

# ANNUAL REPORT 2005 - 2006



THE SPIRIT OF PEOPLE...







*Central Pulp Mills, Songadh (Gujarat)*

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# *Board of Directors*

**HARI SHANKAR SINGHANIA**

*Chairman*

**HARSH PATI SINGHANIA**

*Managing Director*

**OM PRAKASH GOYAL**

*Whole-time Director*

**ARUN BHARAT RAM**

**DHIRENDRA KUMAR**

**GAJANAN KHAITAN**

**P. K. KAUL**

**S. K. PATHAK**

**SHAILENDRA SWARUP**

**UDAYAN BOSE**

## *Offices*

### **Registered Office**

P. O. Central Pulp Mills - 394 660  
Fort Songadh  
Dist. Surat (Gujarat)

### **Administrative Office**

Nehru House,  
4, Bahadur Shah Zafar Marg  
New Delhi - 110 002

## *Bankers*

State Bank of India  
Bank of Maharashtra  
Canara Bank  
UTI Bank

## *Company Website*

[www.jkpaper.com](http://www.jkpaper.com)

## *Plants*

### **JK Paper Mills**

Jaykaypur - 765 017  
Rayagada (Orissa)

### **Central Pulp Mills**

P. O. Central Pulp Mills - 394 660  
Fort Songadh  
Dist. Surat (Gujarat)

## *Auditors*

Lodha & Co.

Chartered Accountants  
New Delhi

S. S. Kothari Mehta & Co.,  
Chartered Accountants  
New Delhi

## *Company Secretary*

S. C. Gupta





## Redefining the Leadership Mantra

Great companies are the result of motivated employees who act as leaders in their own sphere of work to drive the Company into the future. At JK Paper, we have always believed that true leadership is about developing leaders at all levels. Because it is they, who with their passion, initiative and teamwork, anticipate change and lead their Company towards higher goals. Perhaps that is why, despite our 44 years in the business and a mindset that cherishes human values, we remain young, vibrant and ever alive to the challenges of today.

Far before the corporate world began to recognise intellectual property as a tangible asset, we acknowledged the power of empowered people. Over the years, JK Paper has nurtured the creation of a 'Learning Organisation', where people imbibe, absorb and pass on knowledge. This is what has enabled us to become a first mover and trendsetter in the industry.

Effective leadership does not happen automatically. It has to be developed and nurtured by providing a conducive work environment, opportunities to grow and sufficient resources. This constantly motivates and energises the Company's employees, generating a never ending passion towards their work. It is for this reason that a large number of people who start their careers with us at the entry level, rise through the organisation to the very highest positions and eventually retire with us.

While we continue to set new benchmarks in the Industry, it is the years of trust and reliance on the company workforce and their leadership abilities that is paying dividends. As we march forward to take on the challenges of tomorrow, it is these self-motivated individuals of JK Paper who are leading the journey of change from the forefront.







## Beyond Technology...

Without a doubt, it is technology that drives the modern world. And, it is people who drive the technology. With all things being equal, the difference lies in how that technology is deployed. Over the years, JK Paper has made significant investments in installing world-class technologies. Yet, beyond technology, it is how creatively and effectively our people have harnessed it, that really gives us the cutting edge.

The common perception that with increasing mechanisation and automation, the value of the human touch reduces could not be



farther from the truth. In today's world, human decisions have a far greater impact over a larger interlinked process, making it even more critical to deploy the right talent at the right place to manage the operations. To address this challenge, we have invested substantially in continuous improvement of processes and human skills. This effort involves identifying and grooming individuals, who can drive the technology movement at JK Paper, through our time-tested practices such as Quality Circles - a dynamic shop floor level participative management system, Jishu Hozen Circles within the TPM (Total Productive Maintenance) best practices, Suggestion Scheme, Exemplary Work Award and several TPM related awards. On the process front, the Company has adopted an ERP (Enterprise Resource Planning) system to ensure seamless flow of information and enhance managerial efficiency. This also aids our Company personnel in ultimately enhancing Customer satisfaction.

Clearly, JK Paper has gone well beyond just strategic investments in technology, by implementing a series of dynamic HR practices so that Team JK is more empowered than its peers in making the most of technology. After all, you do not just require the finest technology to produce the best quality; you also need the finest application of the human mind.





# Harnessing Talent

To be an industry leader, an organisation needs to be a change leader. And positive change can only come when individuals at every level are constantly growing and contributing.

At JK Paper, we maintain a robust skill up-gradation and enhancement programme for all levels of employees on a continual basis. To develop individual competencies and knowledge, people are sponsored to external training institutes as well as trained in-house through a variety of learning modules. These include on site training by Suppliers during commissioning



of new plants and Product Development Seminars. Visits are also organised to other industries, to provide first hand exposure to the best practices prevalent there.

A systematic and structured internal training programme is carried out in the Company. A Mentoring system is in place where Seniors (Mentors) train groups of juniors to enhance their product and process knowledge. Top Management interacts regularly with the junior staff to share best practices and experiences. Job rotation and Multi-skill training for workmen enables employees to enhance their abilities, opening new avenues for their growth. Other means for professional and personal development include “E-Learning” modules through the Company intranet and “Learning Clubs” to exchange knowledge and experience through stories of success and failure.

HR focus is not limited to just existing employees. Company personnel visit Campuses to recruit youngsters from Business Management and Technical streams so that talent can be groomed early to take on leadership roles. At the same time, training also extends beyond the boundaries of the Company to cover our Strategic Business Partners like Vendors, Distributors and Dealers. JK Paper believes that its distributors have a long term stake in the success of the Company and it is often the quality of their Customer Relationships that make for the Company's winning Brands.







## New Facets of Excellence

Since inception, we at JK Paper have never let an obsession with numbers blur our vision for value creation. Certainly, we are among the largest paper companies in India. But what sets us apart though is our long track-record of raising the benchmark of excellence, for the paper industry as a whole.

Excellence at JK Paper is all pervasive. The conceptualisation and execution of our new, state-of-the-art Board project to manufacture international quality coated packaging boards bears testimony to this fact. This plant will match the best in the world both in terms of

technology and service capability. From Procurement to Production, to eventually servicing the Customer, the Company is raising the bar to achieve the highest levels of excellence. This is the result of meticulous planning by the team, an infatuation for detail and deep insight of Customer needs.

From Project Management to managing Customer Relationships, JK Paper has demonstrated its commitment to excellence in all facets of its operations. The Company's pioneering marketing initiatives are setting new benchmarks. "Super Sitare", the Trade Loyalty Programme, is the first of its kind in the Indian paper industry. This endeavour covers over 1,100 channel partners and has generated unprecedented appreciation from the market helping further consolidate its distribution network. Clearly, the company has been investing in not only the hardware, but equally on the softer side of the business.

JK Paper's thrust on excellence has been recognised at different fora, leading to the Company winning a number of awards over the years; the latest being the "National Safety Award" presented by the Government of India. From the most modern pulp mill to the contemporary cut-size line for branded products; from the recent forward integration into world-class coated papers and now packaging boards to the continuously improving quality of maplitho and copier papers. The quest for staying one step ahead of customer expectations goes on...







## An Evergreen Vision

Responsible paper making demands a holistic environmental vision and at JK Paper, we see trees as not just a critical raw material resource but also the means to transform the lives of the rural community while also promoting a greener India.

Today, our high-tech farm forestry movement is 53,000 hectares vast, and has become a People's Movement involving thousands of farmers across Orissa, Andhra Pradesh, Chhattisgarh, West Bengal, Gujarat and Maharashtra. Along with environmental benefits, distribution of high yield Clonal plants developed at our in-house





R&D Centre has helped farmers to substantially increase the returns from their farms. Teams from the Company travel across the rural hinterland encouraging, educating and advising farmers about the merits of farm forestry and the latest farming techniques.

Advanced research in high-yield saplings has resulted in enhancing raw material availability and quality, greening of surroundings and generating nearly 28 million man-days of employment among the rural masses. It has put us ahead, both in terms of product quality and cost competitiveness.

Our eco-friendly processes at the Mills ensure control of emissions to minimise any kind of adverse effect to the environment. Both mills are ISO 14001 accredited and the fact that Unit JKPM was adjudged the Greenest Paper Mill in 1999, is a testimony to our commitment. Our mills not only comply with but operate at emission and effluent norms well below nationally prescribed standards. Treated effluent can be used to irrigate nearby fields, fly-ash is used to make bricks and water and energy consumption is reducing every year.

What sets our eco-commitment apart is our unique corporate vision to protect the environment through process innovations rather than end-of-process treatments. Thus, our environmental friendly practices are designed to go beyond our operational requirements and work towards ensuring a better and greener tomorrow for the society as a whole.



# Chairman's Statement

Dear Shareholder,

The amazing India growth story continues and is set to become stronger in the years to come. The robust performance of manufacturing appears to be making a vital difference, as only till recently India was seen more as a knowledge led economy. The massive investments and the strong will shown by the industry in the last few years appears to be leading to its emergence as a global force, based on increasing quality and cost competitiveness.

The Indian Paper Industry is also witnessing profound changes in respect of the Scale and Quality of investments. Despite reducing import tariffs, the industry has displayed enough resilience to grow in line with the growth of the overall economy of 8%. JK Paper has been the industry's Change Leader recording strong growth of 12% in the last financial year. Clearly, this was possible because of the power of its key assets like Manufacturing capability, Distribution network and Brand Equity having been created over decades by the unique spirit and passion of its people who have been the biggest strength.

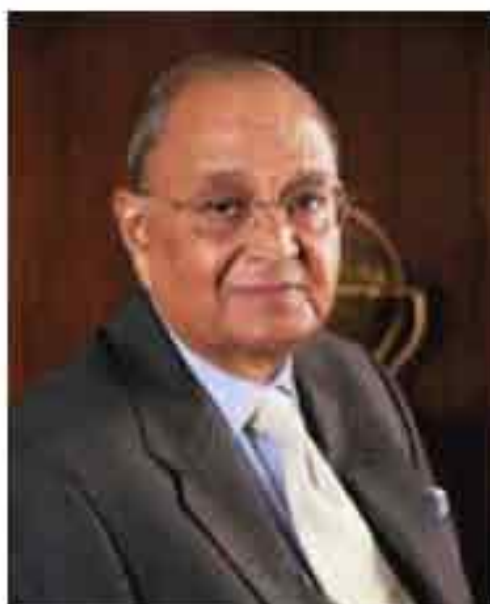
JK Paper's biggest differentiator has been the Quality Culture, providing it a distinctive leadership position. This is an outcome of an uncompromising belief in the value of quality, which has become a way of life, be it quality of products, quality of processes or the quality of its customer relationships and services.

JK Paper has always believed in competing with itself more than competing with others. Whether competition exists or not, the Company is committed to providing better value with the passage of time leading to strong bonding with Customers on the strength of this value system. It is for this reason that JK Brand has become generic to paper. In that, if you think of paper you think of JK Paper.

Over the last four decades Team JK has had a number of firsts to its credit as a Change Leader. Some of them include: introduction of surface sized napithin paper, investment in a World Class Pulp Mill, marketing paper in banded form and

the first to undertake Outsourcing of paper.

Another first which will be seen in the course of 2006-07 will be JK being the first Printing & Writing Paper Company to offer world class packaging boards, with its new Board Project scheduled to start up in the 2nd half of this year.



This will make JK Paper the only leading manufacturer of high and uncoated and coated printing papers, cut size papers and top of the line coated packaging boards.

All these landmark achievements have been possible with the proactive contribution of people - most of who have been associated with the Company for a lifetime. JK Paper's Human Resource has not just contributed to the growth of the Company, but has grown with it, becoming a valuable asset in terms of experience, knowledge and competency gained in the process.

Some of the Company's key people-led initiatives such as Quality Circles, TPM, Mentoring, Competency Development etc., have gone a long way in harnessing the intellectual property of its people on the one hand and enhancing the leadership status of JK Paper on the other. The Company's foray into the Coated Paper business last year and the execution of the Packaging Board Project stand testimony to the spirit and will of our people to add value and deliver superior business performance in the coming years. With the world becoming smaller and flatter, I am more than convinced that it will be our people who will take the Company forward and not just help maintain its benchmark status in the Indian Paper Industry, but indeed help lead the industry in a rapidly globalising Indian paper market, providing all its stakeholders consistently superior value.

With Best Wishes

A handwritten signature in dark ink, appearing to read 'Hari Shankar Singhania'.

HARI SHANKAR SINGHANIA



# Managing Director's Message

Dear Shareholder,

The continuing strong performance of the Indian economy appears to suggest that India will play a leading role on the global scene for the next few decades. This widespread belief is borne out by the massive investments being committed to infrastructure development, which has until now been a roadblock in the rapid growth process.

In this context, the Indian Paper Industry has performed quite well, meeting domestic demand growth and providing consumers a wide range of good quality products. Rising exports, growing consumerism and Government thrust on education has clearly set the Paper Industry on a high growth trajectory.

While demand continues to grow healthily across most segments, JK Paper has chosen to concentrate on value added and high growth product segments. Record Sales of 1,97,313 Tons during the last fiscal reflect this. Sales turnover went up by 16% and key brands like JK Copier, India's largest selling paper brand, registered a growth of 17%. The high-end Coated Paper JK Cota, launched in July 2005, achieved a market share of 17% in less than a year. Outsourcing, a pioneering initiative, also recorded strong volume growth of 28%. All this resulted in a jump in Profit Before Tax of 41%.

JK Paper today continues to be the Industry's Change Agent and Benchmark, thanks to the indomitable spirit of its People. Leadership, at all levels in the Organisation, has enabled JK Paper to scale new heights in various facets of the business. Be it Brands, Quality of products and services, Technology, Innovative Strategies and most of all, in the Customer Satisfaction Index, JK Paper stands out as an undisputed Leader. This position has been attained due to the commitment of the founding fathers to the philosophy of empowering the Human Resource. Each member is a true brand ambassador of JK, embodying the unique organisational values of Caring for People, Integrity and Commitment to Excellence.

JK Paper has been proactively upgrading the quality of its Maplitho and Copier papers. The Company has introduced

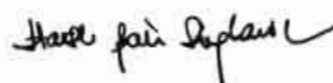
different variants to satisfy diverse customer needs. This has resulted not only in retention of customers in an increasingly competitive market but attainment of high market share in Copier varieties. The Company has made substantial investment in manufacturing high quality Coated Papers like JK Cota,

thereby growing the market demand itself and accelerating upgradation of applications to better quality papers. Its current project of producing international quality Multi-layer Packaging Boards, scheduled to go on stream in the second half of 2006-07, should bring about similar changes in the market place. These investments have been driven by considerable passion involving not only hardware to produce world quality products but also in marketing to provide customers greater value.

