in the boiler, is the first of its kind in India and will help reduce the cost of coal in the boiler on the one hand and reduce carbon emissions on the other. It will be relevant to indicate that the sludge dewatering system is aligned to the forward-looking requirements of the Clean Development Mechanism.

Your Company appointed Ernst & Young as a consultant for this environment-friendly project, which was inspected and appreciated by a senior official from the Orissa State Pollution Control Board, going ahead, this project expects to earn certified emission reductions, which will translate into attractive income. Besides, the mill is in the process of readying itself for a complete compliance with the ISO 14001 (Environment Management System) certification.

Rs./Lakhs

	2006-07	2005-06
Less : Provision for current taxation	291.36	128.51
Provision for fringe benefit tax	11.08	11.83
Income tax for earlier years	(1.08)	0.22
Provision for deferred tax	297.73	152.88
Profit after Tax	2315.69	6389.72
Add: Surplus brought forward	1534.03	115.17
Balance available for appropriation	3849.72	6504.89
Appropriations		
Interim dividend	242.00	-
Proposed Final dividend	121.00	544.49
Tax on dividend	54.50	76.37
Transfer to general reserve	2000.00	4350.00
Balance carried forward	1432.22	1534.03
	3849.72	6504.89

Dividend

During the year, your Company declared and paid an interim dividend of 20%. Your Directors are pleased to recommend a final dividend of 10per cent for the financial year ended 31st March 2007, making a total dividend of 30per cent i.e. Rs.0.60 per share. The dividend, if approved by the shareholders, will result in an outgo of Rs.417.50 Lakhs (including the dividend tax of Rs.54.50 Lakhs). Last year, the Company paid a normal dividend of 20per cent and a Special Dividend of 25per cent on the occasion of 'Silver Jubilee Year' of the Company.

Mill Development Plan (MDP)

Your Company reported a substantial progress in the implementation of the new project. The relevant features of this new addition are:

- Rs.330 crore project funded through external commercial borrowings of US\$ 49.5 million (Rs.220 crore) and balance Rs.110 crore through internal accruals.
- Will increase production capacity from 60,000 TPA to 145,000 TPA

The facilities proposed to be installed under the MDP are:

- A state-of-the-art paper machine of 85000 TPA imported from U.S.A.
- A new de-inking plant from VOITH, Germany with a de-inked pulp production capacity of 100,000 TPA.
- A new coal fired boiler of 85 TPH capacity.
- A 15 MW capacity turbo alternator.
- 132 KV EHT line for supply of 14 MVA Power.
- Water recycling schemes.
- Rain water harvesting structures for ground water recharging.

The investment will enable the Company to

modernise its manufacturing operation and enhance its environmental compliance in line with international standards. The project is scheduled for commissioning in September 2007.

New business development

In March 2007, your Company entered into a Memorandum of Understanding with the Chhattisgarh Government for a phased investment of Rs.1600 crore in a four million TPA cement plant and 100 MW captive power plant.

The techno-economic feasibility report for the cement plant was prepared by ERCOM Engineers Pvt. Ltd., (New Delhi). A separate company in the name of Emami Cement Ltd has been incorporated for the purpose. The grant of a mining lease is expected from the Government of Chhattisgarh.

Change in registered office

The registered office of your Company has been shifted from Taher Mansion, 8, Bentinck Street(10th Floor), Kolkata 700 001 to 687, Anandapur, E. M. Bye Pass, Kolkata 700 107, effective from 1st February 2007.

Group for interse transfer of shares

As required under Clause 3(1)(e) of the

Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 persons constituting "Group" (within the meaning as defined in the Monopolies and Restrictive Trade Practices Act, 1969) for the purpose of availing exemption from applicability of the provisions of Regulation 10 to 12 of the aforesaid Regulations, are given in the Annexure IV attached herewith and forms part of this Annual Report.

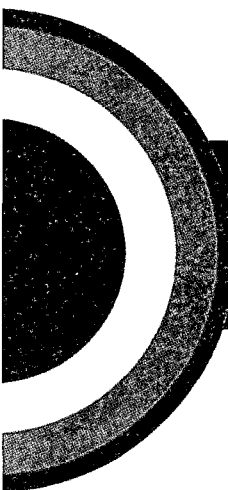
Corporate governance

The sections of Corporate Governance and Management Discussion and Analysis are set out as Annexure-III in this report.

Directors' responsibility statement

Your Directors have

1. Followed the applicable accounting standards in the preparation of the annual accounts;
2. Selected prudent accounting policies;
3. 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 your Company as well as preventing



fraud and other irregularities; and

4. Prepared the annual accounts on a going concern basis.

Deposits

There were no unclaimed or unpaid deposits at the close of the year under review.

Directors

Sri M. L. Jain resigned from the directorship of the Company with effect from 17th March 2007. Your Directors wish to place on record their gratitude for his guidance and advice during his tenure as Director of the Company.

Sri J. Godbole was appointed as an Additional Director of the Company with effect from 17th March 2007 under Section 260 of the Companies Act, 1956, to hold office till the date of the ensuing Annual General Meeting. Notice under Section 257 of the Companies Act, 1956, was received by the Company from members signifying their intention to propose Sri J. Godbole as a candidate for the Office of

Directors.

Sri R. S. Goenka, Sri A. C. Gupta, Sri S. K. Todi, Sri Manish Goenka and Sri S. K. Khaitan retire by rotation and, being eligible, offer themselves for re-appointment.

Auditors' report

The observations made in the Auditors' Report are self-explanatory and therefore do not call for any further comments.

Auditors

M/s. S. K. Agarwal & Company, Chartered Accountants, retire at the forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment. M/s. Salarpuria Jajodia & Co. have expressed their willingness to continue as Unit Auditors for the Gulmohar Unit, if appointed.

Energy, technology and foreign exchange

Information pursuant to Section 217(1)(e) of the Companies Act, 1956, are given in

Annexure-I attached to the Report.

Personnel

Information pursuant to Section 217(2A) of the Companies Act, 1956, is given in Annexure-II attached to this Report.

Acknowledgement

The Board acknowledges the understanding and support shown by its lending financial institutions, banks, distributors, customers, suppliers, employees and other business associates. Your Company operated efficiently due to a culture of professionalism, integrity and continuous improvement leading to sustainable and profitable growth.

For and on behalf of the Board

Kolkata
29th June 2007

R. S. Goenka
Executive Chairman

Annexure - I to the Directors' Report

Information under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, and forming part of the Directors' Report for the year ended 31st March 2007.

A. Conservation of energy

i) Energy conservation measures taken:

1. Paper machine capacity utilisation was enhanced by increasing the machine speed in PM-I (from 215 mtr/min to 290 mtr/min) and PM-II (415 mtr/min to 450 mtr/min) with a marginal increase in power consumption leading to savings in specific energy consumption. The following measures helped to conserve energy :

- a) Vapor hood was installed in PM-I
 - b) The press part in PM-I was upgraded to facilitate a higher nip load to reduce specific steam consumption and increase paper machine speed.
 - c) The dewatering elements in PM-II was modified by adding highly efficient duo-flow box and replaced two numbers high-drag dry-suction boxes with Tri-vac with ceramic tops.
2. The online basis weight and moisture gauges were installed in PM-I and optimised

moisture content was maintained, resulting in the conservation of steam in the dryers.

3. Capacity utilisation of the power plant(5 MW) was raised from 80 per cent to 100 per cent without changing the quality of coal, resulting in a conservation of fossil fuel.

4. Replacement of old pumps with efficient ones and old motors with new energy efficient motors.

5. The optimisation of excess air in boilers through the use of online analysers to reduce heat loss.

6. Reducing radiation heat loss by Insulating Steam and Condensate Pipes and Condensate Tanks.

7. Close monitoring of the impeller of cooling tower recirculation pump to reduce the head and energy consumption.

8. Installation of soft starters in the pulper motors to reduce starting current.

9. Use of energy-efficient vacuum pump.

10. Monitoring of coal screening in the coal handling to restrict load on the coal crusher.

11. Continued use of treated effluents for internal use in the pulp mill section and washing throughout the plant.

12. Monitoring and use of a flash system for drying the paper through modified condensate

removal system to achieve 75 per cent condensate return to boiler.

13. The Company commissioned a state-of-the-art effluent water treatment plant in March 2007. The new system is equipped with water pollution control equipments like the diffused aeration system of 10500 M³/day capacity, a primary clarifier, a secondary clarifier, sludge dewatering system for solid waste recycling and resource recovery system. This plant improved water clarification and final discharge quality for land irrigation, water recycling and optimised specific energy consumption.

14. Rain water harvesting structures to replenish ground water.

ii) Additional investment and proposal for a reduction in energy consumption

1. PM-II pulp conveyor of higher width to accelerate loading.
 2. Water conservation schemes to reduce fresh water and energy consumption.
 3. Capacitors for improving the power factor.
- Suitable investments are being made in these areas as and when required.

iii) Impact of the measures

The above measures have resulted in the reduction of power consumption, cost of production and increase in profitability.

iv) Power and fuel consumption

Form "A"

Form for the Disclosure of Particulars with respect to the conservation of energy.

Power and fuel consumption		2006-07	2005-06
1. Electricity:			
(a) Purchased units (in Lakhs)	Kwh	138.95	110.50
Total amount	Rs. in Lakhs	553.85	482.41
Rate/unit	Rs./Kwh	3.99	4.37
(b) Own generation (through steam turbine) (in Lakhs)	Kwh	399.11	338.14
Variable cost	Rs. in Lakhs	786.24	746.01
Rate/unit	Rs./Kwh	1.97	2.21
2. Coal:			
Quantity	MT	78042	72419
Total cost	Rs. in Lakhs	961.45	847.34
Average rate	Rs./MT	1232	1170
3. Furnace oil			
	Ltrs	-	-

Consumption per unit of production		2006-07	2005-06
Electricity	Kwh	*856	788
Furnace oil	Ltrs	-	-
Coal	Kgs/MT	1386	1429

* Specific electricity consumption increased due to higher consumption in PM-I de-inking plant.