JK Paper treats its employees as entrepreneurs who have a sense of ownership and are empowered to chart the destiny of the Company. People at

all levels are encouraged to implement new ideas and take risks. This spirit has enhanced the commitment and contribution of each member of JK Paper who seeks not just a mere job but a challenging and life-long career with JK. Today, many of our people have spent a near life-time with JK Paper and many have grown through the ranks to reach the highest levels of management. With strong fundamentals and a clear vision for the future, JK Paper is in the midst of charting out an ambitious growth agenda. A confident Team JK is working tirelessly and with passion to create a bright future, a future that will take JK Paper into the league of 'World Class' companies. I sincerely believe that the future of JK Paper is secure in the hands of its People, a future that promises enough reward for all its stakeholders.

With Best Wishes



HARSH PATI SINGHANIA





## DIRECTORS' REPORT

### To the Members

The Directors have pleasure in presenting the Annual Report and Audited Accounts of the Company for the year ended 30<sup>th</sup> June, 2006.

### FINANCIAL RESULTS

	Rs in Crore (10 million)	
	2005-06	2004-05
Gross Sales	844.62	729.24
Net Sales and Other Income (after discounts and excise duty)	665.12	571.29
Profit before Interest, Lease Rent and Depreciation	135.00	117.30
Interest & Lease Rent	33.80	39.35
Profit before Depreciation	101.20	77.95
Profit before Tax	54.33	38.60
Profit after Tax	35.52	38.53
Debenture Redemption Reserve Written back	4.85	0.60
Surplus brought forward	35.85	44.07
Total amount available for appropriation	<u>76.22</u>	<u>83.20</u>
APPROPRIATIONS		
Debenture Redemption Reserve	0.35	2.22
Capital Redemption Reserve	1.43	-
General Reserve	3.00	30.00
Dividend:		
- On Preference Shares (incl. Tax on Dividend)	2.56	2.57
- On Equity Shares @ 20% (incl. Tax on Dividend)	14.14	12.56
Surplus carried to Balance Sheet	54.74	35.85
TOTAL	<u>76.22</u>	<u>83.20</u>

## DIVIDENDS

During the year, the Company declared and paid an interim dividend on Preference Shares at the specified rates amounting to Rs. 1.76 crore and at 14% on Equity Shares amounting to Rs. 8.79 crore.

Your Directors are pleased to recommend a final dividend of Rs. 0.80 crore at specified rates on Preference Shares and 6% on the enhanced Equity Capital, amounting to Rs. 5.35 crore for the year ended 30<sup>th</sup> June, 2006.

The total outgo, on account of dividend, for the year ended 30<sup>th</sup> June, 2006 would be Rs. 16.70 crore.

### PERFORMANCE REVIEW

During the year under review, Gross Sales and Other Income increased by 16% to Rs. 844.62 crore and Operating Profit (PBITD) went up to Rs. 135.00 crore. Profit Before Tax (PBT) increased by 41% to Rs. 54.33 crore. After making a substantially higher provision for deferred tax compared to the previous year, Profit After Tax was Rs. 35.52 crore.

The Company produced 1,84,982 tonnes (previous year 1,80,089 tonnes) of Paper and Market Pulp, recording capacity utilisation of over 103% on enhanced capacity. It achieved record Sales of 1,97,313 tonnes (previous year 1,82,818 tonnes), reflecting strong market demand for its products. The Company continued to pursue its outsourcing strategy of getting some products manufactured to its specifications in order to fully leverage its marketing capability and offer its customers a wider product range.

Demand for Paper and Boards grew healthily at around 7.5% overall in 2005-06. JK Paper's focus segments i.e. value added cut-size Papers and Coated varieties continued to record double digit growth. The market outlook for 2006-07 remains positive due to strong growth of the Indian economy and Government thrust on education.

JK Paper maintained its dominance in the branded A-4 paper market despite growing competitive intensity. Sales of Copier paper increased by 17% in the domestic market. The new high end Coated Paper, launched in 2005 under the brand name "JK Cote", found ready

acceptance in the market. The Company has been able to increase its volume steadily in this high growth segment to achieve a market share of 17% in the last quarter of the year. Volumes have grown further during the current year accompanied by higher sales realization. Demand for Company's other products like High-Bright Maplitho, Bonds and Cheque Papers etc. also continues to be strong.

While there was an increase in overall sales realization during the year, the Industry continued to witness a strong cost push. Prices of raw materials (wood and bamboo) continued to rise steeply while coal and transportation costs also increased. In order to minimize the impact, the company pursued measures to reduce cost and improve efficiency through programmes like TPM and Operational Excellence.

To address the issue of raw material, JK Paper assiduously continued its efforts to promote technology based plantations across the States of Orissa, Andhra Pradesh, Chattisgarh, West Bengal, Maharashtra and Gujarat. It distributed over 34 million saplings/clones of pulpwood trees to farmers, covering an additional area of over 6720 hectares. Cumulatively, a total area of over 53,000 hectares have been planted so far by both units of the Company. This is in addition to the bamboo the Company procures through working of leased forest areas in the States of Orissa and Gujarat.

## **CAPITAL EXPENDITURE**

In line with JK Paper's strategy to focus on value added product segments and enhance its premium product portfolio, an Oxygen Delignification facility was commissioned at unit CPM in December 2005. This has reduced consumption of Chlorine by 35% and commissioning of the Chlorine Dioxide plant in the current year will further improve product quality and enhance environment friendliness.

As reported last year, the Company is setting up a state of the art Multi Layer Packaging Board plant at its unit CPM. The erection work is progressing satisfactorily and the project is expected to go on stream during the second half of the Company's current Financial Year. The market for this product segment continues to grow strongly and the Company has already started its market development efforts.

In order to retain JK Paper's leadership in the branded cut size paper market, the Company is installing a new A-4 cutting line.

ERP System was started up during the year and its application is being progressively enhanced.

The total capital outlay for the Expansion and Modernisation programme including investments to be made in enhancing power generation and environmental systems is Rs.340 crore.

## **FUND RAISING**

Funds for the above capital expenditure have been fully tied up. During the year the Company issued Equity Shares on preferential basis to International Finance Corporation (IFC), Washington and to a promoter Group Company at a price of Rs.65 per share, aggregating to Rs.100 crore. It also issued GDRs at an underlying share price of Rs.69 per share and 1.25% Foreign Currency Convertible Bonds (FCCBs) due 2011, convertible into Equity Shares at a price of Rs.95 each. Term Loans of approx. Rs.100 crore were also tied up and the balance will be met from internal accruals. As a result of this, the Company's paid up Equity Capital stands enhanced from Rs.55.07 crore to Rs.78.15 crore as of 30<sup>th</sup> June, 2006.

It is heartening to note that global investors like International Finance Corporation, Washington and Goldman Sachs Group participated in the Company's fund raising programme.

## **COMMITMENT TO QUALITY AND CUSTOMER SATISFACTION**

JK Paper's products are widely accepted as benchmarks in the market. It constantly seeks to enhance quality standards with improved levels of customer service.

During the year the Company further improved the quality of its leading brands – JK Copier and JK Easy Copier in addition to other printing and writing papers. Advanced order tracking systems and technical support for product application have resulted in increased customer satisfaction.

Both the units of the Company continued to maintain ISO 9001 : 2000 accreditation.

## **COMMITMENT TO HEALTH, SAFETY, ENVIRONMENT AND SOCIAL CAUSES**

JK Paper is fully committed towards providing a healthy and safe operating environment for its employees. Utilisation of modern technology and continuous employee training has resulted in the CPM unit getting the National Safety Award 2004 from the Ministry of Labour and Employment, Government of India. Constant effort is made to reduce consumption of natural resources. During the year the Company was able to reduce its energy and water consumption per unit, which also resulted in the CPM Unit getting the coveted CII Sohrabji Godrej's "National award for Excellence in Energy Management 2005". The Company deploys eco-friendly technology to provide a safe and clean environment in its neighbourhood. Both CPM and JKPM units are ISO 14001 certified.

The Company actively participated in relief operations during the recent floods in Surat. Its programme of Mobile Health Care for the nearby villages is showing excellent results with recorded decline in many diseases in these areas. The Company continued its efforts to increase literacy levels in and around its factory areas and its Social and Farm Forestry programme has provided improved livelihood opportunities to thousands of farmers.

## **DIRECTORS**

Shri Dharendra Kumar, Shri Gajanan Khaitan and Shri P.K. Kaul retire by rotation at the ensuing Annual General Meeting and being eligible offer themselves for re-appointment. Shri Arun Bharat Ram, a well known industrialist and Shri Udayan Bose, a well known Banker have joined the Board as Additional Directors. They will hold office till the forthcoming Annual General Meeting at which they are proposed to be appointed as Directors. This will further broaden the composition of the Board. Shri Jitender Balakrishnan ceased to be a Director on the Company's Board. The Board places on record its sincere appreciation of the significant contributions made by him during his tenure.

## **AUDITORS**

M/s. Lodha & Co. and M/s. S.S. Kothari Mehta & Co., Chartered Accountants, the auditors of the Company

are eligible for re-appointment at the ensuing Annual General Meeting. The observations of the Auditors in their Report on Accounts read with the relevant notes are self-explanatory.

## **COST AUDIT**

The Cost audit for the year ended 30th June 2006 will be conducted by M/s R.J. Goel & Co, Cost Auditor and the reports will be submitted to the Ministry of Company Affairs, Government of India.

## **ENERGY, TECHNOLOGY & FOREIGN EXCHANGE**

Details of energy conservation, technology absorption, foreign exchange earnings and outgo, required to be disclosed 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 is annexed to this Report and forms part of it.

## **PARTICULARS OF EMPLOYEES**

Information in accordance with the provisions of Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended regarding employees is given in Annexure to the Directors' Report. However, as per the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956, the Annual Report is being sent to all shareholders of the Company excluding the aforesaid information. Any shareholder interested in obtaining such particulars may write to the Secretary at the Company's New Delhi address.

## **CORPORATE GOVERNANCE**

Pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges, Management Discussion & Analysis, Corporate Governance Report and Auditor's Certificate regarding compliance of conditions of Corporate Governance are made a part of this Annual Report.

## **DIRECTORS' RESPONSIBILITY STATEMENT**

As required under Section 217 (2AA) of the Companies Act, 1956, your Directors state that:



- i. in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- ii. the accounting policies selected and applied are consistent and judgments and estimates made are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the Financial Year and of the Profit & Loss of the Company for that period;
- iii. proper and sufficient care has been taken for maintenance of adequate accounting records in accordance with the provisions of the said Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- iv. The annual accounts have been prepared on a going concern basis.

## **INDUSTRIAL RELATIONS**

The Company continued to maintain cordial industrial

relations with its employees and wishes to acknowledge their efforts at raising productivity levels.

## **ACKNOWLEDGEMENT**

The Directors wish to acknowledge the continued support and cooperation received from the Central Government, State Governments, participating Financial Institutions and Banks, Customers, Suppliers, Dealers and Shareholders.

We would also like to place on record our sincere appreciation for the total commitment, dedication and hard work, put in by every member of Team JK.

On behalf of the Board of Directors

**HARI SHANKAR SINGHANIA**  
*Chairman*

New Delhi  
The 25<sup>th</sup> September, 2006

## ANNEXURE TO THE DIRECTORS' REPORT FOR THE YEAR ENDED 30<sup>TH</sup> JUNE, 2006

### Energy Conservation, Technology Absorption and Foreign Exchange Earnings & Outgo

#### a) Energy Conservation

Your Company has taken the following measures for energy conservation:

	Savings
1. Running of Generators at reduced frequency i.e. 49 HZ	25.20 Lacs KWh/Yr.
2. Installation of frequency drive for slurry pumps and stopping ODS pumps with air compressor	2.1 Lacs KWh/Yr.
3. Installation of frequency drive for PA fan of CFB-V Boiler	1.76 Lacs KWh/Yr.
4. Replacement of conventional vacuum pumps by Energy Efficient vacuum pumps in JKPM paper machine area	5.88 Lacs KWh/Yr.
5. Replacement of incandescent bulbs by Energy Efficient CFL Lamps	1.26 Lacs KWh/Yr.
6. Installation of 32 Nos Energy Efficient TEFC motors in ODL Plant at CPM	1.73 lac KWH/yr
7. Replacement of 5 Nos old US Screen protected motors by Energy Efficient TEFC motors in CPM Pulp Mill	1.56 lac KWH/Yr
8. Replacement of old inefficient pump by energy efficient pump and stopping BSW spray water pump	2.99 lac KWH/Yr
9. Use of ODL Plant hot water in CPM Pulp Mill – LP steam saving	3000 Tonnes/Yr

#### b) Research & Development Expenses

During the year, the Company has spent approx Rs. 2.0 crores on Research & Development. Extensive application research continued through various trials on the shop floor.

1. Manufacture of Copier grade paper in ASA sizing mode with further improvement of brightness upto 93.5% ISO.
2. Conversion of paper to alkaline sizing (AKD / ASA) to match international quality.
3. Use of imported chemicals like PAC for water treatment for cost reduction and better treatment.

#### c) Technology Absorption, Adaptation and Innovation

1. Introduction of Blade coated C2S Art Paper and Boards (Brand – JK Cote) in the Indian Coated Paper Market.
2. Installation of modern and energy efficient fine screening system in pulpmill for better cleanliness and reduction in fiber loss at CPM.
3. Oxygen Delignification plant (ODL) was commissioned at CPM. Apart from substantial reduction of AOX in the effluent, the pulp brightness has improved to 83% ISO with reduced colour reversion of pulp and lower chlorine consumption in the bleaching by 35%.
4. Installation of a new modern Rewinder of Globe Radio make to replace old rewinder of PM-II (CPM) for improved reel quality and productivity.