B. Technological absorption

i) Research and development

a) Specific areas in which R&D is carried out by the Company:

- Trial conducted in the colour and shade of ledger paper.

- Trials conducted on reduction of stickies problem in machines.

- Trials conducted on cationic starch to optimise its impact on the elimination of lint on the blanket of the printing machine.

- Improving the using primary sludge from the

effluent treatment plant as fuel in the boiler.

- Sustained efforts to reduce water consumption and pollution load and improving the effluent treatment system.

b) Benefits derived as a result of the above:

- Improved product qualities.

- Reduction in the cost of production.
 - Improvement in the overall process economy.
- c) Future plan of action
- Continuous improvement in the product quality.
 - Continuous efforts in waste minimisation.
 - Exploring the use of a cheaper variety of imported waste paper.
 - Replacement of hypochlorite with suitable enzyme bleaching chemicals without affecting paper brightness.
 - Use of enzyme de-inking in place of the conventional surfactant-based chemicals to reduce the BOD load in the effluent treatment plant.
- d) R&D expenditure
- No separate accounting for Research and Development activities was made as the same was connected with process and product development.

ii) Technology absorption, adaptation and innovation

(a) Efforts, in brief, made towards technology absorption, adaptation and innovation.

- Sludge dewatering system installed and commissioned to increase the dryness of sludge to above 50%.
- The coal-fired reactor was provided with the facility to handle fiber sludge.
- Installation of new drainage elements on wire part to improve drainage on wire and speed of PM-2 from 400 mtr/minute to 450 mtr/minute.
- Installation of fly ash brick manufacturing plant for utilising fly ash. The fly-ash bricks were accepted well in the market due to their superior quality and higher strength. Further, only fly ash bricks were used for in-house construction.
- Improvement in the fibre recovery system and overall quality of newsprint.

(b) Benefits derived as a result of the above efforts, e.g. product improvement, cost reduction, product development, import substitution etc.

- Improved product leading to increased market share.
- Enabling the Company to increase productivity, improve quality, reduce specific chemical consumption and minimise utilities to economise production cost.
- Particulars of technology imported during the last five years – Nil

iii) Foreign exchange earning and outgo

(Rs. in Lakhs)

	2006-07	2005-06
Export	-	20.71
Total foreign exchange used	8407.10	5378.80
Total foreign exchange earned	-	20.71

Annexure- II to the Directors' Report

Information as per Section 217(2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the year ended 31st March 2007.

Part- I

Sl.no	Name and age	Qualification	Designation	Date of joining	Experience (in years)	Remuneration (Rs)	Previous employment
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A Employment throughout the year

1	R.S. Goenka (60)	M.Com. LLB	Executive Chairman	01.09.94	37	3375000	Advisor, Kemco Chemicals
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Annexure - III to the Directors' Report

C Report on Corporate Governance

1. Company's philosophy on Code of Governance

The Company's philosophy on Corporate Governance refers to a professional system of management leading to the efficient conduct of business. This comprises transparency and accountability with the objective of serving the best interest of all the stakeholders – shareholders, customers, lenders, employees, the Government and the society.

2. Board of Directors

Composition

The composition of the Board of Directors and other details are as under:

Name of the Director	Executive/ Independent/ Non-executive	No. of Board meetings attended	Attendance at previous AGM on 14.07.2006	No. of outside Directorships held	No. of membership/ Chairmanship in other Board/Committee
Sri R.S. Goenka	Chairman, Executive	6	No	13	3
Sri A.C. Gupta	Managing Director, Executive	5	Yes	-	-
Sri R.S. Agarwal	Non Executive	6	No	12	3
Sri S.K. Khaitan	Non Executive, Independent	6	No	7	5
Sri S.K. Todi	Non Executive, Independent	6	No	18	2
Sri P.S. Patwari	Executive	6	Yes	-	-
Sri Manish Goenka	Non Executive	6	Yes	6	-
Sri A.V. Agarwal	Non Executive	6	Yes	12	1
Sri M.L. Jain *	Non-Executive, Independent	5	Yes	-	-
Sri U. G. Bhat	Non-Executive, Independent	4	No	2	-
Sri S. C. Saha	Nominee of IDBI, Independent	4	No	3	-
Sri N. Mishra	Non-Executive, Independent	5	No	1	2
Sri J. Godbole**	Non Executive, Independent	1	No	7	-

* Resigned w.e.f. 17.03.2007 • ** Appointed as Additional Director w.e.f. 17.03.2007

During the year, six Board meetings were held on 18th May 2006, 24th July 2006, 13th September 2006, 27th October 2006, 31st January 2007 and 17th March 2007.

3. Information placed before the Board of Directors

As required under the Clause 49 all the informations were placed before the Board.

4. Code of conduct

The Board framed a code of conduct for the Company. It designated the Managing Director as Chief Executive Officer(CEO) and Executive Director as Chief Financial Officer(CFO) for the purpose of Corporate Governance.

The CEO and CFO informed the Board that provisions of this code have been complied by the members of the Board and Committees and

employees working at the level of Executives and above. A declaration signed by the CEO and CFO in this regard is annexed at the end of this Report.

5. Audit Committee

The terms of reference of the Committee cover the matters specified for the Audit Committee under Clause 49 of the Listing Agreement with the Stock Exchanges and Section 292A of the Companies Act, 1956. In view of resignation of Sri M. L. Jain, Chairman of the Audit Committee, the Committee was reconstituted and Sri J. Godbole was inducted as a member. The Audit Committee presently consists of Sri S. K. Todi as Chairman, Sri R.S. Agarwal and Sri J. Godbole as other members. All of them are Non-Executive Directors and two of them are Independent Directors.

a) Brief description of terms of reference

The role of the Audit Committee and its terms of reference comprised review of the operations, financial management, audit plan, audited quarterly, half-yearly/annual returns, findings of internal/statutory auditors and compliance of the policy decisions of the Company with all the powers and authorities as mentioned in Clause 49 of Listing Agreement with the Stock Exchanges and / or SEBI guidelines from time to time. The Audit Committee also acts as a link between the Board of Directors and the Statutory / Internal Auditors.

b) Composition, name of members and Chairman

The attendance of each member Director at the Audit Committee meeting held during the financial year 2006-07 is furnished below:

Sr. No.	Name of Director	Position	Audit Committee meeting	
			Held	Attended
01.	Sri M. L. Jain	Chairman, Non-Executive Independent Director	4	4
02.	Sri R. S. Agarwal	Member, Non-Executive Director	4	4
03.	Sri S. K. Todi	Member, Non-Executive Independent Director	4	4

The above meetings were held on 18th May 2006, 24th July 2006, 27th October 2006 and 31st January 2007. In view of the resignation of Sri M. L. Jain, Chairman from 17th March 2007, the Audit Committee was reconstituted as under :

Sri S. K. Todi	Chairman
Sri R. S. Agarwal	Member
Sri J. Godbole	Member

The Chairman of the Audit Committee, Sri M. L. Jain, was present at the Annual General Meeting of the Company held on 14th July 2006. Sri P.S. Patwari, Chief Financial Officer (CFO), statutory auditors and internal auditors are permanent invitees to the

committee's meetings. The Company Secretary acts as the Secretary of the Committee.

6. Remuneration Committee

The Remuneration Committee was reconstituted at the Board meeting held on 17th March 2007 in view of the resignation of Sri M. L. Jain, member. Sri J. Godbole was substituted in the Committee as a member in place of Sri M. L. Jain.

The present Remuneration Committee consists of the following Non-Executive Independent Directors:

a. Sri S. K. Todi	Chairman
b. Sri J. Godbole	Member
c. Sri S. K. Khaitan	Member

a) Remuneration policy

The Remuneration Policy of the Company rewards performance based on achievement and existing industry benchmarks. The remuneration of the Executive Directors is governed by the terms and conditions approved by the Remuneration Committee, the Board of Directors, the shareholders and the Central Government (if required). The remuneration structure comprises salary and commission linked to profits, perquisites and allowances, contribution to Provident Fund, super annuity and gratuity as per Schedule XIII and other applicable provisions of the Companies Act 1956.

b) Remuneration paid to the Directors of the Company for the year ended 31st March 2007.

(Amount in Rs.)

Name of Directors	Salary	Provident fund	Perquisites and allowances	Total
Sri R.S. Goenka	30,00,000	3,60,000	15,000	33,75,000
Sri A.C. Gupta	12,80,000	72,000	3,33,154	16,85,154
Sri P.S. Patwari	10,40,000	1,24,800	11,000	11,75,800

* Perquisites include leave travel assistance, reimbursement of medical expenses, cost of accommodation including rent, maintenance, electricity etc.

Remuneration to Non-Executive Directors:

- They are paid only sitting fees for attending Board / Committee meetings.
- Directors who are in wholtime employments of the Company, are not paid any sitting fees.

Sitting fees paid to each of them for attending Board/Committee meetings were as follows:

Name of the Directors	Total rupees
Sri R. S. Agarwal	50,000
Sri M. L. Jain	50,000
Sri S. K. Khaitan	35,000
Sri U. G. Bhat	20,000
Sri S. K. Todi	55,000
Sri Manish Goenka	30,000
Sri A. V. Agarwal	30,000

Name of the Directors	Total rupees
Sri S. C. Saha	15,000
Sri N. Mishra	25,000
Sri J. Godbole	5,000

7. Shareholders' Committee

The Committee was constituted in 1989 to deal with matters relating to transfers/transmissions of shares and to monitor redressal of complaints from shareholders. In view of better governance, Sri M. L. Jain, an

Independent Non-Executive Director was assigned to head the Committee with effect from 30th April 2001, but in view of his resignation, Sri J. Godbole was inducted in the Committee as Chairman.