#### d) Foreign Exchange Earnings and Outgo

Rs. In Lac (0.1 Million)

(a)	Foreign exchange earned	3,419.81
(b)	Foreign exchange outgo: - CIF Value of Imports - Others	4,704.89 388.02

## PARTICULARS OF CONSERVATION OF ENERGY

Sl. No.	Particulars	Units	2005-06	2004-05
A.	<b>POWER &amp; FUEL CONSUMPTION</b>			
I.	<b>Electricity</b>			
(a)	<b>Purchased Power</b>			
	- Units	(KWH in lac)	257.69	165.47
	- Total Amount	(Rs. lac)	1175.77	890.32
	- Rate / Units	(Rs.)	4.56	5.38
(b)	<b>Own Generation</b>			
I.	Through Steam Turbine/Generators:			
	- Units	(KWH in lac)	2276.84	2224.45
	- Cost / Units	(Rs.)	1.75	1.51
II.	Through Diesel Generator			
	- Units	(KWH in lac)	6.99	9.65
	- Units per Litre of Diesel Oil	(KWH)	3.72	2.79
	- Cost / Units	(Rs.)	12.25	11.59
2.	<b>Coal</b>			
	- Quality (Grade)		"B" to "F"	"B" to "F"
	- Where used		CF Boiler	CF Boiler
	- Quantity	(MT)	279,110	2,86,966
	- Total Amount	(Rs. lac)	3,827.44	3,850.04
	- Average Rate/MT	(Rs.)	1,371.30	1,341.64
3.	<b>Furnace Oil</b>			
	- Quantity	(KL)	281.10	374.30
	- Total Amount	(Rs. lac)	52.29	48.69
	- Average Rate / Ltr.	(Rs.)	18.60	13.01
4.	<b>Others / Internal Generation</b>	-	-	-

## B. CONSUMPTION PER UNIT OF PRODUCTION

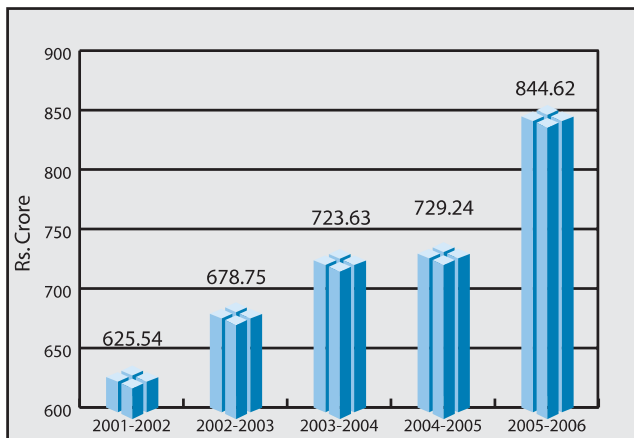
Product	Year	Electricity Kwh/Mt	Coal Kg./Mt.	Furnace oil Lt./Mt.
Imported	<b>2005-06</b>	<b>1,426</b>	1,530	1.53
Indigenous	<b>2004-05</b>	<b>1,404</b>	1,615	2.28



# JK PAPER GROWTH PATH

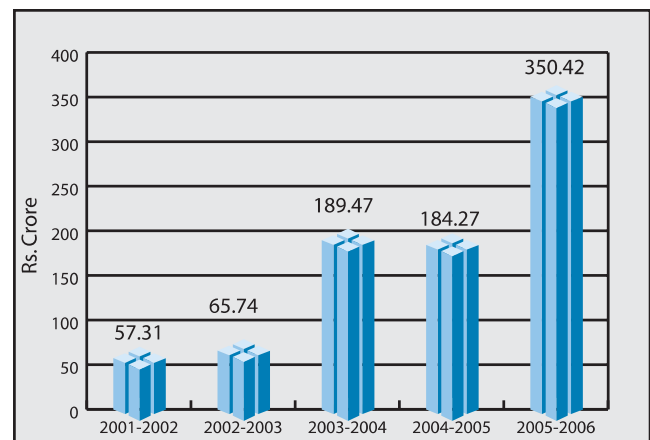
## Gross Sales

All time high of Rs. 844.62 crore against Rs. 729.24 crore in the previous year.



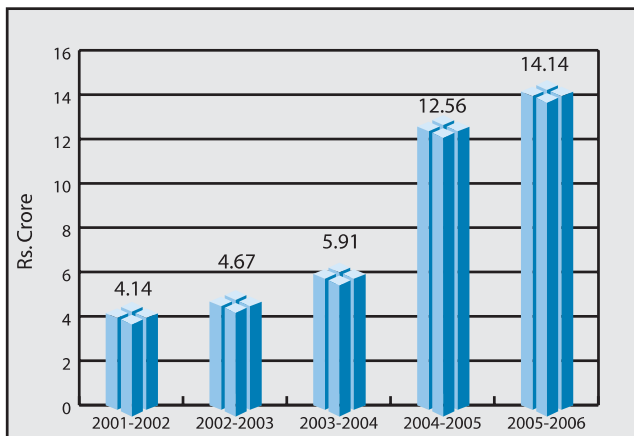
## Equity Shareholders Funds

Net Worth has increased more than six-fold since 2001-02



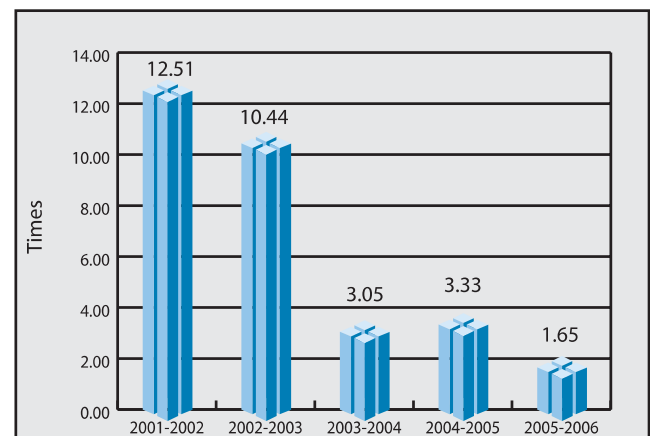
## Equity Dividend Distribution (incl. Tax)

Equity Dividends distributed has increased 3.4 times since 2001-02



## Debt - Equity Ratio

Debt Equity has considerably improved from 12.51 to 1.65



# MANAGEMENT DISCUSSION AND ANALYSIS

## OVERVIEW

The last decade or so has witnessed far reaching changes in the pulp & paper industry. There has been a clear demand shift towards Asia-Pacific as major markets such as India & China demonstrate robust growth rates. On the other hand fibre supply is shifting towards Latin America in the south and Indonesia in the east with a concurrent decline in the North American pulp industry. Industry fragmentation continues to be a serious issue and increasingly industry players accept it as a challenge to be addressed.

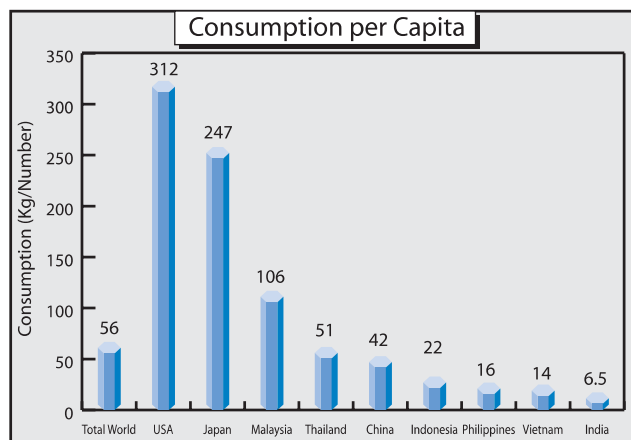
On examination of the specific demand trends observed in the recent years and based on the above mentioned phenomena, the production of paper has been progressively shifting from Europe & North America to the emerging markets of Asia & Eastern Europe. In the developed markets, the prospect of significant increase in consumption of paper appears to be limited. Consequently, significant new capacity is being created in Asia-Pacific supported by reallocation of funds to the emerging markets. The increasing competition from low cost Asian producers has had a substantial adverse impact on the profitability of large American mills. On the other hand, the European producers by and large attempted to establish equilibrium between supply & demand by cutting back their capacities, particularly addressing the oldest and highest cost capacities. Clearly, Asia (in particular India and China) is emerging as an important market for pulp & paper and is expected to account for 60% of global incremental production during the period 2004-2020.

Pulp will remain a globally traded commodity as pulping plants will be more viable near the raw material source, thus enabling countries like Brazil & Indonesia to become major producers. India & China on the other hand will have to rapidly develop their raw material resources if they don't wish to be dependent on importing pulp to meet their future demand.

The industry in the past has seen noticeable cyclicity. However, with more paper capacities being added around the world, the price cycle has become shorter and less pronounced. As a consequence of this, the industry is becoming less volatile.

## Growth drivers

The key growth drivers for paper consumption are GDP growth, population growth and increase in literacy.



Source: ICEM World Conference for the Pulp and Paper Industry, Belgium, 15-16 November 2005.

The existing high growth of Indian economy, rising exports, favourable demographics, growing thrust on education and several macro-economic factors places Indian paper industry on a high growth path from its current low level of per capita consumption of paper.

The consumption pattern of the affluent & middle class is fast aligning with the global trends, resulting in graduation to consumption of higher quality products. This is clearly reflected in strong demand growth of high end cut-size papers, coated grades, high bright maplitho papers and the top end of packaging paper boards - all growing in double digits compared to average industry growth of 7.5% in India.

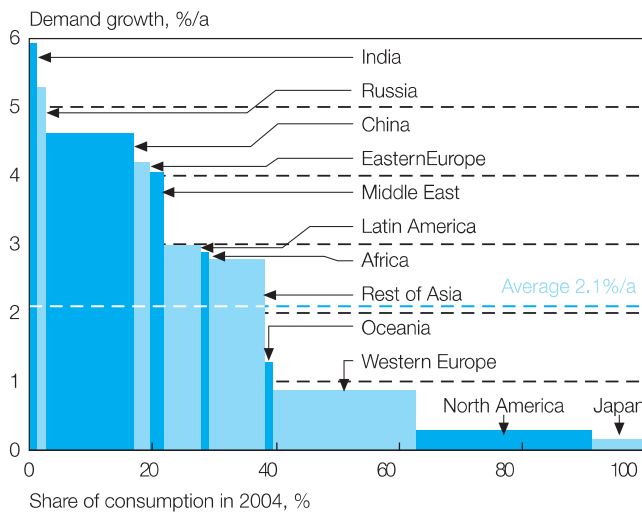
## INDUSTRY SCENARIO AND OUTLOOK

### Global Pulp and Paper Market

The present global demand for paper and paperboard consumption is estimated to be 366 million tonnes which is expected to cross 400 million tonnes by 2010 and 490 million tonnes by 2020. Region-wise growth estimates can be seen from the following table.

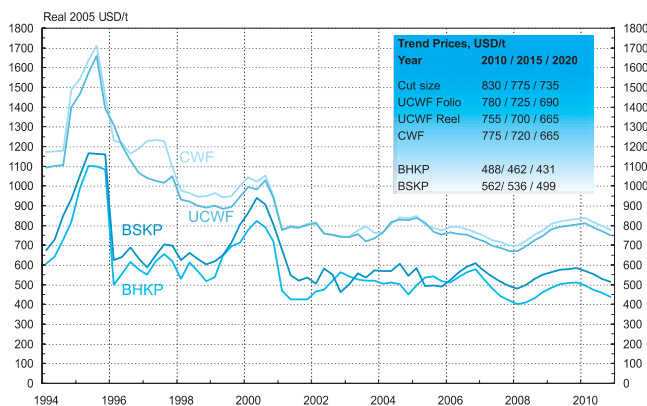


## Long-term demand growth by region through 2020



Source: KNOW-HOW WIRE, January 2006

In respect of the global price trend of both pulp & paper, the last year has witnessed a hardening tendency which has been more pronounced in the case of pulp. The rising demand for pulp, mainly from China and closure of significant capacities in the developed markets explain this trend which is expected to hold out for the rest of the current year.



Source: Poyry

## Domestic Market

Given the overall buoyant macroeconomic trends in India, demand for Paper and Boards is expected to grow at around 8% annually. This high growth is led by consumption shift to value added papers. This trend is prominently visible in packaging grades required for product categories like Pharmaceuticals, Food, Personal care and several other consumer durable & non-durable products. Similarly, in respect of printing & writing

grades, there is rapid shift to consumption of premium quality papers like coated and high bright maplitho. The demand for coated paper is fuelled by a massive increase in advertising & promotional spend and printing of brochures & high quality books. In the case of high bright maplitho, growth in outsourcing of premium publications printed and exported out of India is leading to increased usage.

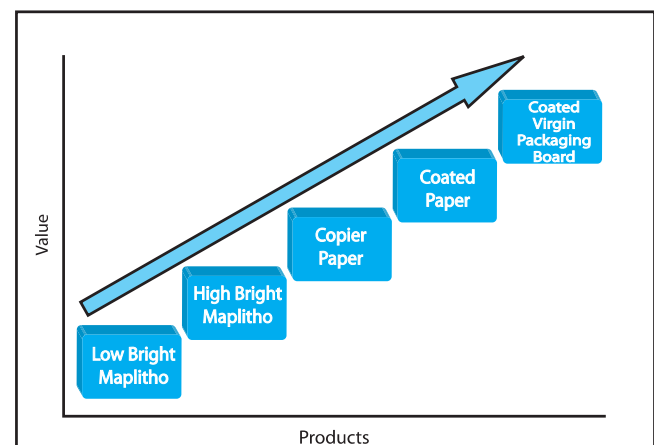
On an overall level, the domestic demand growth for Paper & Board has been higher than the growth in capacity. The demand-supply gap has widened in the last couple of years leading to firming up of paper prices. Hardening of international prices and a strong cost push across the industry also contributed to upward movement in end-product prices in the last one year.

## MARKET FOR COMPANY'S PRODUCTS

### Moving up the Value Chain

Consistent with its Vision statement **"To be a dynamic benchmark and leader in the Indian paper industry"**, JK Paper has always believed in providing the Indian consumer international quality products. The Company's recent coated paper plant and the forthcoming packaging board project, which is expected to come on stream in the current year, bear out the company's commitment in this direction. This has enabled the Company to move up the value chain and enlarge its product portfolio well beyond its traditional maplitho & cut-size categories. With this, JK Paper has emerged as a company participating in all high growth segments.

Share of value added products in the last four years has increased from 36% to 60% of its production.



During the financial year, the Company's overall domestic sales volume registered a jump of 12% compared to overall industry growth of 7.5%. To meet the strong demand, the Company increased paper production, intensified outsourcing and cutback exports. The company was also able to increase its price realisation beyond its competitors.

#### • **Business Communication Papers**

The market for branded cut-size paper is getting increasingly competitive and price sensitive with entry of new players, new brands and more product availability. There is a progressive shift from stand-alone photocopying machines to universal printer copiers/ multifunctional printers, especially in the Corporate & SOHO sector.

Despite growing competition, JK Paper continues to lead the market in cut-size products. The Company could maintain its dominant leadership position through sustained investment in advertising & innovative promotional activities. JK Copier was able to maintain its price leadership by providing customers higher value through superior product performance & service. Sales of JK Easy Copier also continued to grow healthily.

The Company's multi-branding strategy has met with success with major growth being recorded in brands like 'JK Copier Plus' and 'Sparkle'.

The other key brands- 'JK Excel Bond' & 'JK Bond' continued to remain popular among consumers.

#### • **Printing & Writing Papers**

JK Paper has been a pioneer and benchmark in the Maplitho segment, with 'JK Maplitho' being the printer's first choice for over last four decades. It continues to command a premium price of nearly 3% to 5% over its next competitor.

To meet the growing demand for high bright maplitho, the Company invested in Oxygen Delignification (ODL) process at unit CPM which has resulted in improved quality with excellent customer response. During the current year, the Company is scheduled to commission its Chlorine Dioxide plant to further enhance the quality.

#### • **Coated Paper**

The Company's new coated paper-'JK Cote' launched in July 2005 has been able to notch a market share of

17% in the last quarter of the year despite stiff competition from both domestic and global players.

The company's marketing efforts focused on identifying the right customer segments and providing tailor-made products. This was achieved by moving closer to customers through interactive sessions at both individual and group levels and extending the distribution network.

'JK Eco Cote' (one side coated paper) has been able to consolidate its position in the market place. The company introduced another brand 'JK Chromo' which has gained popularity.

#### • **Outsourcing**

Beyond manufacturing, the Company has been aggressively outsourcing products as reflected in its successful development of 'JK Eco Cote', 'JK Chromo' & 'Maplitho CG' grades. These initiatives have enhanced JK's image of a customer focused company by addressing their varied needs and offering a wider product basket.

The Company's domestic outsourced volume grew by 28% during the year.

#### • **Market Pulp**

The Company has been selling its surplus pulp from both its units in the domestic market over the last few years. Number of paper mills are buying the Company's pulp, substituting imports. Unit CPM more than doubled its volume of saleable pulp.

### **OPPORTUNITIES & STRENGTHS OF THE COMPANY**

#### **Demand for Paper & Boards**

India's GDP growth rate of 8.4% places it as the 2nd fastest growing economy in the world. The enhanced Government thrust on education (6% of GDP) is providing a fillip to the growth in demand for paper.

The maturing of the domestic market with customers demanding world-class products at globally competitive prices is having profound effects on Indian paper & paperboard industry.

As against the earlier estimates of demand growth of 6.5% p.a. it is now estimated that the overall demand for paper and board will grow at 8% p.a. till 2009/10 to reach a volume close to 90 Lac tonnes.



## Quality & Brand Equity

JK Paper's obsession for quality places the customer at the very core of its business. In the area of product quality, JK Paper has been an acknowledged benchmark which has given it an enviable quality leadership position in the domestic industry. Establishing quality benchmarks and developing products to meet the unique needs of different customer segments has been the essence of JK's marketing and product development efforts. In its endeavour to enhance its level of customer service, JK Paper has started up its ERP System in April 2006.

The Company has invested in creating strong brands which are well recognised by customers. In the printing & writing range, the 'JK Maplitho' family of papers, including 'JK Pulp Board', continued to be recognized as premium products. Niche and speciality products like 'JK Bond', 'JK Excel Bond', 'CPM Parchment', 'Ledger Paper' and 'JK MICR Cheque Paper' enjoyed discerning customer preference.

'JK Copier', the largest selling brand in the Indian paper industry is the leader in the cut-size segment supported by brands like 'JK Easy Copier', 'JK Copier Plus' and 'Sparkle'. Other products in this segment include 'JK Excel Bond' in cut-size packaging and 'JK Savannah'.

In the coated segment, the Company has been able to establish brands like 'JK Cote' and 'JK Eco Cote' within a relatively short period of three years.

## Distribution Network

One of the biggest assets of JK Paper Ltd. has been its decades old distribution network. Nearly 75% of its distributors have been associated with the Company for over 30 years. More than 120 distributors (60% of them exclusive) have been carefully nurtured and treated as the Company's strategic business partners. At the next level, a robust dealer network has been expanded to 3000 numbers providing both depth & width, reaching out to customers, providing them with better quality service. The wide reach of the distribution network and the quality of customer relationships can be validated from the fact that 60% of sales come from smaller towns.

Apart from a number of multi-product distributors, the Company has engaged distributors who exclusively handle specific products like coated paper, cut-size paper

and packaging boards. These focused distributors have successfully and proactively fulfilled the needs of its customers.

## Locational advantage

Going forward in an increasingly competitive business scenario, logistics will play a key role in terms of both cost & service competitiveness.

While Unit CPM is located in the heart of the largest market of Western India and also serves the Northern markets, Unit JKPM is ideally located to cater the needs of the Southern & Eastern regions of India.

The Board project when commissioned at unit CPM will enjoy significant advantages due to its excellent location, as the Western market accounts for over 40% of the packaging board consumption in India.

## EXPANSION

The coated packaging board segment in India is growing at a rate of around 11% per annum. High-end and value-added coated boards - the segment that is being targeted with the expansion at Unit CPM - are growing much faster at over 20% per annum. The total demand for coated packaging boards in India is estimated to be around 12 lakh tonnes per year. Besides, end-product prices have hardened in the recent past.

The upper-end of this segment is dominated by a single producer, who has a share of 25% of the total board market. The rest of the market is shared between a handful of players in the middle quality and around 50% is in low-end segment with a highly fragmented supplier base. Imports of packaging boards are negligible.

The Company's Board project is progressing as per schedule and is expected to go on stream during the 2nd half of the Company's current financial year.

The finances have been tied up and the Company does not envisage any major cost or time overruns. The Company has started contacting customers and finalising distribution arrangements. Recruitment of qualified and experienced personnel is well under way.

## MAJOR CONCERNS

The biggest concern for the Indian Paper Industry is the relative scarcity and high cost of fibrous raw material. Raw material costs have continued to rise due to lack

of a conducive Government Policy regarding industrial plantations. Farm and social forestry initiatives are insufficient to meet the needs of paper mills. The Indian producers have to face competition not only from other domestic mills but also from paper companies located in Indonesia, China and other parts of Asia. The international companies enjoy economy of scale due to better availability of raw material and have lower input costs in the areas of energy and other infrastructure costs. In this context, the growing number of bilateral and Free Trade Agreements (FTAs) are also a cause of concern. These issues will need to be addressed if the Indian Paper Industry is to compete on equal terms with international companies in the future.

## RAW MATERIAL

The Company's current production capacities require 5,40,000 tonnes of bamboo and wood per annum.

The Company sources its bamboo mainly through working of bamboo forests in the states of Orissa and Gujarat. These operations are carried out in a sustainable manner and yield between 30 to 35% of the Company's raw material requirements. The balance (almost entirely wood) is procured through open market purchases and farm forestry programmes.

The Company has set up more than 100 nurseries where high quality seedlings are raised. These saplings are then given to farmers for plantation in their lands with the twin objectives of increasing raw material availability and improving their livelihood. The Company has developed its own high quality, high yielding saplings using clonal technology. This programme, which was started more than a decade ago has now developed well with farmers demanding JK's clonal plants. Supply of such plants registered an increase of 45% over the previous year and the Company intends to further step up its production of clones.

Plantation activity was carried out in the states of Orissa, Andhra Pradesh, Chattisgarh, West Bengal, Gujarat and Maharashtra. During the year, 34 million saplings including clonal plants, were sold to farmers covering an additional area of 6700 hectares. The Company has to date covered 53,000 hectares under such plantation and has generated over 28 million man days of employment among the rural masses.

In the absence of a clear Government policy on raising

of Industrial Plantations, such Social/Farm Forestry programmes will help augment raw material availability. The Company proposes to sharpen these efforts by encouraging plantation in areas nearer to its mills. This will also help in reducing transportation cost.

During the year, JK Paper signed an agreement with the World Bank to benefit the farmers associated with its plantation programme by linking them to global trade in carbon emission under the Clean Development Mechanism (CDM) of the Kyoto protocol.

## FINANCIAL HIGHLIGHTS

Rs. Cr. (10 million)

	2005- 06	2004-05	Increase/Decrease( ) over previous year
Gross Sales	<b>844.62</b>	729.24	15.8%
Net Sales and Other Income	<b>665.12</b>	571.29	16.4%
Profit before Interest, Lease Rent and Depreciation	<b>135.00</b>	117.30	15.1%
Profit Before Depreciation	<b>101.20</b>	77.95	29.8%
Profit Before Tax	<b>54.33</b>	38.60	40.7%
Profit After Tax	<b>35.52</b>	38.53	7.8%

Production at 1,84,982 TPA and Sales at 1,97,313 TPA was the highest ever achieved by the Company. In value terms, Gross Sales and other income went up by 16% during the year and Operating Profit (PBIDT) increased by 15%. Profit Before Tax jumped up by 41%. However, the Company had to make a substantially higher provision for Deferred Tax during the year which resulted in a Profit After Tax of Rs.35.52 crore.

While Sales Realisation went up by approx. 5% during the course of the year, it was insufficient to fully absorb rising cost of inputs, particularly raw material, coal and transport. The Company continues to pursue efforts to contain costs while simultaneously enriching its product-mix.

JK Paper has undertaken an Expansion & Modernisation Programme involving a Capital Outlay of Rs.340 crore. The majority of this expenditure will be incurred on the Multi-layer Packaging Board project at Unit CPM besides Oxygen Delignification, Chlorine Dioxide plant, new A4 Cutting Line and enhancement of power generation and environmental systems.



Funds for the above have been fully tied up. Equity Shares on preferential basis were issued to International Finance Corporation (IFC), Washington and to a promoter Group Company, aggregating Rs.100 crore. GDRs amounting to Rs. 53.13 crore and FCCBs of Rs. 22.35 crore were also issued. Term Loans of approx. Rs.100 crore from International Finance Corporation, Washington and IDBI have also been contracted. Balance funds will come from internal accruals.

This has resulted in the Company's paid up Equity Capital increasing to Rs.78.15 crore from Rs.55.07 crore and increase in Equity shareholders funds from Rs. 184.27 crore to Rs. 350.42 crore. Debt : Equity ratio of the Company has also reduced.

## **ENVIRONMENT PROTECTION**

JK Paper believes that a clean environment in and around the work place fosters health & prosperity for the individual, the group and the larger community to which they belong. Environmental protection is an integral part of the planning, design, construction, operation & maintenance of all our projects. Structured environmental monitoring, management system and regular audits ensure compliance with all environmental protection laws. Both units of the Company are certified for ISO-14001 and the CPM unit of the Company won the National Safety Award from Ministry of Labour, Govt. of India and the National Award for Excellence in Energy Management 2005 declaring CPM as an "Energy Efficient Unit" by CII-Sohrabji Godrej Green Business Centre, Hyderabad.

Use of modern technology has resulted in Unit JKPM achieving AOX level of about 0.5 kg per tonne of paper which is much below the National standard of 1.5 kg per tonne. Unit CPM AOX also came down during the year with the commissioning of Oxygen De-lignification facility and after the installation of Chlorine Dioxide Plant elementary Chlorine consumption will also reduce. Water consumption is less by 40% and 15% at unit JKPM and unit CPM respectively, compared to National standards.

Nearly 80,000 trees were planted this year in the housing colony and plant areas for greening the surroundings.

In order to keep employees up-to-date on environment, health and safety measures, various training programmes,

in-house mock trials and environmental monitoring are conducted regularly.

The Company is finalising its project for installation of Lime Kilns at both its units to recover Lime from the Lime Sludge. This will bring down the quantity of Lime Sludge disposed by about 85% besides reducing the requirement of Lime which is presently being transported from long distances.

## **HUMAN RESOURCE DEVELOPMENT**

JK Paper has been continuously investing in its Human Resources, who are treated as the organisation's most valuable asset. The company has been pursuing focused skill up-gradation and enhancement programmes for people at all levels, on an ongoing basis. Individual competencies are being developed by sending people regularly to external training institutes as well as through in-house training programmes.

The company has setup a Mentoring system where seniors impart training to groups of juniors with the objective of enhancing their product and process knowledge. To ensure job enrichment and career progression, there is a system of job rotation and multi-skill training for workmen offering new avenues for growth. There are other learning modules such as "Learning Clubs" and "E-learning" which help in both professional and personal growth of people.

In an effort to build a World Class Company, JK Paper has launched a major HR initiative in respect of Competency Assessment and Development of Senior Executives. Gaps are addressed through appropriate individual development plans.

"Talent Management System" has been implemented, which apart from helping attract and retain talent has also led to development of existing talent to take on emerging business and organisational challenges.

In the area of employee involvement, the Company had made significant progress on TPM at both the Units and is now getting ready for the final TPM Certification Audit.

## **INTERNAL CONTROL SYSTEM**

The company operates a budgetary control system for planning and monitoring its operations. The yearly budgets are discussed at various levels and agreed upon

at the beginning of every year and before sanctioning major capital expenditure. There is a system of structured review of operations and progress of projects. Deviations are gone into and necessary corrective action is taken and implemented.

The internal control system ensures that the assets of the company are optimally used for the specified business purposes and are safeguarded from loss, misuse and physical impairment. It also ensures that the accounting records reflect the true picture and the financial information is reliable.

Proper systems of authorisation are in place which ensure that all transactions in the various functional areas are duly verified and approved by appropriate people.

The Internal Audits conducted ensure that the systems are adequate for the current state and size of business and the controls laid down are operating satisfactorily.

These are reviewed periodically by the Management and the Audit Committee of the Board.

### **CAUTIONARY STATEMENT**

"Management Discussion and Analysis Report" contains forward-looking statements, which may be identified by the use of words in that direction or connoting the same. All statements that address expectation or projections about the future, including but not limited to statements about the Company's strategy for growth, product development, market position, expenditures and financial results are forward looking statements.

The Company's actual results, performance or achievement could thus differ materially from those projected in any such forward looking statements. The Company assumes no responsibility to publicly amend, modify or revise any forward looking statements, on the basis of any subsequent development, information or events.

# CORPORATE GOVERNANCE REPORT

## I. COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE :

Corporate Governance is an integral part of values, ethics and the best business practices followed by the Company. The core values of the Company are :-

- Commitment to excellence and customer satisfaction
- Maximizing long term shareholders' value
- Socially valued enterprise and
- Caring for people and environment.

In a nutshell, the philosophy can be described as observing of business practices with the ultimate

aim of enhancing long-term shareholders' value and remaining committed to high standards of business ethics. The Company has in place a Code of Corporate Ethics and Conduct reiterating its commitment to maintain the highest standards in its interface with stakeholders and clearly laying down the core values and corporate ethics to be practised by its entire management cadre.

## 2. BOARD OF DIRECTORS :

The Board of Directors presently consists of Ten Directors of which three are Executive Directors and seven are Non-executive Directors. Details are as given hereunder:

Director	Category	No. of Board Meetings attended during 2005-06	Whether attended last A.G.M.	No. of other Directorships and Committee Memberships/Chairmanships		
				Other Directorships*	Other Committee Member-ships **	Other Committee Chairman-ships **
Shri Hari Shankar Singhania Chairman	Executive	6	No	2	–	–
Shri Arun Bharat Ram (w.e.f. 25-04-2006)	Non-Executive Independent	–	No	10	3	1
Shri Dharendra Kumar	Non-Executive Non-Independent	6	Yes	7	1	–
Shri Gajanan Khaitan	Non-Executive Independent	5	No	–	–	–
Shri P. K. Kaul	Non-Executive Independent	5	No	10	3	1
Shri S. K. Pathak	Non-Executive Independent	–	No	–	–	–
Shri Shailendra Swarup	Non-Executive Independent	4	No	4	1	–
Shri Udayan Bose (w.e.f. 25-04-2006)	Non-Executive Independent	–	No	6	1	1
Shri Harsh Pati Singhania Managing Director	Executive	7	Yes	4	1	–
Shri O. P. Goyal Whole-time Director	Executive	7	Yes	2	1	–

Shri Jitender Balakrishnan (IDBI Nominee) ceased to be a Director w.e.f. 04-04-2006. ( attended 2 Board Meetings )

\* excludes Directorships in Private Ltd. Companies, Foreign Companies, memberships of Managing Committees of various Chambers/ bodies /Section 25 Companies.