There was no complaint from any of the shareholders during the year.

Sri G. Saraf, Vice President (Finance) & Secretary is the Compliance Officer of the Company.

8. General body meeting

Location and time where the last three Annual General Meetings were held

Financial Year	Venue	Date	Time
2003 - 04	8 Bentinck Street, 10th Floor, Kolkata - 700 001	15.06.2004	11.00 a.m.
2004 - 05	Merchants Chamber of Commerce, 15b, Hemanta Basu Sarani, Kolkata - 700 001	20.07.2005	10.00 a.m.
2005 - 06	-do-	14.07.2006	10.00 a.m.

Whether special resolutions were passed in the previous three AGMs

The following special resolutions were passed in the previous three AGMs :

Year 2005-06

None

Year 2004-05:

Payment of remuneration and other perquisites

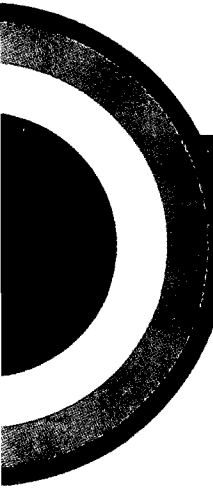
to Sri Ashish A. Gupta, Senior Vice President, holding or to continuing to hold a place of Office of Profit.

Year 2003-04

Alteration of the Object Clause in the Memorandum of Association of the Company. Besides the above, an Extraordinary General Meeting of the shareholders was held on 4th

December 2006 for seeking consent of the members of the Company for :

- Enhancing the borrowing limits under Section 293(1)(d) of the Companies Act, 1956, to a maximum limits of Rs.1000 crore.
- Enhancing the limit under Section 293(1)(e) of the Companies Act, 1956, to contribute and/or subscribe from time to time to any



national, charitable, benevolent public or general and other funds not directly relating to the business of the Company or the welfare of its employees upto an aggregate of Rs.5 crore.

The Company passed the following special resolutions in 2006-07 through postal ballot under Section 192A of the Companies Act, 1956, for:

- i. Under Section 372(A) of the Companies Act 1956, for making loans, giving guarantees or providing securities for any body corporate subject to a maximum limit of Rs.200 crore. 87.63 per cent of the total votes received were in favour of the resolution and no votes were received against the resolution.
- ii. Under Section 17 of the Companies Act, 1956, for insertion of new sub clause-B under Clause -III (main object clause) of the Memorandum of Association to carry on the business of manufacturers of and dealers and workers in cement, lime, plasters, mortar, marble, mosaic, tiles, whitening minerals, clay, earth, gravel, sand, coke, fuel, artificial stone and builders requisites of all kinds, nature and description. 87.63 per cent of the total votes received were in favour of the resolution and no votes

were received against the resolution.

The postal ballot was conducted by M/s. Sushil Tiwari & Associates, Company Secretary, Kolkata.

9. Subsidiary Company

The Company does not have any subsidiary company.

10. Disclosures

Related party transactions:

The Company has not entered into any transactions of material nature with the promoters, directors or the management, the subsidiaries or relatives, etc. that may have potential conflict with the interest of the Company.

Compliances by the Company:

There have been no cases of non-compliance by the Company or penalties/strictures imposed on the Company by the stock exchanges or SEBI or any other authority on any matter relating to capital markets during the last three years.

Accounting treatment in preparation of financial statement

The Company has followed the guidelines of Accounting Standards laid down by the

Institute of Chartered Accountants of India in preparation of financial statements.

Risk management

The Company has framed a comprehensive management policy not only to manage the risk but also to minimise the risk. This policy is periodically reviewed by the Management and updated as per requirement.

11. Management Discussion and Analysis Report

This Annual Report contains a separate and detailed Management Discussion and Analysis section.

12. Details of appointment/ reappointment of Directors

Sri R. S. Goenka, Sri A.C. Gupta, Sri S. K. Todi, Sri S. K. Khaitan and Sri Manish Goenka would retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for reappointment. Sri M. L. Jain resigned from the Directorship of the Company w.e.f. 17th March 2007. Sri J. Godbole, who was appointed as an Additional Director, is proposed to be appointed as a Director at the ensuing Annual General Meeting in accordance with the Companies Act, 1956.

The information pertaining to these Directors are as follows:

Name of Director	Age	Date of Appointment	Expertise in specific functional areas	Qualification	Chairman/Director of other Companies
Sri R.S. Goenka	About 60 years	23.10.2000	<p>An industrialist of repute with 40 years experience in strategic planning, finance, legal and corporate affairs.</p> <p>Major role in making Emami one of the most renowned brand in India.</p>	M.Com, L.L.B.	<ul style="list-style-type: none"> - Emami Limited - Emami Group of Companies Pvt.Ltd. - South City Project (Kolkata) Ltd. - Advance Medicare & Research Institute Ltd. - Suntrack Commerce Pvt. Ltd. - Merchant Chamber of Commerce. - Khaitan(India) Ltd - South City Parivaar Pvt.Ltd. - Susruta Clinic & Research Institute for Advance Medicines Pvt.Ltd. - Bhanu Vyapaar Pvt.Ltd. - Pro-sports Management Ltd. - Suraj Viniyog Pvt. Ltd. - Emami Realty Pvt.Ltd.

The information pertaining to these Directors are as follows (contd.):

Name of Director	Age	Date of appointment	Expertise in specific functional areas	Qualification	Chairman/Director of other companies
Sri S.K. Todi	About 64 years	05.04.2003	An industrialist of repute with extensive business experience including corporate planning, business development, strategy formulation and overall management.	M.Com.	<ul style="list-style-type: none"> - Advance Medicare & Research Institute Ltd. - Bengal NRI Complex Ltd. - Bengal Shrachi Housing Development Ltd. - Bengal Tools Ltd. - Bhaskar Shrachi Alloys Ltd. - South City Kolkata Projects Ltd. - Haldia Medicare Pvt.Ltd. - Hardeo Finance (P) Ltd. - Vinsan Properties (P) Ltd. - Khaitan(India) Ltd. - Emami Ltd. - Murlidhar Ratanlal Exports Ltd. - NSG Estate Service (P) Ltd. - Rosedale Developers (P) Ltd. - Web Development Co. Ltd. - Juhi Investment (P) Ltd. - Susruta Clinic & Research Institute for Advance Medicine(P) Ltd. - South City Parivar (P) Ltd.

The information pertaining to these Directors are as follows (contd.):

Name of Director	Age	Date of appointment	Expertise in specific functional areas	Qualification	Chairman/Director of other companies
Sri A.C. Gupta	About 70 years	02.07.1992	A well known technocrat professional in paper industry with rich and varied experience in project commissioning.	B.Sc.	-
Sri Manish Goenka	About 33 years	01.02.2000	Well known industrialist with a rich and varied experience in marketing, corporate planning, business development, strategy formulation and overall management.	M.B.A.	<ul style="list-style-type: none"> - Advance Medicare & Research Institute Ltd. - Susruta Clinic & Research Institute for Advance Medicines Pvt.Ltd. - Emami Bio-tech Pvt.Ltd. - Bhanu Vyapaar(P) Ltd. - C R I Ltd. - Prestige Vyapaar Ltd.
Sri S.K. Khaitan	About 68 years	24.01.2001	Well known industrialist of repute with extensive business experience.	B.Com.	<ul style="list-style-type: none"> - Khaitan (India) Ltd. - Khaitan Electrical Ltd. - Khaitan Lefin Ltd. - Khaitan Hotels(P) Ltd. - Murlidhar Ratanlal Exports Ltd. - Shrachi Securities Ltd. - Rupa & Co. Ltd.

13. CEO/CFO certification

The CEO and CFO certification as required by Clause 49 is enclosed at the end of the report.

14. Compliance report

The details of compliance with mandatory requirements and adoption of the non-mandatory requirements of this clause are given below:

Mandatory requirements:

The Company fully complied with the mandatory requirements of Clause 49.

Non-mandatory requirements:

- Maintenance of Chairman's Office: The Company has an Executive Chairman.
- Tenure of Independent Directors: The Board has not decided the specific tenure for Independent Directors.
- Remuneration Committee: Separately covered under the Report.

Shareholders' rights: The quarterly and half-yearly financial results are published in widely circulated national and local dailies. Hence, these are not individually sent to the shareholders.

Audit qualification: There is no audit qualification given in the Auditors' Report.

Training of Board Members: All Board members are experienced and professionals acquainted with business knowledge, obviating the need for formal training. However, with respect of Executive Directors, the Company arranged need-based training to help them discharge their responsibilities in the most effective way.

Mechanism for the evaluation of Non-Executive Directors:

The role of Non-Executive Directors of the Company is important; the peer group comprising the entire Board, except the Director, being evaluated, evaluates his/her performance. On the basis of such evaluation, it is decided as to whether his/her appointment should be extended or continued.

Whistle Blower Policy:

Any employee may report unethical attitude at the work place without fear and reach the Chairman of the Audit Committee or alternatively may report to the Head of HR.

15. Means of communication

The quarterly and half-yearly financial results are generally published in The Economic Times/Business Standard/The Times of India, Kolkata(English) and the Dainik Statesman(Bengali) and are also displayed on

the Company's website www.emamipaper.in. Hence, these are not individually sent to the shareholders.

Management discussion and analysis is a part of Directors' Report to the shareholders.