\*\* only covers Memberships/Chairmanships of Audit Committee and Shareholders/Investors' Grievance Committee.



### DATE AND NUMBER OF BOARD MEETINGS HELD :

Seven Board Meetings were held during the year 2005-06 on 18th July 2005, 22nd August 2005, 22nd October 2005, 31st January 2006, 25th February 2006, 20th March 2006 and 25th April 2006.

The Company already has for the last three years a Code of Conduct in position for Management Cadre Staff (including Executive Directors). In terms of the new provisions of Clause 49 of the Listing Agreement and contemporary practices of good corporate governance, the Board has laid down a code of conduct for all Board Members and Senior Management of the Company and the same is available on the website ([www.jkpaper.com](http://www.jkpaper.com)). All the Board Members and Senior Management Personnel have affirmed compliance with the code.

### 3. AUDIT COMMITTEE :

Terms of Reference of the Committee cover the matters specified for Audit Committee under Clause 49 of the Listing Agreement with the Stock Exchanges and Section 292A of the Companies Act, 1956.

The Committee presently consists of Shri Udayan Bose (Chairman) and Shri P. K. Kaul, Shri Shailendra Swarup and Shri Dharendra Kumar, as members. The Composition of the Committee is in conformity with Clause 49 (II) (A) of the Listing Agreement. Shri Harsh Pati Singhania, Managing Director and Shri O. P. Goyal, Whole time Director are the permanent invitees.

Five meetings of the Audit Committee were held during the year 2005-06 as detailed hereunder:

Dates of meetings	No. of members attended
18th July 2005	3
22nd August 2005	3
21st October 2005	2
31st January 2006	3
25th April 2006	3

### 4. REMUNERATION COMMITTEE (NON MANDATORY) :

Remuneration Committee comprising of three Independent Directors, was constituted on 29th July 2006 to determine the remuneration of Shri O. P. Goyal, Whole-time Director and on 25th September 2006 to determine the remuneration of Shri Hari Shankar Singhania Chairman (Whole-time Director), and Shri Harsh Pati Singhania, Managing Director, of the Company.

#### A. Executive Directors

The aggregate value of salary and perquisites for the year ended 30th June 2006 to the Chairman, Managing Director and Wholetime Director is as follows: Shri Hari Shankar Singhania, Rs. 104.10 lac plus Rs. 120.18 lac payable as commission, Shri Harsh Pati Singhania, Rs. 91.31 lac plus Rs 120.18 lac payable as commission, Shri O. P. Goyal, Rs. 42.56 lac plus Rs. 17.56 lac payable as commission. The above amounts include Company's contribution to Provident Fund and Superannuation Fund.

The Company does not have any Stock Option Scheme. In the case of Executive Directors, notice period is 6 months. Severance fee for the Chairman and the Managing Director is remuneration for the unexpired residue of term or for 3 years, whichever is shorter and for the Whole-time Director, 6 months salary in lieu of notice period.

#### B. Non-executive Directors

The company has paid sitting fees aggregating to Rs. 1.70 Lac to all Non-executive Directors for attending the meetings of the Board and/or Committee(s) thereof. Besides the sitting fees, a commission of Rs. 1.50 lac each is proposed to be paid to Shri Dharendra Kumar, Shri Gajanan Khaitan, Shri P. K. Kaul, Shri Shailendra Swarup and Shri S. K. Pathak, Rs. 1.15 lac to Shri Jitender Balakrishnan and Rs. 0.30 lac each to Shri Arun Bharat Ram and Shri Udayan Bose.

The Non-executive Directors did not have any other material pecuniary relationship or transactions vis-à-vis the Company during the year.

Number of Equity Shares held by Non-executive Directors: Nil.

## 5. SHAREHOLDERS/INVESTORS' GRIEVANCE COMMITTEE :

The Committee presently consists of four Directors, namely Shri Shailendra Swarup (Chairman), Shri P. K. Kaul, Shri Harsh Pati Singhania, Managing Director and Shri O. P. Goyal, Whole-time Director. The Composition of the Committee is in conformity with Clause 49 (IV) (G) (iii) of the Listing Agreement. Five meetings of the said Committee were held during the year 2005-06 as detailed hereunder:

Dates of meetings	No. of members attended
18th July 2005	4
22nd August 2005	3
21st October 2005	2
31st January 2006	2
25th April 2006	4

Shri S. C. Gupta, Company Secretary, is the Compliance Officer.

No investor complaints were received during the year. All valid requests for share transfer received during the year have been acted upon by the Company. No such transfer is pending.

## 6. GENERAL BODY MEETINGS :

- (i) Location and time for last three Annual General Meetings were:

Year	Location	Date	Time
2002-03	P. O. Central Pulp Mills - 394 660 Fort Songadh, Distt. Surat, Gujarat	27-09-2003	12.30 P.M.
2003-04	Same as above	29-09-2004	2.00 P.M.
2004-05	Same as above	24-09-2005	12.30 P.M.

- (ii) No Special Resolutions were required to be put through postal ballot last year. No Special Resolution is proposed to be conducted through postal ballot at the ensuing Annual General Meeting.
- (iii) Special Resolutions passed in previous 3 Annual General Meetings:
- (a) At the last Annual General Meeting of the Company held on 24th September 2005, Special Resolutions were passed

unanimously to make certain amendments to Articles of Association of the Company.

- (b) At the Annual General Meeting of the Company held on 29th September 2004, a Special Resolution was passed unanimously for appointment of Auditors.
- (c) At the Annual General Meeting of the Company held on 27th September 2003, Special Resolutions were passed unanimously (i) for appointment of Auditors and (ii) for consent for issue of Redeemable Preference Shares.

7. Disclosures on materially significant related party transactions i.e. transactions of the Company of material nature, with its promoters, the directors or the management, their subsidiaries or relatives etc. that may have potential conflict with the interests of company at large. *None*

Suitable disclosure as required by Accounting Standard (AS-18) - Related Party Disclosures, has been made in the Annual Report.

Details of non-compliance by the company, penalties, strictures imposed on the company by Stock Exchange or SEBI or any statutory authority, on any matter related to capital markets, during the last three years. *None*

## 8. MEANS OF COMMUNICATION :

Quarterly, half yearly and annual financial results are normally published in leading English Dailies like Economic Times, Business Standard and Gujarati Newspaper Sandesh, etc. The results are also displayed on the web-site of the company "www.jkpaper.com". As the results are published in newspapers having wide circulation and also displayed on the Company's website, quarterly and half yearly results are not sent separately to each shareholder. Full version of the Annual Report, Corporate Governance Report, financial results and shareholding pattern of the Company are/shall be posted on the Electronic Data Information Filing and Retrieval (EDIFAR) website namely "www.sebiedifar.nic.in". The website is also accessible through a hyperlink 'EDIFAR' from SEBI's official website, "www.sebi.gov.in". Management Discussion & Analysis forms part of the Annual Report.

## 9. GENERAL SHAREHOLDERS' INFORMATION:

### (i) Annual General Meeting (AGM) :

(a) Date and Time : Tuesday, 21st November 2006 at 12.30 P.M.

Venue : P.O. Central Pulp Mills-394660, Fort Songadh, Distt. Surat, Gujarat.

(b) As required under Clause 49 IV (G) (i), a brief resume and other particulars of Directors seeking appointment or retiring by rotation and seeking re-appointment at the aforesaid AGM are given in the Notes to the Notice convening the said Meeting.

(ii) **Book Closure :** 14th November 2006 to 21st November 2006 (both days inclusive)

### (iii) Dividend

**Payment Date :** Upto December 2006.

(iv) **Financial Calendar :** Year Ending June 30  
Annual General Meeting Between September  
for the year ending and December 2007  
June 30, 2007

(v) **Listing of Equity Shares (including Stock Code):** The Equity Shares of the Company are listed on National Stock Exchange of India Limited (Stock Code JKPAPER) Bombay Stock Exchange Limited (Stock code 532162) and Vadodara Stock Exchange Limited (Stock Code 16026). Listing Fee for the year 2006-07 has been paid to all the said Stock Exchanges.

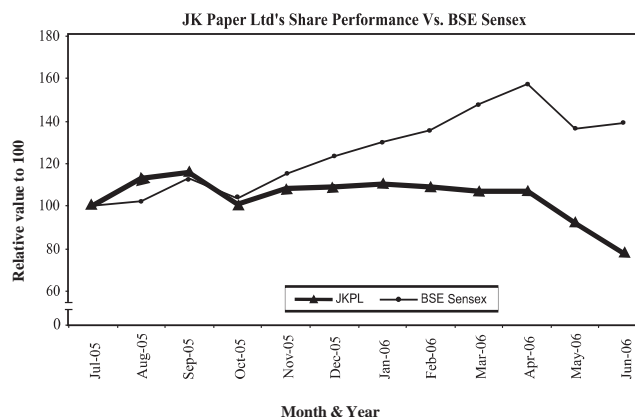
### (vi) Stock Market Price Data :

Month	Stock Market Price on Stock Exchange, Mumbai (BSE)		Stock Market Price on National Stock Exchange of India Limited (NSE)	
	High (Rs.)	Low (Rs.)	High (Rs.)	Low (Rs.)
<b>2005</b>				
July	65.00	52.65	65.50	52.65
August	67.50	53.50	70.00	55.00
September	79.70	62.15	80.00	61.55
October	69.25	57.00	75.00	56.30
November	70.00	49.85	63.95	57.10
December	78.00	58.05	70.00	53.00
<b>2006</b>				
January	67.00	61.00	66.20	60.45
February	65.20	59.05	64.75	59.50
March	64.65	58.00	64.45	57.75
April	64.80	58.25	64.90	58.05
May	69.50	45.55	69.20	45.25
June	53.75	39.00	53.60	38.25

(Source: www.bseindia.com)

(Source: www.nseindia.com)

### (vii) JK Paper Ltd.'s Share Performance v/s BSE Sensex (July' 05 - June' 06):



### (viii) Dematerialisation of shares :

The Equity Shares of the Company are presently tradeable in compulsory demat segment. The ISIN No. for Equity Shares of the Company for both the depositories is INE789E01012. As on 30th June 2006, 90.11% of the Company's Equity Share Capital was in dematerialised form.

In respect of Shares held in electronic form, all the requests for nomination, change of address and rematerialisation etc. are to be made only to the Depository Participant with whom the Shareholders have opened their Demat Account. The Company will not be in a position to process such requests.

### (ix) Share transfer system :

The transfer/transmission of shares in physical form is normally processed and completed within a period of 15-20 days from the date of receipt thereof. In case of shares in electronic form, the transfers are processed by NSDL/CDSL through the respective Depository Participants.



(x) (a) **Distribution of Equity Shareholding (both in physical and electronic form) as on 30th June 2006:**

Number of Equity Shares held	Shareholders		Shareholding	
	Numbers	%	No. of Shares	%
1 to 500	14,113	83.32	24,64,636	3.15
501 to 1,000	1,500	8.86	13,23,918	1.69
1,001 to 5,000	1,043	6.15	25,07,820	3.21
5,001 to 10,000	154	0.91	11,72,039	1.50
Over 10,000	128	0.76	7,06,81,526	90.45
<b>Total</b>	<b>16,938</b>	<b>100.00</b>	<b>7,81,49,939</b>	<b>100.00</b>

(b) **Pattern of Equity Shareholding (both in physical and electronic form) as on 30th June 2006 :**

Category	No. of Equity Shares held	Percentage of Shareholding
Domestic Companies	3,37,52,110	43.19
Resident Individuals	1,82,18,405	23.31
Fls, Mutual Funds & Banks	81,57,714	10.44
Custodian for GDRs	77,00,000	9.85
Foreign Investors/ FIIs / NRIs	1,03,21,710	13.21
<b>Total</b>	<b>7,81,49,939</b>	<b>100.00</b>

(xi) **Outstanding GDRs/ADRs/Warrants or any Convertible Instruments, conversion date and likely impact on equity :**

**GDRs :** The Company has issued 77,00,000 Global Depository Receipts (GDRs) @ US \$ 1.544 per GDR at a price of Rs. 69 per Equity Share, on 30th March 2006, each GDR representing one equity share of the nominal value of Rs. 10 per Share. The outstanding GDRs are backed by the underlying 77,00,000 Equity Shares which are part of the existing paid up Capital.

**FCCBs :** The Company has issued 1.25% Foreign Currency Convertible Bonds (FCCBs) due 2011 aggregating to US \$ 5 Million on 30th March 2006 redeemable on the expiry of five years, convertible

into 23,52,105 Equity Shares at conversion price of Rs. 95/- per share at the option of the Bond holder(s), on receipt of conversion notice.

The GDRs and FCCBs are listed on the Luxembourg Stock Exchange.

(xii) **Plant locations :**

(i) JK Paper Mills  
Jaykaypur - 765 017  
Distt. Rayagada (Orissa).

(ii) Central Pulp Mills  
P. O. Central Pulp Mills - 394 660  
Fort Songadh  
Distt. Surat (Gujarat)

(xiii) **Address for correspondence for Share Transfer and related matters :**

1. Registrar and Share Transfer Agent (RTA)  
M/s MCS Ltd.

Sri Venkatesh Bhawan,  
W - 40, Okhla Industrial Area,  
Phase - II, New Delhi-110 020  
Ph. 011- 41406149/51-52  
Fax No. 91-11- 41709881  
E-mail: mcsdel@vsnl.com

2. Company Secretary

JK Paper Limited  
Gulab Bhawan (Rear Block - 3rd Floor)  
6A, Bahadurshah Zafar Marg  
New Delhi-110 002  
Ph. 011-23311112 - 15 (ext : 274, 392, 677)  
Fax No. 91-11-23739475  
E-mail: sharesjkpaper@jkmil.com

**10. DECLARATION:**

This is to confirm that all the Directors and Senior Management Personnel of the Company have affirmed compliance with the Code of Conduct for Directors and Senior Management adopted by the Board.

Harsh Pati Singhania  
Managing Director

New Delhi  
25th September 2006

**11. CODE FOR PREVENTION OF INSIDER TRADING:**

In accordance with the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992, as amended, the Board of Directors of the Company has adopted a Code of Conduct for Prevention of Insider Trading in the securities of the Company by its employees in terms of Schedule I to the said Regulations.

## AUDITORS' COMPLIANCE CERTIFICATE ON CORPORATE GOVERNANCE

To  
The Members of JK Paper Limited

We have examined the compliance of conditions of Corporate Governance by JK Paper Limited for the year ended on 30th June 2006, as stipulated in Clause 49 of the Listing Agreement of the said Company with Stock Exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied in all material respect with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We state that no investor grievance is pending for a period exceeding one month against the company as per records maintained by the shareholders/Investors grievance committee.

We further state that such compliance is neither an assurance as to future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For LODHA & CO.  
Chartered Accountants  
(N.K.Lodha)

Partner

Membership No.: 85155

For S. S. KOTHARI MEHTA & CO.  
Chartered Accountants  
(Atul Seksaria)

Partner

Membership No.: 86370

Place : New Delhi  
Date : 25th September 2006

**Disclosure of names of persons constituting group in relation to JK Paper Limited pursuant to Regulation 3 (1) (e) (i) of the SEBI (Substantial Acquisition of Shares & Takeovers) Regulations 1997.**

JK Lakshmi Cement Ltd., Mayfair Finance Ltd., Sidhi Vinayak Investment Ltd., Terrestrial Finance Ltd., Yashodhan Investment Ltd., J.K. Industries Ltd., Hansdeep Investment Ltd., Panchanan Investment Ltd., Radial Finance Ltd., Hidrive Finance Ltd., Fenner India Ltd., Modern Cotton Yarn Spinners Ltd., Southern Spinners and Processors Ltd., BMF Beltings Ltd., BMF Investments Ltd., JK Agri Genetics Ltd., JK Sugar Ltd., Netflier Technologies Ltd., Florence Alumina Ltd., Bengal & Assam Company Ltd., Nav Bharat Vanijya Ltd., Juggilal Kamapat Udyog Ltd., Pranav Investment (MP) Company Ltd., Param Subham Vanijya Ltd., J.K. Credit & Finance Ltd., Ashim Investment Company Ltd., Habras International, Juggilal Kamapat Lakshmiapat, Shri Hari Shankar Singhania, Shri Bharat Hari Singhania, Smt. Sharda Devi Singhania, Smt. Vinita Singhania, Shri Raghupati Singhania, Smt. Sunanda Singhania, Shri Harsh Pati Singhania, Smt. Mamta Singhania, Shri Vikrampati Singhania, Smt. Swati Singhania, Shri Anshuman Singhania and Shri Shrivats Singhania.

# AUDITORS' REPORT

## To the Members of JK PAPER LIMITED

We have audited the attached Balance Sheet of JK PAPER Limited, as at 30<sup>th</sup> June, 2006, the Profit and Loss Account and also the Cash Flow Statement for the year ended on that date annexed thereto. 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 the 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 misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An 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.

1. As required by the Companies (Auditor's Report) Order, 2003 as amended by the Companies (Auditor's Report) (Amendment) Order, 2004 (together the 'Order') issued by the Central Government of India in terms of Section 227 (4A) of the Companies Act, 1956 (The Act), we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
2. Further to our comments in the Annexure referred to in Paragraph 1 above, we report that:
  - (a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;

- (b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
- (c) The Balance Sheet, Profit & Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
- (d) In our opinion, the Balance Sheet, Profit & Loss Account and Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in Section 211 (3C) of the Companies Act, 1956;
- (e) On the basis of written representations received from the directors of the company and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 30<sup>th</sup> June 2006 from being appointed as a director in terms of clause (g) of sub section (1) of section 274 of the companies act, 1956;
- (f) Attention is invited to:
  - i) Provision for deferred tax liability for the transitional period up to 30<sup>th</sup> June, 2001 amounting to Rs. 258.06 lac has not been made, since the same has been challenged and the case is pending in the Hon'ble High Court of Kolkata (Note no. B-26(b), schedule 20)
  - ii) Provision for diminution (amount unascertainable) in value of long term investments has not been made, since in the opinion of Board, such diminution is temporary in nature. (Note no. B-15, schedule 20)
  - iii) Charging one time additional interest (exceptional) amounting to Rs. 159 lac to the profit and loss account and transferring an



equivalent amount from the General Reserve to the Profit and Loss account as stated in Note no. B-7 of Schedule 20.

Without considering item (f) (ii) above, the impact of which could not be determined, had the item (f) (i) and (iii) above been considered, profit for the year would have been lower by Rs. 159 lac, General Reserve would have been higher by Rs 159 lac, Reserve and Surplus would have been lower by Rs 258.06 lac, Deferred Tax Liability would have been higher by Rs. 258.06 lac.

(g) Subject to the foregoing, in our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with Notes thereon, give the information required by the Act 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 at 30<sup>th</sup> June, 2006;
- ii) In the case of the 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.

For LODHA & CO.  
Chartered Accountants

(N. K. LODHA)  
Partner  
Membership No.: - 85155

For S. S. KOTHARI MEHTA & CO.  
Chartered Accountants

(ATUL SEKSARIA)  
Partner  
Membership No.: - 86370

Place : New Delhi  
Date : 25<sup>th</sup> September, 2006

## ANNEXURE TO THE AUDITORS' REPORT

(Referred to in paragraph (I) of our Report of even date of J.K. PAPER LIMITED for the year ended 30<sup>th</sup> June, 2006)

- 1) (a) The Company has maintained proper records in respect of its fixed assets showing full particulars including quantitative details and situation of fixed assets.
- (b) We have been informed by the management that major portion of the fixed assets have been physically verified as per the programme which in our opinion is reasonable having regard to the size of the Company and the nature of its Fixed Assets and no material discrepancies was found on such physical verification.
- (c) As per the records and information and explanations given to us, no substantial part of fixed assets has been disposed off during the year.
- 2) (a) We have been explained by the management that the inventory have been physically verified at reasonable intervals during the year and confirmations are obtained where inventory are lying with third parties.
- (b) In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventory 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 inventory. As far as we can ascertain and according to information and explanations given to us by the management, the discrepancies whenever material noticed on such physical verification of inventory as compared to book records were properly dealt with in the books of accounts.

- 3) The Company has neither granted nor taken any loans, secured or unsecured to and from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956. Accordingly, the provisions of clause 4(iii) (b) to (d) and (f) & (g) of the Order are not applicable to the Company.
- 4) In our opinion and according to the information and explanations given to us, having regard to the explanations that some of the items purchased are of special nature and suitable alternative sources do not exist for obtaining comparable quotations, there is reasonable internal control system 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 and services. During the course of our audit, we have not observed any continuing failure to correct major weaknesses in internal control system.
- 5) (i) According to the information and explanations provided by the management and based upon audit procedures performed, we are of the opinion that the particulars of contracts or arrangements that needs to be entered into register maintained pursuant to section 301 of the Act have been so entered; and
  - (ii) In our opinion and according to information and explanations given to us the transactions, made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the Act and exceeding the value of five lac rupees in respect of each party during the period have been made at prices which are reasonable having regard to prevailing market prices at the relevant time.
- 6) In our opinion and according to the information and explanations given to us, the company has complied with the directives issued by the Reserve Bank of India and the provisions of section 58A and 58AA or any other relevant provisions of the Act and the rules framed there under with regard to deposits accepted from the public. We have been informed that no order has been passed by Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal in this regard.
- 7) The company has an internal audit system commensurate with the size and nature of its business.
- 8) We have broadly reviewed the books of account and records maintained by the Company pursuant to the rules made by the Central Government for the maintenance of cost records under Section 209(1)(d) of the Act in respect of the Company's products to which the said rules are made applicable and are of the opinion that prima facie, the prescribed accounts and records have been made and maintained. We have, however, not made a detailed examination of the said records with a view to determine whether they are accurate and complete.
- 9) (a) According to the records of the company, the company is generally regular in depositing undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Sales Tax, Wealth Tax, Income Tax, Service Tax, Custom Duty, Excise Duty, Cess and other material statutory dues with the appropriate authorities and there are no undisputed statutory dues payable for a period of more than six months from the date they become payable as at 30<sup>th</sup> June 2006.
  - (b) According to the records and information and explanation given to us, there are no dues in respect of wealth tax, service tax and Custom Duty that have not been deposited with the appropriate authorities on account of any dispute and the dues in respect of Sales Tax, Income Tax, excise duty and cess that have not been deposited with the appropriate authority on account of dispute and the forum where the dispute is pending are given below:-

Nature of statute	Nature of dues	Period to which the amount relates	Amount Involved (Rs. in lacs)	Forum where dispute is pending
Sales Tax Act	Sales Tax	1983-88/ 2002-03	5.66	Dy. Commissioner, Delhi
		2003-04	2.44	ACCT, Jeypore
		1995-96/1997-99/ 2002-03	137.48	Sales Tax Tribunal, Cuttack
Central Excise Act	Excise duty	1979-80/1981-82	89.20	High Court, Delhi
		1982-83	40.75	Supreme Court
		2000-04	142.15	Commissioner, Bhubneshwar
		1987-94	130.63	High Court, Kolkata
		1980-86	20.44	Collector(Appeal), Mumbai
		1997-01	110.29	CESTAT, Mumbai
		1997-03	62.75	Commissioner, Surat
Water (PCP) Cess Act, 1977	Cess	2000-05	59.00	Cess Appellate Committee, OPCB, Bhubneshwar

- 10) The company does not have accumulated losses and has not incurred cash losses during the current financial year and in the immediately preceding financial year.
- 11) In our opinion, on the basis of audit procedures and according to the information and explanations given to us, the company has not defaulted in repayment of any dues to banks, financial institutions and debenture/bond holders.
- 12) According to the information and explanations given to us, the company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- 13) The Company is not a chit fund or a nidhi /mutual benefit fund /society, therefore, the provisions of clause 4 (xiii) of the Order are not applicable to the company.
- 14) According to the information and explanations given to us, the Company is not dealing in or trading in shares, securities, debentures and other investments.
- 15) According to the information and explanations given to us, the company has not given any

guarantee for loans taken by others from banks or financial institutions.

- 16) In our opinion and on the basis of information and explanations given to us, the term loans were applied for the purposes for which they were obtained.
- 17) According to information and explanations given to us and on an overall examination of the Balance Sheet of the company, funds raised on short-term basis have not been used for long-term investment.
- 18) During the year, Company has made preferential allotment of shares to a Company covered in the Register maintained under section 301 of the Act. The allotments and pricing of the shares have been made in accordance with the guidelines laid down in this regard by SEBI and hence prices at which these shares have been issued, are not prima facie, prejudicial to the interest of the Company.
- 19) According to the information and explanations given to us and the record examined by us, security or charge has been created in respect of the debentures/bonds issued.
- 20) We have verified the end use of money raised by public issues as disclosed in the notes to the financial statements (See Note No. B.17 of Schedule 20).
- 21) During the course of our examination of the books and records of the company, carried out in accordance with the generally accepted auditing practices in India, and according to information and explanations given to us, we have neither come across any instance of fraud on or by the company, noticed or reported during the year, nor have we been informed of such case by the management.

For LODHA & CO.  
Chartered Accountants

(N. K. LODHA)  
Partner  
Membership No.: - 85155  
Place : New Delhi  
Date : 25<sup>th</sup> September, 2006

For S. S. KOTHARI MEHTA & CO.  
Chartered Accountants

(ATUL SEKSARIA)  
Partner  
Membership No.: - 86370



# BALANCE SHEET

AS AT 30TH JUNE, 2006

Rs. in crore (10 Million)

	Schedule	30th June, 2006	30th June, 2005
<b>SOURCES OF FUNDS</b>			
<b>SHAREHOLDERS' FUNDS</b>			
Capital	1	131.72	110.07
Reserves and Surplus	2	283.65	144.31
		<u>415.37</u>	<u>254.38</u>
<b>LOANS</b>			
Secured Loans	3	496.13	570.93
Unsecured Loans	4	61.64	49.31
		<u>557.77</u>	<u>620.24</u>
Deferred Tax Liability (Net)		68.35	50.41
	TOTAL	<u>1,041.49</u>	<u>925.03</u>
<b>APPLICATION OF FUNDS</b>			
<b>Fixed Assets</b>			
Gross Block	5	1,012.65	890.03
Less: Depreciation		326.80	285.10
Net Block		<u>685.85</u>	<u>604.93</u>
Capital work-in-progress		108.94	93.67
		<u>794.79</u>	<u>698.60</u>
<b>INVESTMENTS</b>			
	6	13.61	19.53
<b>CURRENT ASSETS, LOANS AND ADVANCES</b>			
Inventories	7	89.60	72.63
Sundry Debtors	8	116.99	91.42
Cash and Bank Balances	9	6.75	4.59
Loans and Advances	10	142.10	161.61
		<u>355.44</u>	<u>330.25</u>
<b>LESS: CURRENT LIABILITIES AND PROVISIONS</b>			
	11	126.36	130.56
<b>NET CURRENT ASSETS</b>			
MISCELLANEOUS EXPENDITURE		<u>229.08</u>	<u>199.69</u>
(To the extent not written off or adjusted)		4.01	7.21
	TOTAL	<u>1,041.49</u>	<u>925.03</u>

## NOTES ON ACCOUNTS

20

Schedules I to II and 20 attached to the Balance Sheet are an integral part thereof.

As per our report of even date

FOR LODHA & CO.  
Chartered Accountants

FOR S.S. KOTHARI MEHTA & CO.  
Chartered Accountants

H. S. SINGHANIA  
H. P. SINGHANIA

Chairman  
Managing Director

N.K. LODHA  
Partner

ATUL SEKSARIA  
Partner

S. C. GUPTA  
Company Secretary

DHIRENDRA KUMAR  
GAJANAN KHAITAN  
O. P. GOYAL  
P. K. KAUL  
SHAIENDRA SWARUP  
UDAYAN BOSE

Directors

New Delhi, the 25th September, 2006

# PROFIT AND LOSS ACCOUNT

AS AT 30TH JUNE, 2006

Rs. in crore (10 Million)

	Schedule	2005-06	2004-05
<b>INCOME</b>			
Sales		844.62	729.24
Less: Discounts		96.10	87.59
		<u>748.52</u>	<u>641.65</u>
Less: Excise Duty		84.77	71.56
Net Sales		663.75	570.09
Other Income	12	1.37	1.20
		<u>665.12</u>	<u>571.29</u>
Increase / Decrease( ) in Stocks	13	5.74	(0.57)
		<u>670.86</u>	<u>570.72</u>
<b>EXPENDITURE</b>			
Employees	14	80.47	71.53
Materials and Manufacturing	15	425.98	348.23
Other Expenses	16	29.41	33.66
		<u>535.86</u>	<u>453.42</u>
<b>PROFIT BEFORE INTEREST, LEASE RENT AND DEPRECIATION</b>		135.00	117.30
Interest and Lease Rent	17	33.80	39.35
<b>PROFIT BEFORE DEPRECIATION &amp; TAX</b>		101.20	77.95
Depreciation	18	46.87	39.35
<b>PROFIT BEFORE TAX</b>		54.33	38.60
Provision for Current Tax		4.61	1.51
Provision for Fringe Benefit Tax		0.87	0.10
MAT Credit Entitlement		(4.61)	-
<b>PROFIT BEFORE DEFERRED TAX</b>		53.46	36.99
Provision for Deferred Tax		17.94	(1.54)
<b>PROFIT AFTER TAX</b>		35.52	38.53
Debenture Redemption Reserve Written Back		4.85	0.60
Surplus brought forward		35.85	44.07
		<u>76.22</u>	<u>83.20</u>
<b>Appropriations:</b>			
Debenture Redemption Reserve		0.35	2.22
Capital Redemption Reserve		1.43	-
General Reserve		3.00	30.00
Dividend	19	14.65	13.26
Corporate Dividend Tax		2.05	1.87
Surplus carried to Balance Sheet		54.74	35.85
		<u>76.22</u>	<u>83.20</u>
Earning per Share (Rs.):			
- Basic		5.35	6.53
- Diluted		5.30	6.53

## NOTES ON ACCOUNTS

20

Schedules 1 to 20 attached to the Profit and Loss Account are an integral part thereof.