16. Shareholders' information

a) 25th Annual General Meeting

Date : 28th September 2007

Time : 10.00 A.M

Venue : 687, Anandapur, 8th Floor
E.M.Bye Pass, Kasba Golpark
Kolkata – 700 107.

b) Date of book closure

24th September 2007 to 28th September 2007 (both days inclusive) for the shareholders holding shares in physical form. The shareholders holding shares in demat form are eligible for dividend for their holding as on 21st September 2007.

c) Date of payment of dividend

Within 30 days of the approval by the shareholders.

d) Financial calendar of the Company

i. April to March

ii. First Quarterly Results – last week of July

- iii. Half-yearly Results – last week of October
 iv. Third Quarterly Results – last week of January
 v. Results for the year ending 31st March – by June.

e) Listing of equity shares on stock exchange

The Company's shares are listed at Calcutta and U.P. Stock Exchanges.

The relevant Listing Fees for the year was paid.

f) Stock code

The Calcutta Stock Exchange Association - 17054

The U.P. Stock Exchange Association - G0033

The ISIN Number of Company's Equity Shares (of face value Rs.2 per share) for NSDL& CDSL: INE 830CO1026.

g) Stock price date

No trading of the Company's shares was reported by the Calcutta and U.P. Stock Exchanges.

h) Registrars and transfer agents (physical and demat)

Niche Technologies Pvt.Ltd.
 D511 Bagree Market, 5th Floor,
 71 B.R.B. Basu Road
 Kolkata – 700 001

i) Share transfer system

The shares of the Company are eligible for trading in the demat mode also. The shares received for transfers in physical form are first registered normally within three weeks (if in order and complete in all respects) and a demat option form is sent to the shareholders for exercising the option to receive the shares in demat form within 30 days of receipt unless the shareholders desire to get back the physical share certificate. Thereafter shares are confirmed to the respective accounts.

j) Distribution of shareholding and shareholding pattern as on 31st March 2007.

Distribution of Shareholding :

	No. of shareholders	Number of shares held	% of shareholding
Individuals	430	1381700	2.28
Bodies corporate	14	53655150	88.69
Promoters	2	1723000	2.85
Directors and their relatives	26	3739200	6.18
Total	472	60499050	100.00

Analysis of shareholding :

	No. of shareholders	Number of shares held	% of shareholding
1-50	9	115	0.0002
51-100	0	0	0
101-250	162	40,500	0.0669
251-500	61	30,100	0.0498
501-1000	52	44,385	0.0734
1001-5000	110	2,67,175	0.4416
5001 and Above	78	6,01,16,775	99.3681
Total	472	6,04,99,050	100.0000

k) Dematerialisation of shares

95.82 per cent and 0.01 per cent of the paid-up equity share capital are held in dematerialised form with National Securities Depository Limited and Central Depository Services respectively as on 31st March 2007.

l) Outstanding GDRs/ADRs/Warrants or any convertible instruments, conversion date and likely impact on equity

The Company has not issued any of the aforesaid instruments.

m) Plant locations

1. Vill - Balgopalpur, Balasore – 756 020, Orissa
2. R. N. Tagore Road, Alambazar, Kolkata – 700 035, West Bengal

n) Address for correspondence

687, Anandapur, E.M. Bye Pass
Kasba Golpark, Kolkata 700 107
Email : emamipaper@emamipaper.in

For and on behalf of the Board

Kolkata
29th June 2007

R. S. Goenka
Executive Chairman

Annexure- IV to the Directors' Report

Group for inter se transfer of Shares

"Group" for inter se transfer of shares under Clause 3(1) (e) of the Securities and Exchange Board of India (Substantial Acquisitions of Shares and Takeovers) Regulation, 1997.

Promoters

- 1 Shri Radheshyam Agarwal
- 2 Shri Radheshyam Goenka

Promoters Group

- 3 Smt Usha Agarwal
- 4 Shri Bajranglal Agarwal
- 5 Smt Shanti Devi Agarwal
- 6 Smt. Savitri Devi Agarwal
- 7 Shri Madan Lal Agarwal
- 8 Smt. Kusum Agarwal
- 9 Shri Aditya Vardhan Agarwal
- 10 Shri Harsh Vardhan Agarwal
- 11 Smt. Priti Sureka
- 12 Smt. Richa Agarwal
- 13 Smt. Mansi Agarwal
- 14 Shri Vibhash Vardhan Agarwal
- 15 Ms. Vidula Agarwal
- 16 Ms. Vidishree Agarwal
- 17 Shri Rohin Raj Sureka
- 18 Ms. Avishi Sureka
- 19 Smt. Ratni Devi Goenka
- 20 Smt. Saroj Goenka
- 21 Shri Raj Kumar Goenka
- 22 Smt. Meena Goenka
- 23 Shri Suresh Kumar Goenka

- 24 Smt. Santosh Goenka
- 25 Shri Sushil Kumar Goenka
- 26 Smt. Indu Goenka
- 27 Smt. Laxmi Devi Agarwala
- 28 Shri Mohan Goenka
- 29 Shri Manish Goenka
- 30 Smt. Rachna Bagaria
- 31 Smt. Rashmi Goenka
- 32 Shri Dhiraj Agarwal
- 33 Smt. Meena Devi Goenka
- 34 Shri Pradeep Kumar Agarwala
- 35 Shri Promod Kumar Agarwal
- 36 Smt. Puspa Agarwal
- 37 Smt. Jyoti Goenka
- 38 Shri Saswat Goenka
- 39 Ms. Shreya Goenka
- 40 Ms. Nimisha Goenka
- 41 Shri Prashant Goenka
- 42 Shri Yogesh Goenka
- 43 Smt. Puja Goenka
- 44 Shri Amitabh Goenka
- 45 Shri Ashish Goenka
- 46 Shri Jayant Goenka
- 47 Shri Sachin Goenka
- 48 Ms. Smriti Goenka
- 49 Ms. Sobhna Agarwal

- 50 Shri R.S. Agarwal (HUF)
- 51 Shri R.S. Goenka (HUF)
- 52 Shri Raj Kr. Goenka (HUF)
- 53 Shri D.D. Agarwal (HUF)

Corporate

- 54 Pan Emami Cosmed Ltd
- 55 Bhanu Vyapaar (P) Ltd.
- 56 Suraj Viniyog (P) Ltd.
- 57 Diwakar Viniyog (P) Ltd.
- 58 Suntrack Commerce (P) Ltd.
- 59 Emami Paper Mills Ltd.
- 60 Frank Ross Ltd.
- 61 EPL Securities Ltd.
- 62 TMT Viniyogan Ltd.
- 63 Emami Realty Pvt Ltd
- 64 Emami Capital Markets Ltd
- 65 Emami Group of Companies Pvt Ltd
- 66 Emami International Pvt Ltd
- 67 Emami Biotech Pvt. Ltd
- 68 Hi-up Cosmetics & Toiletries (P) Ltd.
- 69 Kalyan Food Products (P) Ltd.
- 70 Neelam Lefin Ltd.
- 71 Newway Constructions Ltd.
- 72 Premier Ferro Alloys & Securities Ltd.
- 73 Prestige Vyapaar Ltd.



Certification by Managing Director and Executive Director of the company

We, A. C. Gupta, Managing Director and P. S. Patwari, Executive Director to the best of our knowledge and belief certify that:

1. We have reviewed the Balance Sheet and Profit and Loss Accounts of the Company for the year ended 31st March 2007 and all its schedule and notes on accounts, as well as the Cash Flow Statement.
2. To the best of our knowledge and information:
 - a. These statements do not contain any materially untrue statement or omit to state a material fact or contains statement that might be misleading;

These statements together present a true and fair view of the Company's affairs and are in compliance with existing accounting standards, applicable laws and regulations
3. We also certify that based on our knowledge and information provided to us, there are no transactions entered into by the Company, which are fraudulent, illegal or violate the Company's code of conduct.
4. The Company's other certifying officers and we are responsible for establishing and maintaining internal controls and procedures for the Company, and we have evaluated the effectiveness of the Company's internal controls and procedures.
5. The Company's other certifying officers and we have disclosed, based on our most recent evaluation, whichever applicable, to the

Company's auditors and through them to the audit committee of the Company, the following :

- a. All significant deficiencies in the design or operation of internal controls, which we are aware of and have taken steps to rectify these deficiencies;
- b. Significant changes in internal control during the year;
- c. Any fraud, which we have become aware of and that involves the Management or other employees who have significant role in the Company's internal control systems;
- d. Significant changes in accounting policies during the accounting year

We further declare that all members of Board and Committees and all employees working at level of Executive and above have affirmed compliance with the Code of Conduct of the Company of the current year.

For Emami Paper Mills Limited

A. C. Gupta
Managing Director (CEO)

Kolkata
29th June 2007

P. S. Patwari
Executive Director (CFO)

Financial section



Auditors Report

To
The Members of
Emami Paper Mills Limited

We have audited the Balance Sheet of EMAMI PAPER MILLS LIMITED as at 31st March 2007 and also the Profit & Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto in which are incorporated the accounts of Gulmohar unit audited by Branch Auditors. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We further report that:

- a) The Report on the Accounts of Gulmohar Unit audited by Branch Auditors have been received and properly dealt with in preparing our Report.
- b) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit.
- c) In our opinion proper books of accounts as required by law have been kept by the Company so far as appears from our examination of such books.
- d) The Balance Sheet, Profit & Loss Account & Cash Flow Statement referred to in this report are in agreement with the books of accounts and comply with the accounting standards referred to in Section 211(3C) of the Companies Act, 1956 to the extent applicable.
- e) On the basis of written representations received from the Directors and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31st March 2007 from being appointed as a director in terms of Section 274 (1) (g) of the Companies Act, 1956.
- f) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read with the notes on accounts as per Schedule 17 give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - i) In the case of Balance Sheet of the State of Affairs of the Company as on 31st March, 2007
 - ii) In the case of Profit & Loss Account of the Profit for the year ended on that date; and

- iii) In the case of Cash Flow Statement, of the cash flows for the year ended on that date.