As per our report of even date

FOR LODHA & CO.  
Chartered Accountants

FOR S.S. KOTHARI MEHTA & CO.  
Chartered Accountants

H. S. SINGHANIA  
H. P. SINGHANIA

Chairman  
Managing Director

N.K. LODHA  
Partner

ATUL SEKSARIA  
Partner

S. C. GUPTA  
Company Secretary

DHIRENDRA KUMAR  
GAJANAN KHAITAN  
O. P. GOYAL  
P. K. KAUL  
SHAIENDRA SWARUP  
UDAYAN BOSE

Directors

New Delhi, the 25th September, 2006

30th June, 2006

Rs. in Lac (0.1 Million)  
30th June, 2005**Schedule 1****CAPITAL****Authorised :**

Equity Shares - 20,00,00,000 (Previous year - 20,00,00,000) of Rs.10 each	<b>20,000.00</b>	20,000.00
Redeemable Preference Shares - 3,00,00,000 (Previous Year - 3,00,00,000) of Rs.100 each	<b>30,000.00</b>	30,000.00
	<b>50,000.00</b>	50,000.00

**Issued, Subscribed and Paid-up :**

Equity Shares - 7,81,49,939 (Previous year 5,50,69,939) of Rs. 10 each fully paid up (a)	<b>7,814.99</b>	5,506.99
10% Cumulative Redeemable Preference Shares - 1,57,000 (Previous Year 3,00,000) of Rs.100 each fully paid-up (b)	<b>157.00</b>	300.00
3.75% Cumulative Redeemable Preference Shares - 52,00,000 (Previous Year 52,00,000) of Rs. 100 each (c)	<b>5,200.00</b>	5,200.00
	<b>13,171.99</b>	11,006.99

**Notes :**

- (a) During the year, Company issued 1,53,80,000 equity shares on preferential basis at a price of Rs. 65 per share (including share premium of Rs. 55 per share) and 77,00,000 equity shares in the form of Global Depository Receipts (GDR's) at a price of US \$ 1.54 (Rs. 69 per share including share premium of Rs. 59 per share) per GDR (each GDR representing one underlying equity share of Rs. 10/-).
- (b) These shares were allotted as fully paid-up pursuant to the Scheme sanctioned by the Hon'ble High Courts of Orissa & Gujarat.  
Company has redeemed 10% Cumulative Redeemable Preference Shares (Series A) of Rs. 143 Lac with premium of Rs. 545 Lac. Series B, C & D of Rs. 76 Lac, Rs. 40 Lac and Rs. 21 Lac are redeemable on 30th day of June, 2007, 2008 and 2009 respectively alongwith premium on redemption of Rs. 545 Lac with each Series. Series E, F and G of Rs. 11 Lac, Rs. 6 Lac and Rs. 3 Lac are redeemable on 30th day of June, 2010, 2011 and 2012 respectively alongwith premium on redemption of Rs. 546 Lac with each Series.
- (c) Redeemable in three annual instalments of Rs. 30, Rs. 30 and Rs. 40 on each share on 29th November 2017, 29th November 2018 and 29th November 2019 respectively.

**Schedule 2****RESERVES AND SURPLUS**

Description	1st July 2005	Additions	Transfers/ Adjustments	30th June, 2006
Debenture Redemption Reserve	659.20	<b>34.92</b>	(a) <b>484.58</b>	<b>209.54</b>
Capital Redemption Reserve	-	<b>143.00</b>	-	<b>143.00</b>
Revaluation Reserve	790.46	-	(b) <b>53.36</b>	<b>737.10</b>
Securities Premium	8,084.92	<b>13,002.10</b>	(c) <b>737.66</b>	<b>20,349.36</b>
General Reserve	1,311.98	<b>300.00</b>	(d) <b>159.00</b>	<b>1,452.98</b>
Surplus in Profit and Loss Account	3,584.45	<b>5,473.54</b>	(a) <b>3,584.45</b>	<b>5,473.54</b>
	<b>14,431.01</b>	<b>18,953.56</b>	<b>5,019.05</b>	<b>28,365.52</b>

- (a) To Profit and Loss Account
- (b) To Profit and Loss Account towards additional Depreciation arising out of revaluation of Fixed Assets (Previous year Rs. 82.15 Lac).
- (c) Share Issue Expenses Rs. 192.66 Lac (Previous year Rs. 73.99 Lac) and Premium on Redemption of Preference Shares Rs. 545 Lac adjusted.
- (d) Transfer of Rs. 159 Lac to Profit & Loss Account (note no. B 7 Schedule 20).



30th June, 2006

Rs. in Lac (0.1 Million)  
30th June, 2005

### Schedule 3

#### SECURED LOANS

Non-convertible Debentures	-	3,369.03
Zero Coupon Bonds	1,144.22	1,144.22
Term Loans from Financial Institutions	3,991.97	4,224.86
Term Loans from Banks	41,236.71	42,230.22
Working Capital Loans from Banks	3,240.34	6,124.84
	<b>49,613.24</b>	<b>57,093.17</b>

#### NOTES:

##### A

- (i) Zero Coupon Bonds - I (ZCBs –I) of Rs. 1,000 each aggregating to Rs. 586.06 Lac, Series A & Series B (each of Rs. 293.03 Lac) are redeemable in 2 equal half yearly installments commencing from October 2008 and October 2009 respectively.

Zero Coupon Bonds - II (ZCBs – II) of Rs. 1,000 each aggregating to Rs. 558.16 Lac, Series A, Series B (each of Rs. 186.03 Lac) & Series C (Rs. 186.10 Lac) are redeemable in 2 equal half yearly installments commencing from October 2007, October 2008 and October 2009 respectively.

ZCBs I & ZCBs II are secured by a first Mortgage and charge on all the immovable properties of the Company situated at Distt. Mehsana, Gujarat.

- (ii) Term Loans of Rs. 7,547.61 Lac (Fls – Rs. 1,492.67 Lac, Banks Rs. 6,054.94 Lac) are secured by first pari passu charge created/to be created on the immovable & movable assets of Unit JK Paper Mills and immovable & moveable assets acquired after 1.4.2000 of Unit Central Pulp Mills of the Company.

Necessary steps and formalities to extinguish the charges of debt not relating to the Paper Undertaking (JK Paper Mills) transferred to the Company are being taken in consultation with the Financial Institutions/Banks.

- (iii) Terms Loans of Rs. 31,300.47 Lac (Fls – Rs. 899.30 Lac, Banks Rs. 30,401.17 Lac) are secured by means of first pari passu mortgage/ charge created/to be created on the fixed assets of the company save and accept specific assets exclusively charged in favour of specified lenders as mentioned in clause B and C.

- B** Term Loan of Rs. 3,093.10 Lac from banks and Direct discounting facility (equipment) of Rs. 1,600 lac from Financial Institution are secured by an exclusive charge by way of hypothecation on the specified assets of the Company.

- C** Term Loan of Rs. 1,687.50 Lac from bank is secured by first pari passu charge on immovable and movable assets of Unit Central Pulp Mills existing before 1.4.2000 .

The said mortgage and charge shall rank pari passu with the mortgages and charges created and/or to be created in favour of other participating financial institutions/banks.

- D** Working Capital Loans are secured by hypothecation of Stores, Raw Materials, Finished Goods, Stock-in-Process and Book Debts. The same are further secured / to be secured by a second charge on the immovable assets of the Company.

- E** Instalments of Term Loans repayable within one year - Rs. 8,638.23 Lac.

- F** Terms loans from Financial Institutions and Banks include Rs. 3,795.20 Lac foreign currency loans.

## Schedule 4

Rs. in Lac (0.1 Million)

### UNSECURED LOANS

	30th June, 2006	30th June, 2005
Fixed Deposits	2,789.68	3,359.25
1.25% Foreign Currency Convertible Bonds	2,322.00	-
Due 2011 (FCCBs)		
Interest free Deferred Payment Liabilities	1,052.59	1,571.58
	<b>6,164.27</b>	<b>4,930.83</b>

#### NOTE:

During the year, Company issued 1.25% FCCBs of a face value of US \$ 100,000 each at par, aggregating to US \$ 5 Million to finance capital expenditure. The bondholders have an option to convert FCCBs into equity shares at an initial conversion price of Rs. 95 per equity share at a fixed rate of exchange of Rs. 44.69=US \$ 1, from 4<sup>th</sup> April, 2006 to 17<sup>th</sup> March, 2011. The bonds are redeemable on 30<sup>th</sup> March, 2011 at 130.44% percent of the principal amount, unless previously converted or purchased and cancelled. Premium on redemption, if any, will be provided in the year of redemption.

## Schedule 5

### FIXED ASSETS

Rs. in Lac (0.1 Million)

Description	GROSS BLOCK (b)				DEPRECIATION				NET BLOCK	
	As at 1st July, 2005	Additions/ Adjust-ments	Sales/ Adjust-ments	As at 30th June, 2006	Upto last year	For the year	On Sales/ Adjust-ments	To date	As at 30th June, 2006	As at 30th June, 2005
	(a)									
Land-Freehold	37.13	-	-	37.13	-	-	-	-	37.13	37.13
-Leasehold	20.60	-	-	20.60	1.36	0.26	-	1.62	18.98	19.24
Buildings	9,080.41	1,173.22	-	10,253.63	2,067.94	265.40	-	2,333.34	7,920.29	7,012.47
Plant & Machinery (e)	77,371.31	10,999.34	918.17	87,452.48	25,670.68	4,208.03	529.11	29,349.60	58,102.88	51,700.63
Furniture, Fixtures & Equipments (e)	825.52	305.15	15.48	1,115.19	335.26	92.26	8.01	419.51	695.68	490.26
Vehicles & Locomotives	716.36	264.59	113.38	867.57	179.94	70.38	48.09	202.23	665.34	536.42
Railway Sidings	464.41	-	-	464.41	100.18	21.20	-	121.38	343.03	364.23
Intangible Assets										
- Performance Improvement & Development (c)	486.89	-	-	486.89	154.19	97.38	-	251.57	235.32	332.70
- Software (c)	-	566.78	-	566.78	-	0.62	-	0.62	566.16	-
					(d)					
Total	89,002.63	13,309.08	1,047.03	1,01,264.68	28,509.55	4,755.53	585.21	32,679.87	68,584.81	60,493.08
Previous year	84,420.14	5,004.39	421.90	89,002.63	23,343.22	4,186.60	31.87	28,509.55	60,493.08	

Notes:

- Includes cost of 4.67 acres land given on lease to Employees State Insurance Corporation for construction of Hospital for Employees.
- Gross Block includes amount of revaluation (Note B 6 Schedule 20).
- Intangible Asset are being depreciated @ 20% p.a.
- Depreciation for the year aggregating to Rs. 15.03 Lac (Previous year Rs. 169.02 Lac) has been allocated to pre-operative expenses.
- Inter transfer from Plant & Machinery to Furniture & Fixtures-Gross Block Rs. 225.36 Lac, Accumulated Depreciation Rs. 72.26 Lac and Net lock Rs. 153.10 Lac.



Rs. in Lac (0.1 Million)  
30th June, 2005

30th June, 2006

## Schedule 6

### INVESTMENTS (Non-trade)

	Nos.	Book Value	Nos.	Book Value©
<b>Long-term Investments (Quoted)</b>				
(Equity Shares fully paid up)				
JK Lakshmi Cement Ltd.	1,08,000	51.56	1,20,000	57.29
J.K. Udaipur Udyog Ltd.	50,00,000	500.00	50,00,000	500.00
Ashim Investment Company Limited	12,000	5.73	-	-
<b>Long-term Investments (Unquoted)</b>				
Radical Research Limited				
Zero Coupon Redeemable Preference Shares	8,00,000	800.00	8,00,000	800.00
J.K.Paper Mills Employees' Co-Operative Stores Ltd. - Equity Shares	250	0.02	250	0.02
Government Securities( Deposited with Government Departments)	-	0.03	-	0.03
<b>Current Investments (Unquoted) (Units)</b>				
SBI - Magnum Institutional Income Fund - Floating	19,418	1.97	19,418	1.97
ABN AMRO Cash Fund - Institutional Fund (Purchased 1,901,068 units and sold 1,916,943 units)	-	-	15,875	1.64
SBI - Magnum Institutional Income Fund - Growth (Purchased 216,958,178 units and sold 222,425,098 units)	11,134	1.27	54,78,054	591.45
Chola Liquid Fund (Purchased 3,629,338 units and sold 3,631,833 units)	-	-	2,495	0.34
Total		<b>1,360.58</b>		<b>1,952.74</b>
Aggregate book value of quoted investments		<b>557.29</b>		557.29
Aggregate book value of unquoted investments		<b>803.29</b>		1,395.45
Aggregate market value of quoted investments		<b>162.47</b>		118.96
<b>Purchased and Sold during the year</b>				
Kotak Cash Plus Plan - 50,00,000 units.				