As required by the Companies (Auditors Report) order, 2003 issued by the Central Government and on the basis of such checks as we considered appropriate and according to the information and explanations given to us, we further report that:

1. a. The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.
b. The fixed assets were physically verified during the year by the management in accordance with a program of verification, covering all fixed assets over a period of three years, which in our opinion physical verification of all major items of fixed assets at reasonable intervals.
2. a. As explained to us, inventories were physically verified during the year by the management at reasonable intervals.
b. In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and nature of its business.
c. In our opinion and according to the information and explanations given to us, the Company has maintained proper records of its inventory and no material discrepancies were noticed on physical verification.
3. a. The Company has given unsecured loan to a company listed in the register maintained under Section 301 of the Companies Act, against whom the maximum amount outstanding at any time during the year is Rs. 8246.5 lakhs and, the rate of interest and other terms and conditions of which are not prima facie prejudicial to the interest of the Company. Receipt of principal amount of such loans and interest are regular. As at year end the said company is no longer listed in the register maintained under Section 301 of the Companies Act.
b. The Company has not taken any loans, secured and unsecured, from companies listed in the register maintained under Section 301 of the Companies Act, 1956.
4. In our opinion and according to the information and explanations given to us, there are adequate internal control systems commensurate with the size of the Company and the nature of its business for the purchase of inventory and fixed assets and for the sale of goods.
5. According to the information and explanations given to us, there were no

Auditors Report (Contd.)

transactions that need to be entered into a register in pursuance of Section 301 of the Act.

6. The Company has not accepted any deposits from the public during the year.
7. In our opinion, the Company has an adequate internal audit system commensurate with the size and nature of its business.
8. We have broadly reviewed the books of account maintained by the company pursuant to the rules prescribed by the Central Government under clause (d) of sub-section (1) of Section 209 of the Companies Act, 1956 for the maintenance of cost records and are of the opinion that prima face the prescribed accounts and records have been made and maintained.
9. According to the information and explanations given to us in respect of statutory and other dues:
 - a. The Company has been regular in depositing undisputed statutory dues, including Provident Fund, Employees State Insurance, and Income Tax, Service Tax, Sales Tax, Wealth Tax, Custom Duty, Excise Duty, Cess and other statutory dues with the appropriate authorities during the year.
 - b. According to the information and explanations given to us, details of dues of Excise Duty, Sales Taxes and Employee's State Insurance which have not been deposited as on 31st March, 2007 on account of dispute are given below:

Particular	Financial Year to which the matter pertains	Forum where matter is pending	Amount (Rs. in Lakhs)
Excise Duty	1994-95	ACCE	0.87
	2004-05		0.09
	2002-03	CCE (A)	0.99
CST	1993-94	Tribunal	18.48
	2003-04	ACCT	0.51
OST	1989-90	High Court	0.79
	1993-94	ACCT	0.23
	1998-99		2.68
	2002-03		2.13
ESIC	1996-97	ESI Court	0.22

10. The Company does not have accumulated losses as at the end of the year and the Company has not incurred cash losses during the current year and in the immediately preceding financial year.

11. Based on our audit procedures and on the basis of information and explanations given by the management, we are of the opinion that the Company has not defaulted in the repayment of dues to financial institution and banks.
12. According to the information and explanations given to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
13. According to the information & explanations given to us, the Company is not dealing in shares, securities debentures and other investment.
14. According to information given to us, the Company has not given any guarantee for loans taken by others from Banks or financial institution.
15. To the best of our knowledge and belief and according to the information and explanations given to us, term loans by the company were applied for the purpose for which the loans were obtained.
16. According to the Cash Flow Statement and other records examined by us and the information and explanations given to us on an overall basis, we report that funds raised on short term basis have, prima facie, not been used for long term investments.
17. The Company has not made any preferential allotment of shares to parties and companies covered in the Register maintained under section 301 of the Companies Act 1956, during the year and hence the question of whether the price at which shares have been issued is prejudicial to the interest of the Company does not arise.
18. The Company has not raised money by public issues during the year and hence the question of disclosure and verification of end use of such money does not arise.
19. To the best of our knowledge and belief and according to the information and explanations given to us, no fraud on or by the Company was noticed or reported during the year.

For S. K. Agrawal & Company
Chartered Accountants

S. K. Agrawal
Partner

Place : Kolkata
Dated : June 29, 2007

Membership No. 9067

Balance Sheet As at 31 March, 2007

(Rupees in Lakhs)

	Schedule	31 March, 2007		31 March, 2006	
SOURCES OF FUNDS					
Shareholders' Fund					
Share Capital	1	1,209.98		1,209.98	
Reserves & Surplus	2	12,447.52	13,657.50	10,686.88	11,896.86
Loan Funds					
Secured Loans	3	29,461.87		6,329.00	
Unsecured Loans	4	4,109.38	33,571.25	2,292.41	8,621.41
Deferred Tax Liability (Net)	5		1,138.98		841.25
			48,367.73		21,359.52
APPLICATION OF FUNDS					
Fixed Assets					
Gross Block	6	10,830.49		17,207.08	
Less : Depreciation		9,489.48		8,456.57	
Net Block		10,341.01		8,750.51	
Capital Work in Progress		21,660.68	32,001.69	4,290.24	13,040.75
Investments	7		61.99		62.04
Currents Assets, Loans and Advances					
Inventories	8	2,230.46		2,110.09	
Sundry Debtors	9	1,540.06		1,146.29	
Cash & Bank Balances	10	6,298.17		299.94	
Loans & Advances	11	9,077.13		6,397.12	
		19,145.82		9,953.44	
Less:					
Current Liabilities and Provisions					
Current Liabilities	12	2,700.21		1,075.85	
Provisions	13	141.56		620.86	
		2,841.77		1,696.71	
Net Current Assets			16,304.05		8,256.73
			48,367.73		21,359.52
Notes to the Accounts & Significant Accounting Policies	17				

In terms of our attached Report of even date

For S. K. Agrawal & Co.
Chartered AccountantsS. K. Agrawal
Partner

Kolkata

Dated : June 29, 2007

G. Saraf
V. P. (Finance) & SecretaryR. S. Goenka
R. S. Agarwal
A. V. Agarwal
A. C. Gupta
P. S. Patwari
J. N. Godbole
N. Mishra
U. G. Bhat
S. C. Saha
Directors

Profit and Loss Account

For the year ended 31 March, 2007

(Rupees in Lakhs)

	Schedule	2006-2007	2005-2006
INCOME			
Sales - Gross		16,337.49	14,002.91
Less : Excise Duty		466.49	435.19
Sales - Net		15,871.00	13,567.72
Other Income	14	1,420.20	332.71
		17,291.20	13,900.43
EXPENDITURE			
Cost of goods sold / consumed	15	9,163.14	7,951.63
Manufacturing, Administrative & Selling Expenses	16	3,957.23	3,238.01
Interest		748.44	309.99
		13,868.81	11,499.63
Profit before Depreciation & Taxation		3,422.39	2,400.80
Depreciation (Refer Note No.6 of Schedule 17)		1,143.19	823.84
Less : Transfer from Revaluation Reserve		121.59	144.61
Profit Before Taxation & Exceptional Items		2,400.79	1,721.57
Exceptional Items			
Profit on Sale of Long Term Investments		513.99	4,961.59
Profit Before Taxation		2,914.78	6,683.16
Provision for Tax			
- Current Tax		291.36	128.51
- Fringe Benefit Tax		11.08	11.83
- Income Tax for earlier years		(1.08)	0.22
- Deferred Tax		297.73	152.88
Profit after Taxation		2,315.69	6,389.72
Balance brought forward from Previous year		1,534.03	115.17
Amount available for Appropriation		3,849.72	6,504.89
APPROPRIATIONS			
Interim Dividend		242.00	-
Proposed Dividend		121.00	544.49
Tax on Dividend		54.50	76.37
Transfer to General Reserve		2,000.00	4,350.00
Balance carried to Balance Sheet		1,482.22	1,534.03
		3,849.72	6,504.89
Basic and Diluted Earning Per Share (Rs.) (Face Value of Rs. 2 each)		3.83	10.56
Notes to the Accounts & Significant Accounting Policies	17		

In terms of our attached Report of even date

For **S. K. Agrawal & Co.**
Chartered Accountants

S. K. Agrawal
Partner

Kolkata

Dated : June 29, 2007

G. Saraf

V. P. (Finance) & Secretary

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S. C. Saha
Directors

Schedules annexed to and forming part of the Accounts

(Rupees in Lakhs)

		31 March, 2007		31 March, 2006	
1	SHARE CAPITAL				
Authorised					
	6,25,00,000 Equity Shares of Rs. 2/- each		1,250.00		1,250.00
	10000 6% Redeemable Non Cumulative Preference Shares of Rs. 100/- each		10.00		10.00
Issued, Subscribed and Paid-up					
	6,04,99,050 Equity Shares of Rs. 2/- each fully paid up		1,209.98		1,209.98
	(Includes 3,98,43,850 Equity Shares of Rs. 2 each allotted for consideration other than in cash)				
			1,209.98		1,209.98

2	RESERVES & SURPLUS				
Capital Reserve					
			106.71		106.71
Securities Premium					
			1,793.37		1,793.37
Revaluation Reserve					
	As per last account		1,252.77		1,461.28
	Less : For assets sold / transferred		15.96		63.90
	Transferred to Profit & Loss Account		121.59		144.61
			1,115.22		1,252.77
General Reserve					
	As per last account		6,000.00		1,650.00
	Add : Transferred from Profit & Loss Account		2,000.00		4,350.00
	Surplus as per Profit & Loss Account		1,432.22		1,534.03
			12,447.52		10,686.88

3	SECURED LOANS				
Term loans					
From Banks					
	- FCNR (B) / FCL		1,121.83		2,168.69
	- ECB		24,628.60		3,129.00
	- Rupee Loan		0.15		3.06
			25,750.58		5,300.75
Working Capital Loans					
From Banks					
	- FCNR (B)		1,200.90		248.08
	- Buyers Credit		568.55		-
	- Rupee Loan		1,891.01		708.65
			3,660.46		956.73
Others					
	Government of West Bengal (Sales Tax Loan)		50.83		71.52
			29,461.87		6,329.00

Schedules annexed to and forming part of the Accounts

(Rupees in Lakhs)

	31 March, 2007	31 March, 2006
4 UNSECURED LOANS		
From Bank - Foreign Currency Loan	2,920.53	2,279.70
From Corporates	1,175.00	-
Other loans and deposits	13.85	12.71
	4,109.38	2,292.41

5 DEFERRED TAX LIABILITIES / ASSETS		
Deferred Tax Liabilities		
Depreciation	1,147.74	841.25
Deferred Tax Assets		
Others	8.76	-
Deferred Tax Liability (Net)	1,138.98	841.25

6 FIXED ASSETS										
PARTICULARS	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As on 01.04.06	Additions	Transfers / Adjustments	TOTAL 31.03.07	As on 01.04.06	For the Year	Transfers / Adjustments	TOTAL 31.03.07	As on 31.03.07	As on 31.03.06
Free hold Land	349.77	41.74	-	391.51	-	-	-	-	391.51	349.77
Lease hold Land	163.39	28.15	-	191.54	20.45	2.27	-	22.72	168.82	142.94
Buildings	2,852.79	213.57	-	3,066.36	894.16	105.48	-	999.64	2,066.72	1,958.63
Plant & Machinery	13,588.84	2,494.25	226.04	15,857.05	7,380.40	986.43	102.17	8,264.66	7,592.39	6,208.44
Furniture & Fittings	156.51	46.66	5.62	197.55	114.06	32.49	5.59	140.96	56.59	42.45
Vehicles	95.78	34.04	3.34	126.48	47.50	16.52	2.52	61.50	64.98	48.28
Total	17,207.08	2,858.41	235.00	19,830.49	8,456.57	1,143.19	110.28	9,489.48	10,341.01	8,750.51
Capital Work-in-Progress	4,290.24	17,373.28	2.84	21,660.68					21,660.68	4,290.24
									32,001.69	13,040.75
Previous year	14,710.91	2,777.23	281.06	17,207.08	7,836.26	823.84	203.53	8,456.57	-	-

Schedules annexed to and forming part of the Accounts

(Rupees in Lakhs)

	31 March, 2007	31 March, 2006
7 INVESTMENTS		
Long Term		
Non - Trade		
Government Securities		
6 Years National Saving Certificates (Lodged with Government Authorities)	0.02	0.02
7 Years National Saving Certificates (Lodged with Government Authorities)	0.51	0.51
Shares		
Unquoted		
3,07,300 Equity Shares of Rs. 10/- each fully paid up of Pan Emami Cosmed Ltd.	0.62	0.62
Quoted		
13,000 (2,73,000) Equity Shares of Rs. 2/- each fully paid up of Emami Ltd.	-	0.05
4,27,500 Equity Shares of Rs 10/- each fully paid-up of J B Marketing & Finance Ltd.	60.84	60.84
	61.99	62.04
Note :		
Market Value of Quoted Investments	89.74	525.99
Aggregate Value of Quoted Investments	60.84	60.89
Aggregate Value of Unquoted Investments	1.15	1.15

8 INVENTORIES

(As taken, valued & certified by the Management)

Raw Materials & Chemicals	1,047.10	1,055.70
Stores & Spares	742.33	633.87
Stock in Process	374.02	340.44
Finished Goods	67.01	80.08
	2,230.46	2,110.09

9 SUNDRY DEBTORS (UNSECURED)

Debts due over six months		
- Considered Good	63.12	68.35
Other Debts (Considered Good)	1,476.94	1,077.94
	1,540.06	1,146.29

Schedules annexed to and forming part of the Accounts

(Rupees in Lakhs)

	31 March, 2007	31 March, 2006
10 CASH & BANK BALANCES		
Cash & Cheques in Hand	6.79	14.13
Balance with Scheduled Banks		
In Current Accounts	136.82	1.89
In Fixed Deposit (Refer Note No. 13 of Schedule-17)	6,153.27	283.43
In Unclaimed Dividend Account	1.29	0.49
	6,298.17	299.94

11 LOANS & ADVANCES		
(Unsecured, Considered Good)		
Loans & Advances (Recoverable in cash or in kind or for value to be received)	7,751.97	5,672.56
Balance with Central Excise	881.92	489.83
Advance Income Tax (Net of Provision)	216.24	77.47
Deposits	227.00	157.26
	9,077.13	6,397.12

12 CURRENT LIABILITIES		
Acceptance	228.42	291.87
Sundry Creditors for Goods	140.99	291.55
Sundry Creditors for Project	1,275.59	27.63
Other Liabilities	570.09	455.98
Unclaimed Dividend	1.29	0.49
Interest Accrued but not due	483.83	8.33
	2,700.21	1,075.85

13 PROVISIONS		
Proposed Dividend	121.00	544.49
Tax on Dividend	20.56	76.37
	141.56	620.86

Schedules annexed to and forming part of the Accounts

(Rupees in Lakhs)

	2006 - 2007		2005 - 2006	
14 OTHER INCOME				
Dividend		13.66		33.32
Profit on Sale of Current Investments		-		27.68
Insurance Claim		12.33		22.52
Miscellaneous Income		37.25		24.24
Profit on Sale of Fixed Assets		8.52		-
Foreign Exchange Fluctuation Gain		178.62		-
Interest on Short Term Deposits & ICDs		1,169.82		224.95
		1,420.20		332.71

	2006 - 2007		2005 - 2006	
15 COST OF GOODS SOLD/ CONSUMED				
Consumption of Raw Materials & Chemicals		8,525.89		7,497.92
Consumption of Stores & Spares		657.76		584.43
(Increase)/Decrease in Stocks				
Opening Stock				
Finished Goods	80.08		129.89	
Stock in Process	340.44		159.91	
	420.52		289.80	
Closing Stock				
Finished Goods	67.01		80.08	
Stock in Process	374.02		340.44	
	441.03	(20.51)	420.52	(130.72)
		9,163.14		7,951.63

	2006 - 2007		2005 - 2006	
16 MANUFACTURING, ADMINISTRATIVE & SELLING EXPENSES				
Power & Fuel		1,494.99		1,329.09
Repair : Plant & Machinery		75.34		52.70
Building		18.87		15.72
Others		13.68		13.72
Salaries, Wages & Bonus		1,056.45		855.41
Contribution to Provident Fund & Other Funds		107.50		90.52
Workmen & Staff Welfare Expenses		80.84		63.32
Rent		17.62		16.14
Rates & Taxes		130.58		43.75
Insurance		59.81		53.40
Directors Fees		3.15		1.86
Miscellaneous Expenses		319.13		261.68
Donation		216.57		24.99
Irrecoverable Debts Written Off		-		23.24
Selling Expenses		362.70		313.80
Foreign Exchange Fluctuation Loss		-		70.99
Loss on Sale of Fixed Assets		-		5.12
Preliminary & Share Issue expenses w/off		-		2.56
		3,957.23		3,238.01

Schedules annexed to and forming part of the Accounts

17 | NOTES TO THE ACCOUNTS AND SIGNIFICANT ACCOUNTING POLICIES

1. SIGNIFICANT ACCOUNTING POLICIES

(i) General

These accounts have been prepared on historical cost basis and on the accounting principles of a going concern to comply in all material aspects with applicable accounting principles in India, the Accounting Standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956.

ii) Fixed Assets

- a) Fixed assets are stated at cost adjusted by revaluation of Land, Building and Plant & Machinery wherever applicable, less depreciation. Interest & other financial charges on loans borrowed specifically for acquisition of capital assets are capitalised till the stabilisation of commercial production.
- b) All pre-operative and trial run expenditure (net of realization, if any) are capitalized.
- c) Projects under commissioning and other Capital Work-in-progress are carried at cost, comprising direct cost, related incidental expenses and interest on borrowings there against.

iii) Depreciation

- a) Depreciation is provided on pro-rata basis with reference to the date of commencement of use, at the rates specified in Schedule XIV of the Companies Act, 1956.
 - i) On Straight-Line Method in respect of Buildings of Paper Machine-II & ETP unit - II at Balasore.
 - ii) On written down value method in respect of other assets.
- b) Leasehold Land is amortised over the period of lease.

iv) Investments

Long term investments are stated at cost. Diminution in value of long term investments other than temporary in nature is provided for in the accounts. Current Investments are stated at cost or net realisable value, whichever is lower.

v) Inventories

- a) Finished goods, stock-in-process, raw materials, stores, chemicals and spare parts are valued at lower of cost or net realisable value.
- b) Valuation of inventory is being done under weighted average cost formula except stores and spare parts of Gulmohar unit which are valued at FIFO formula.

vi) Retirement Benefit

- a) Contribution to Provident fund is made at a pre-determined rate and charged to revenue on accrual basis.

- b) Liabilities in respect of gratuity and leave encashment are accounted for on the basis of contribution to LIC.

vii) Foreign Currency Transactions

- a) Transactions in foreign exchange covered by forward contracts are accounted for at the contracted rates.
- b) Transactions other than those covered by forward contracts are recognised at the exchange rates prevailing on the date of their occurrence.
- c) Monetary assets & liabilities in foreign currency that are outstanding at the year end and not covered by forward contracts are translated at the year end exchange rates.
- d) Any income or expense on account of exchange difference either on settlement or on translation is recognised in the Profit & Loss Account except in cases where they relate to acquisition of fixed assets in which case they are adjusted to carrying cost of such assets.

viii) Recognition of Income & Expenditure

- a) Income & expenditure are recognised on accrual basis.
- b) Sales includes amount recovered towards excise duty and is net of commission to agents.
- c) Inter segment revenue has been recognized at market value.

ix) Contingent Liabilities and Provisions

Contingent liabilities are disclosed after a careful evaluation of facts and legal aspects of the matter involved. Provisions are recognized when the company has legal / constructive obligation and on management discretion, as a result of a past event, for which it is probable that a cash outflow may be required and a reliable estimate can be made for the amount of the obligation.

x) Borrowing Cost

Borrowings cost that are attributable to the acquisition or construction of qualifying assets is capitalized as part of the cost of such assets. All other borrowing costs are charged to revenue. Borrowing cost includes exchange difference arising from foreign currency borrowing to the extent that they are regarded as an adjustment to interest cost.

xi) Taxation

Provision for tax is made for both current and deferred taxes. Provision for current tax is made at the current tax rates based on assessable income. Deferred income taxes reflect the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years. The deferred tax in respect of timing differences that originate during the tax holiday

Schedules annexed to and forming part of the Accounts

17 NOTES TO THE ACCOUNTS AND SIGNIFICANT ACCOUNTING POLICIES (contd.)

period and reverse during the tax holiday period is not recognized.

Deferred tax assets are recognized only to the extent that there is virtual certainty supported by convincing evidence that sufficient future taxable income will be available against which such deferred tax assets can be realized.

xii) Government Subsidy/Grant

Capital subsidy granted by the government is treated as capital reserve and interest subsidy is treated as a revenue receipt except to the extent it is capitalized as pre-operative cost which is adjusted from specified assets.

xiii) Earnings Per Share

Basic earnings per share are calculated by dividing the net profit/loss for the period attributable to equity shareholders by the weighted average number of equity shares outstanding during the period. The weighted average number of equity shares outstanding during the period are adjusted for the events of bonus issue and share split.

For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of equity shares outstanding during the period are adjusted for the effects for all dilutive potential equity shares.

2. Estimated amounts of capital contracts remaining to be executed and not provided for (net of advances) Rs.4499.82 lacs (Rs.5363.43 lacs).
3. Contingent liabilities not provided for in respect of:
 - a) Outstanding guarantees and letters of credit furnished by the bankers on behalf of the Company secured by hypothecation of current assets, as specified in note 5 hereunder – Rs.330.74 lacs (Rs.1363.82 lacs).
 - b) Sales tax under appeal (net of advances) - Rs.23.84 lacs (Rs.62.24 lacs).
 - c) Central Excise duties under appeal (net of Advances) - Rs. 1.95 lacs (Rs.5.17 lacs).
 - d) Demand for Port Rent and demurrage (net of Advances) against which company has preferred appeal (covered by bank guarantee and deposit)- Nil (Rs.2.41 lacs)
 - e) Municipality Tax - Rs.7.72 lacs (Rs.7.13 lacs).
 - f) ESI Contribution under appeal - Rs.0.22 lacs (Rs.0.22 lacs)
 - g) Bonds / Undertakings given under EPCG scheme to Custom Authority – Rs.2672.15 lacs (Rs. 90.05 lacs)
4. Loans and Advances include inter corporate deposits of Rs. 5965.72 lacs (Rs.5090.23 lacs).
5. Term loans from banks and external commercial borrowings are secured by deposit of title deeds in respect of present and future immovable properties

and hypothecation of present and future movable fixed assets on a pari passu basis. Term loans from banks and external commercial borrowings are also secured by way of second charge on current assets on pari passu basis. Working capital facilities from banks are secured by hypothecation of present and future stock of materials, stock-in-process, finished goods, stores and spares, book debts, outstanding money, claims receivable and further secured by way of second charge on all immovable and movable properties/ fixed assets both present and future on a pari passu basis. Term Loan and working capital limit from banks are additionally secured by personal guarantees of some of the Directors of the Company. Sales tax loan received from Government of West Bengal is secured by a residuary charge ranking next only to the charges in favour of the banks for Gulmohar unit. Car loan from banks are secured by hypothecation of car. Unsecured loan from a bank is secured by personal guarantee of some of the directors of the company.

6. Land, buildings and plant & machinery of the Gulmohar Unit and paper machine-1 of Balasore unit were revalued as on 01.04.98 and 01.04.99 respectively by independent approved valuers appointed for the purpose. The revaluation has resulted in increase in value of such assets by Rs.3097.20 lakhs. Due to the said revaluation, there is an additional charge of depreciation of Rs.121.59 Lakhs (Rs.144.61 Lakhs) for the year and an equivalent amount has been withdrawn from revaluation reserve and credited to profit & loss account. The net book value of such revaluation made till date stands at Rs. 1115.22 lakhs (Rs.1252.77 lakhs).
7. Interest includes Rs.565.22 lacs (Rs.287.52 lacs) on fixed period loans.
8. Miscellaneous Expenses include payment to the Auditors including Rs.0.95 lacs (Rs.0.88 lacs) to Branch Auditors:
 - i) As Audit Fees : Rs.2.45 lacs (Rs.2.45 lacs).
 - ii) As Tax Audit Fees : Rs.0.25 lacs (Rs.0.25 lacs).
 - iii) For Certification : Rs.0.98 lacs (Rs.0.53 lacs).
 - iv) Out of Pocket Expenses : Rs.0.09 lacs (Rs.0.13 lacs).
9. Sales are net of commission to selling agents other than sole selling agent Rs.141.04 lacs (Rs.125.52 lacs).
10. Whole Time Directors' Remuneration

	31.03.2007 (Rs. /lacs)	31.03.2006 (Rs. /lacs)
(i) Salary	58.88	52.53
(ii) Perquisites	3.47	3.57
	62.35	56.10

Schedules annexed to and forming part of the Accounts

17 NOTES TO THE ACCOUNTS AND SIGNIFICANT ACCOUNTING POLICIES (contd.)

11. There are no small scale Industrial undertakings to whom the company owes any sum for more than 30 days as at 31st March, 2007.
12. There is no amount due and outstanding to be credited to investor education and protection fund.
13. Fixed Deposits with banks include fixed deposits pledged as security Rs 196.96 lacs (Rs.182.56 lacs).
14. Fixed Assets additions during the year and Capital Work-In-Process at the year end includes :

	2006-07		2005-06	
	Fixed Assets	Capital WIP	Fixed Assets	Capital WIP
Land	69.88	-	52.69	-
Buildings	213.57	1452.28	313.21	330.72
Plant & Machineries and Others	2397.92	17567.14	2154.28	661.55
Advances	-	1660.27	-	3015.88
Pre-Operative Expenses:				
Interest & Financial Charges (Net)	171.16	1132.56	89.23	160.33
Foreign Exchange Fluctuation	(66.34)	(674.58)	25.00	(17.34)
Employee Cost	16.62	222.50	32.57	25.99
Adm. & Other Expenses	55.60	300.51	110.25	113.11
	2858.41	21660.68	2777.23	4290.24

15. Disclosure as required by AS-29 is given below:

	Provision for taxation
Opening Balance as on 01.04.2006	160.84
Provided during the year	302.44
Reversed during the year	20.50
Closing balance as on 31.03.2007	442.78

16. Information pursuant to the provisions of paragraph 3, 4C & 4D of Part II of Schedule VI of the Companies Act, 1956.

- a) Licensed and Installed Capacities and Production:

Class of Products	Installed Capacity		Production	
	2006-07	2005-06	2006-07	2005-06
Paper	Tonnes 60000	Tonnes 60000	Tonnes 56300	Tonnes 50679
Generation of Electricity	MW 5	MW 5	Kwh lacs 399.11	Kwh lacs 338.14

- i) Licensed capacity not applicable in terms of Govt. of India's Notification.
- ii) Installed Capacities are certified by the Management.
- iii) Generation of electricity is for internal consumption.

b) Sales and Stock Value (Rs./lakhs)

Particulars	Unit	Opening Stock		Sales*		Closing Stock	
		Qty.	Value	Qty.	Value	Qty.	Value
Paper	MT	300 (573)	80.08 (129.89)	56371 (50920)	16337.49 (14002.91)	211 (300)	67.01 (80.08)

* Excludes 18 MT (13 MT) for captive consumption, Nil (19 MT) for loss covered under Insurance Policy and includes miscellaneous sales Rs. 44.48 lacs (Rs.90.33 lacs).

c) Consumption of Raw Materials

Particulars	2006-07		2005-06	
	Qty (MT)	Rs./lacs	Qty (MT)	Rs./lacs
Straw	858	7.98	14199	134.80
Waste Paper and Pulp	71076	7442.22	58393	6263.55
Chemical		1075.69		1099.57
		8525.89		7497.92
	Rs./lacs	%	Rs./lacs	%
Indigenous	4134.94	48.50	4444.44	59.28
Imported	4390.95	51.50	3053.48	40.72
	8525.89	100.00	7497.92	100.00

d) Consumption of Stores & Spares

Indigenous	599.35	91.12	506.02	86.58
Imported	58.41	8.88	78.41	13.42
	657.76	100.00	584.43	100.00

e) Value of Import on CIF basis

Raw Material & Chemicals	3219.72	2561.27
Stores and Spares	58.71	89.13
Capital Assets	3453.94	2361.94

f) Expenditure in Foreign Currency

Interest & Financial Charges to banks registered in India	1600.61	297.50
Traveling & Others	11.36	47.70
Professional Fees	62.76	21.26

g) Value of Export on FOB basis

	-	20.71
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Schedules annexed to and forming part of the Accounts

17 NOTES TO THE ACCOUNTS AND SIGNIFICANT ACCOUNTING POLICIES (contd.)

17. Segment Information

The Company has identified its Business Segment as its Primary Reportable Segment comprising of Paper and Power.

Particulars	Paper		Power		Total	
	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06
SEGMENT REVENUE						
External Segment Revenue	15,871.00	13,567.72			15,871.00	13,567.72
Inter Segment Revenue			2,075.24	1,874.56	2,075.24	1,874.56
Total Revenue					17,946.24	15,442.28
Less: Inter Segment Revenue					(2,075.24)	(1,874.56)
Net Revenue					15,871.00	13,567.72
RESULT						
Segment Result	1,033.83	925.07	931.93	20.53	1,965.76	1,745.60
Interest	(742.94)	(298.78)	(5.50)	(11.20)	(748.44)	(309.98)
Other Income					1,183.47	285.95
Profit/(Loss) Before Tax & Exceptional Items					2,400.79	1,721.57
Exceptional Income					513.99	4,961.59
Profit/(Loss) Before Tax					2,914.78	6,683.16
Provision for Current Tax					(291.36)	(128.51)
Income Tax For Earlier Years					1.08	(0.22)
Provision for Fringe Benefit Tax					(11.08)	(11.83)
Provision for Deferred Tax					(297.73)	(152.88)
Profit/(Loss) After Tax					2,315.69	6,389.72
OTHER INFORMATION						
Segment Assets	46,988.61	19,812.88	3,942.66	3,103.84	50,931.27	22,916.72
Other Assets					278.23	139.50
Total Assets					51,209.50	23,056.22
Segment Liabilities	36,225.33	9,563.52	46.13	133.74	36,271.46	9,697.26
Other Liabilities					1280.54	1,462.11
Total Liabilities					37,552.00	11,159.37
Capital Expenditure	20,231.69	7,064.96	-	2.50	20,231.69	7,067.46
Depreciation	965.44	614.95	177.75	208.90	1,143.19	823.84

18. Related Party Transactions

Related parties with whom transactions have taken place during the year are given below:

a. Key Management Personnel

Sri R. S. Goenka Sri A. C. Gupta Sri P. S. Patwari

b. Relatives of Key Management Personnel

Smt. Saroj Gupta Sri Ashish A. Gupta

c. Enterprise over which persons described in (a) above are able to exercise significant influence

Emami Limited

Details of transactions with the above parties:

(Rs. /lakhs)

Particulars	Key Management Personnel	Relatives	Enterprise described in (c) above	Total
Salary & Perquisites	62.36 (56.10)	9.93 (5.52)	(-) (-)	72.29 (61.62)
Rent Paid	(-) (-)	1.80 (1.80)	1.05 (0.61)	2.85 (2.41)

19. Information for earning per share as per AS-20:

	2006-07	2005-06
Net Profits after tax (Rs. /lakhs)	2315.69	6389.72
Number of equity shares (Nos.)	60499050	60499050
Basic and diluted earnings per share (Rs)	3.83	10.56
Nominal value per share (Rs.)	2.00	2.00

20. Previous year's figures have been regrouped/rearranged wherever necessary.

In terms of our attached Report of even date

R. S. Goenka

R. S. Agarwal

A. V. Agarwal

A. C. Gupta

P. S. Patwari

J. N. Godbole

N. Mishra

U. G. Bhat

S. C. Saha

Directors

For S. K. Agrawal & Co.

Chartered Accountants

S. K. Agrawal

Partner

Kolkata

Dated : June 29, 2007

G. Saraf

V. P. (Finance) & Secretary

Cash Flow Statement

For the year ended 31 March, 2007

(Rupees in Lakhs)

Description	2006-07	2005-06
A. CASH FLOW FROM OPERATING ACTIVITIES :		
Net Profit	2,914.78	6,683.16
Adjustment for		
Preliminary expenses W/Off	-	2.56
Depreciation	1,143.19	823.84
Interest & Financial Charges (Net)	(421.38)	143.67
Dividend Income	(13.66)	(33.32)
(Profit) / Loss on Sale of Fixed Assets	(8.52)	5.12
(Profit) / Loss on Sale of Investments	(513.99)	(4,989.27)
Transferred from Revaluation Reserve	(121.59)	(144.61)
Operating Profit Before Working Capital Changes	2,978.83	2,491.15
Adjustment for		
Trade & Other Receivables	(2,935.01)	(4,198.47)
Inventories	(120.37)	(105.90)
Trade Payables	1,148.86	(28.91)
Cash generated from operations	1,072.31	(1,842.13)
Interest paid (Net)	896.88	(136.67)
Taxes paid	(440.13)	(185.43)
Cash flow before Extraordinary items	1,529.06	(2,164.23)
Net Cash from Operating Activities (A)	1,529.06	(2,164.23)
B. CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	(20,228.85)	(7,065.47)
Sale / (Purchase) of Investments	514.04	5,116.12
Sale / Adjustment of Fixed Assets	117.28	8.51
Dividend Received	13.66	33.32
Net Cash used in Investing Activities (B)	(19,583.87)	(1,907.52)
C. CASH FLOW FROM FINANCING ACTIVITIES		
Increase/(Decrease) in Bank Borrowings	2,703.73	(9.67)
Proceeds from Long Term Borrowings (Net)	22,246.11	4,514.66
Dividend & Dividend Tax Paid	(896.80)	(206.95)
Net Cash used in Financing Activities (C)	24,053.04	4,298.04
Net increase in Cash & Cash Equivalents (A+B+C)	5,998.25	226.29
* Cash & Cash Equivalents (Opening Balance)	299.94	73.65
* Cash & Cash Equivalents (Closing Balance)	6,298.19	299.94
* Represents Cash and Bank Balances as indicated in Schedule 10 .		

In terms of our attached Report of even date

For **S. K. Agrawal & Co.**
Chartered Accountants

S. K. Agrawal
Partner

Kolkata

Dated : June 29, 2007

G. Saraf

V. P. (Finance) & Secretary

R. S. Goenka
R. S. Agarwal
A. V. Agarwal
A. C. Gupta
P. S. Patwari
J. N. Godbole
N. Mishra
U. G. Bhat
S. C. Saha
Directors

Part IV

Balance Sheet Abstract and Company's General business profile For the year ended 31 March, 2007

I. Registration No.	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> 3 4 1 6 1	State Code	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> 2 1
Balance Sheet Date	<input type="text"/> <input type="text"/> 3 1 <input type="text"/> <input type="text"/> 0 3 <input type="text"/> <input type="text"/> 2 0 0 7		
	Date Month Year		
II. Capital Raised during the year (Amount in Rs./ Lakhs)			
Public Issue	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> N I L	Rights Issue	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> N I L
Bonus Issue	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> N I L	Private Placement	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> N I L
III. Position of Mobilisation and Deployment of Funds (Amount in Rs./ Lakhs)			
Total Liabilities	<input type="text"/> <input type="text"/> 5 1 2 0 9 . 5 0	Total Assets	<input type="text"/> <input type="text"/> 5 1 2 0 9 . 5 0
Sources of Funds			
Paid-up Capital/ Share Application Money	<input type="text"/> <input type="text"/> 1 2 0 9 . 9 8	Reserves & Surplus	<input type="text"/> <input type="text"/> 1 2 4 4 7 . 5 2
Secured Loans	<input type="text"/> <input type="text"/> 2 9 4 6 1 . 8 7	Unsecured Loans	<input type="text"/> <input type="text"/> 4 1 0 9 . 3 8
Deferred Tax Liability	<input type="text"/> <input type="text"/> 1 1 3 8 . 9 8		
Application of Funds			
Net Fixed Assets	<input type="text"/> <input type="text"/> 3 2 0 0 1 . 6 9	Investments	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> 6 1 . 9 9
Net Current Assets	<input type="text"/> <input type="text"/> 1 6 3 0 4 . 0 5	Misc. Expenditure	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> N I L
Accumulated Losses	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> N I L		
IV. Performance of Company (Amount in Rs./ Lakhs)			
Turnover (Including other income)	<input type="text"/> <input type="text"/> 1 7 2 9 1 . 2 0	Total Expenditure	<input type="text"/> <input type="text"/> 1 4 8 9 0 . 4 1
Profit before Tax	<input type="text"/> <input type="text"/> 2 9 1 4 . 7 8	Profit after Tax	<input type="text"/> <input type="text"/> 2 3 1 5 . 6 9
Earning per share (in Rs.)	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> 3 . 8 3	Dividend Rate (%)	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>
V. Generic Names of Three Products / Services of Company (as per monetary terms)			
Item Code No.			
Product Description	Item Code No. (ITC Code)		
Newsprint	<input type="text"/> <input type="text"/> 2 8 0 3 0 0 0 0		
Paper and Paper Board	<input type="text"/> <input type="text"/> 2 8 0 0 0 0 0 0		
Generation of Steam & Power	<input type="text"/> <input type="text"/> 4 0 0 2 0 0 0 0		

In terms of our attached Report of even date

For S. K. Agrawal & Co.
Chartered AccountantsS. K. Agrawal
Partner
Kolkata
Dated : June 29, 2007G. Saraf
V. P. (Finance) & SecretaryR. S. Goenka
R. S. Agarwal
A. V. Agarwal
A. C. Gupta
P. S. Patwari
J. N. Godbole
N. Mishra
U. G. Bhat
S. C. Saha
Directors

**“A wise man will make
more opportunities
than he finds.”**

Sir Francis Bacon

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info@trisyscom.com

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