## Schedule 7

### INVENTORIES

(As certified by the Management)

Raw Materials	3,160.02	2,607.68
Stores, Spares and Chemicals	2,871.69	2,424.21
Finished Goods	2,218.79	1,520.44
Stock-in-process	710.06	710.49
	<b>8,960.56</b>	<b>7,262.82</b>

Rs. in Lac (0.1 Million)  
30th June, 2005

30th June, 2006

## Schedule 8

### SUNDRY DEBTORS

(Unsecured and considered good,  
net of provision)

Exceeding six months	2,053.92	1,298.13
Other Debts	9,644.71	7,843.69
	<u>11,698.63</u>	<u>9,141.82</u>

## Schedule 9

### CASH AND BANK BALANCES

Cash on hand	29.24	23.10
Cheques/Drafts on hand	284.99	91.08
Balances with Scheduled Banks :		
On Current Accounts	6.49	26.74
On Unclaimed Dividend Accounts	8.71	8.71
On Deposit Accounts (Lodged with Government Authorities and Others Rs.63.24 Lac, Previous year Rs. 61.82 Lac)	343.82	306.66
On Savings Bank Accounts (Employees Security Deposit)	1.45	2.46
	<u>674.70</u>	<u>458.75</u>

## Schedule 10

### LOANS AND ADVANCES

(Unsecured and considered good, net of provision)

Advances recoverable in cash or in kind or for value to be received	12,448.20	15,403.20
Income Tax (Net)	91.11	119.44
MAT Credit Entitlement	460.71	-
Deposits with Government Authorities and Others	1,209.94	638.33
	<u>14,209.96</u>	<u>16,160.97</u>



Rs. in Lac (0.1 Million)  
30th June, 2005

30th June, 2006

## Schedule 11

### CURRENT LIABILITIES AND PROVISIONS

#### Current Liabilities :

Acceptances	61.55	201.25
Sundry Creditors	7,520.94	6,238.06
Unclaimed Dividends @	8.71	8.71
Unclaimed Matured Deposits @	88.88	57.62
Interest accrued on Unclaimed Matured Deposits @	20.18	12.37
Other Liabilities	2,234.87	2,434.29
Interest accrued but not due on Loans	369.36	495.32
	<u>10,304.49</u>	<u>9,447.62</u>

#### Provisions:

Provision for Retirement benefits	1,701.28	2,085.62
Provision for Fringe Benefit Tax (Net)	15.04	10.04
Proposed Dividend	539.14	1,326.40
Tax on Proposed Dividend	75.61	186.03
	<u>12,635.56</u>	<u>13,055.71</u>

@ There are no amounts due and outstanding to be credited to Investor Education and Protection Fund.

## Schedule 12

### OTHER INCOME

Provisions of earlier years no longer required (Net of Rs. 3.84 Lac, Previous year Rs. 25.98 Lac)	62.88	38.20
Profit on sale of Current Investments	26.62	57.71
Miscellaneous Income	47.42	23.75
	<u>136.92</u>	<u>119.66</u>

## Schedule 13

### INCREASE / DECREASE ( ) IN STOCKS

#### Opening Stocks:

Stock-in-process	696.18	753.67
Finished Goods	1,273.63	1,273.33
Stock Carried from Pre-operation period :		
Stock-in-process	55.61	-
Finished Goods	329.29	-
	<u>2,354.71</u>	<u>2,027.00</u>

#### Closing Stocks:

Stock-in-process	710.06	696.18
Finished Goods	2,218.79	1,273.63
	<u>2,928.85</u>	<u>1,969.81</u>
Increase / Decrease ( )	<u>574.14</u>	<u>(57.19)</u>

Rs. in Lac (0.1 Million)

2005-06

2004-05

**Schedule 14****EMPLOYEES**

Salaries, Wages, Bonus and Gratuity etc.	6,601.59	5,764.82
Contribution to Provident and Other Funds	453.36	430.23
Employees' Welfare and other benefits	991.54	957.45
	<u>8,046.49</u>	<u>7,152.50</u>

**Schedule 15****MATERIALS AND MANUFACTURING**

Raw Materials Consumed	15,977.08	13,201.14
Excise Duty on variation of Stock	90.50	12.74
Consumption of Stores, Spares and Chemicals	15,161.94	11,864.58
Purchase of Finished Goods	5,258.38	3,854.38
Power, Fuel and Water	5,649.20	5,426.20
Repairs to Buildings	253.49	234.78
Repairs to Machinery	207.77	228.68
	<u>42,598.36</u>	<u>34,822.50</u>

**Schedule 16****OTHER EXPENSES**

Rent (Net of realisation Rs. 2.54 Lac Previous year Rs. 2.08 Lac)	129.95	126.30
Rates & Taxes	101.01	136.68
Insurance	92.68	120.91
Transport, Clearing and Forwarding Charges	364.62	934.75
Commission on Sales	79.04	128.55
Directors' Fee	1.70	1.48
Directors' Commission	9.25	6.00
Assets written off	4.91	8.73
Loss on Sale of Fixed Assets (Net of Profit Rs 26.81 Lac, Previous year Rs. 6.62 Lac )	87.43	10.60
Deferred Revenue Expenditure Written off	322.76	372.27
Bad Debts	-	12.50
Share Issue Expenses	192.66	73.99
Less: Amount adjusted against Securities Premium (Refer Schedule 2)	<u>(192.66)</u>	<u>(73.99)</u>
Bank charges, Printing & Stationery, Postage, Telephone and Other Misc. Expenses	1,747.30	1,507.33
	<u>2,940.65</u>	<u>3,366.10</u>

Rs. in Lac (0.1 Million)  
2004-05

2005-06

## Schedule 17

### INTEREST AND LEASE RENT

Interest on :

Term Loans, Debentures and Fixed Deposits	3,319.35	3,555.08
One Time Additional Interest - Exceptional Item	159.00	2,066.43
Less: Transfer from General Reserve (Refer Note No B. 7 Schedule 20)	(159.00)	(2066.43)
Others	574.76	554.26
	<u>3,894.11</u>	<u>4,109.34</u>
Less: Interest Income		
(Include Tax deducted at Source - Rs. 110.41 Lac Previous year Rs. 54.63 Lac)	543.47	586.69
	<u>3,350.64</u>	<u>3,522.65</u>
Lease-rent on Machinery	29.48	412.29
	<u>3,380.12</u>	<u>3,934.94</u>

## Schedule 18

### DEPRECIATION

Depreciation on Fixed Assets	4,740.51	4,017.58
Less: Transferred from Revaluation Reserve	53.36	82.15
	<u>4,687.15</u>	<u>3,935.43</u>

## Schedule 19

### DIVIDENDS

On Preference Shares - Interim	154.76	-
- Proposed	70.24	225.00
On Equity Shares - Interim	770.98	-
- Proposed	468.90	1,101.40
	<u>1,464.88</u>	<u>1,326.40</u>

## Schedule 20

### NOTES ON ACCOUNTS

#### A. Significant Accounting Policies

1. Accounts are maintained on accrual basis. Claims/Refunds not ascertainable with reasonable certainty are accounted for on settlement basis.
2. Fixed Assets are stated at cost adjusted by revaluation of certain assets.
3. Expenditure during construction/erection period is included under Capital Work-in-Progress and allocated to the respective fixed assets on completion of construction/erection.
4. Assets and liabilities related to foreign currency transactions are stated at exchange rate prevailing at the end of the year. Exchange difference in respect of indigenous fixed assets acquired upto 30.06.2004 and fixed assets acquired from outside India are adjusted to the carrying cost of fixed assets and in respect of others is charged to Profit and Loss Account. The cost of forward exchange contract is spread over the period of the contract.
5. Long term investments are stated at cost. Provision for diminution in the value of long term investments is made only if such a decline is other than temporary in the opinion of the management. The current investments are stated at lower of cost and quoted/fair value computed category-wise. When investment is made in partly convertible debentures with a view to retain only the convertible portion of the debentures, the excess of the face value of the non-convertible portion over the realisation on sale of such portion is treated as a part of the cost of acquisition of the convertible portion of the debenture. Income in respect of securities with long-term maturities is accounted for as per contractual obligation.
6. Inventories are valued at the lower of cost and net realisable value (except scrap/waste which are valued at net realisable value). The cost is computed on weighted average basis. Finished Goods and Process Stock include cost of conversion and other costs incurred in bringing the inventories to their present location and condition.
7. Export incentives, Duty drawbacks and other benefits are recognized in the Profit and Loss Account. Project subsidy is credited to Capital Reserve.
8. Revenue expenditure on Research and Development is charged to Profit and Loss Account in the year in which it is incurred and capital expenditure is added to Fixed Assets.
9. Borrowing cost is charged to Profit and Loss Account except cost of borrowing for acquisition of qualifying assets which is capitalised till the date of commercial use of the asset.
10. (a) Depreciation on Buildings, Plant & Machinery, Railway Siding and Other Assets of all Units is provided as per straight line method considering the rates in force at the time of respective additions of the assets made before 2.4.1987 and on additions thereafter at the rates and in the manner specified in Schedule XIV of the Companies Act 1956. Continuous Process Plants as defined in Schedule XIV have been considered on technical evaluation. Depreciation on addition due to exchange rate fluctuation is provided on the basis of residual life of the assets. Depreciation on assets costing up to Rs.5000/- and on Temporary Sheds is provided in full during the year of additions.  
(b) Depreciation on the increased amount of assets due to revaluation is computed on the basis of the residual life of the assets as estimated by the valuers on straight-line method.  
(c) Leasehold Land is being amortised over the lease period.
11. An asset is treated as impaired when the carrying cost of assets exceeds its recoverable amount. An impairment loss is charged to the profit and loss account when an asset is identified as impaired. Reversal of impairment loss recognised in prior periods is recorded when there is an indication that the impairment losses recognised for the assets no longer exist or have decreased. Post impairment, depreciation is provided on the revised carrying value of the asset over its remaining useful life.
12. Gratuity & leave encashment benefits are accounted for on the basis of actuarial valuation. Other retirement benefits are accounted on accrual basis. The liability for gratuity is funded through a trust.
13. Lease rentals in respect of assets taken on finance lease are accounted for in reference to lease terms.
14. Miscellaneous expenditure are amortised as under:  
Expenditure incurred against which benefit is expected to flow into future periods, are treated as Deferred Revenue Expenditure and charged to Revenue Account over the expected duration of benefit.



## Schedule 20 (Contd.)

15. Intangible Assets are being recognised if the future economic benefits attributable to the asset are expected to flow to the company and the cost of the asset can be measured reliably. The same are being amortised over the expected duration of benefits.
16. Current tax is the amount of tax payable on the taxable income for the current year as per the provisions of Income Tax Act, 1961. Deferred tax assets and liabilities are recognised in respect of current year and prospective years. Deferred Tax Assets are recognised on the basis of reasonable certainty / virtual certainty as the case may be, that sufficient future taxable income will be available against which the same can be realised.
17. Provisions involving substantial degree of estimation in measurement are recognised when there is a present obligation as a result of past events and it is probable that there will be an outflow of resources. Contingent liabilities are not recognised but are disclosed in the notes.
18. Premium on redemption of preference shares is accounted for in the year of redemption.

## B. NOTES ON ACCOUNTS

1. Estimated amount of contracts remaining to be executed on capital account (Net of Advances) Rs. 15,902.96 Lac (Previous year Rs. 10,186.09 Lac).
2. Contingent liabilities in respect of claims not acknowledged as debts are as follows:

	Rs. in lac (0.1 million)	
	30 <sup>th</sup> June, 2006	30 <sup>th</sup> June, 2005
a) Excise duty liability in respect of matters in appeals	575.77	577.67
b) Sales tax liability in respect of matters in appeals	452.65	674.03
c) Other Matters	979.97	881.15
d) Foreign Exchange Fluctuation Liability (Pertaining to Pre-take over period)	455.17	422.68

Above claims are likely to be decided in favour of the company, hence, not provided for.

3. In respect of certain disallowances and additions made by the Income Tax Authorities, appeals are pending before the Appellate Authorities and adjustment, if any, will be made after the same are finally determined.
4. In respect of levy of Octroi pertaining to Central Pulp Mills Unit by Songadh Group Gram Panchayat, the Company has paid Rs. 125.07 Lac till 31<sup>st</sup> March, 1997 under protest and also created a liability for the similar amount. As the matter is still pending in the court of law, the necessary adjustment, if any, would be made after its disposal.
5. The Company has only one business segment i.e. Paper and Boards and geographical reportable segment i.e. Operations within India, hence Segment Reporting as defined in Accounting Standard (AS – 17) is not given.
6. Land, Roads, Buildings and Pulp Mill Plant & Machinery of Central Pulp Mills Unit were revalued as on 30.09.1976. The revaluation in respect of these assets (other than Land and Roads) were updated and Plant & Machinery of Paper Machine I & II and Railway Sidings were revalued as on 31.3.1994 based on current replacement cost by the approved valuers appointed for the purpose. As a result, the book value of such assets has been increased by Rs. 4,227.24 Lac, which has been transferred to Revaluation Reserve during the year ended 31.3.1994.
7. The company has paid Rs. 159.00 Lac (Previous year Rs. 2,066.43 Lac) as one time additional interest to compensate Financial Institutions and Banks towards lower interest charged in the earlier years as per step-up interest schedule approved under the Scheme of Compromise and/or Arrangement sanctioned by the Hon'ble High Court of Orissa & Gujarat. Accordingly, the same has been charged to profit and loss account as exceptional item and equivalent amount has been transferred from General Reserve.
8. The Balances of certain Debtors, Advances, Security Deposits, Creditors, Other liabilities and Secured Loans are in the process of confirmation/reconciliation.
9. Loans and Advances are net of provisions for doubtful advances of Rs. 43.17 Lac (Previous year Rs. 43.17 Lac) and include loans to JK Paper Employees' Welfare Trust of Rs. 7,870 Lac (Previous year Rs. 12,150 Lac), to a body corporate Rs. 76 Lac (Previous year NIL), amount due from a Director and an Officer of the Company Rs. NIL (Previous year Rs. 0.53 Lac), loan to employees of Rs. 49.74 Lac (Previous year Rs. 57.79 Lac) in the ordinary course of business and as per service rules of the Company.

## Schedule 20 (Contd.)

Maximum amounts outstanding from Director & Officer and from employees at any time during the year were Rs. 0.53 Lac (Previous year Rs. 1.33 Lac) and Rs. 71.00 Lac (Previous year Rs. 64.13 Lac) respectively.

- 10 a) Sales include export incentives of Rs. 230.61 Lac (Previous year Rs. 404.36 Lac).  
b) Discount includes Trade Discount Rs. 2,671.77 Lac (Previous year Rs. 2,415.71 Lac) and other than Trade Discount Rs. 6,938.07 Lac (Previous year Rs. 6,343.28 Lac). Hitherto, other discounts were part of other expenses. This has been done for better presentation.  
c) During the year, Company has funded gratuity liability through a trust. Accordingly, payment made to trust has been adjusted from provision for retirement benefits.
11. Interest Income includes Rs. 109.43 Lac (Previous year Rs. 10.72 Lac) on deposits with banks, Rs. 7.49 Lac (Previous year Nil) on Income Tax refund & Rs. 426.55 Lac (Previous year Rs. 575.97 Lac) on others.
12. Capital Work in progress includes machinery in stock, fee for technical assistance, building under construction, advance to suppliers, development cost of intangible asset, pro-rata cost of base-paper (process stock) netted off from respective head of accounts & other pre-operative expenses pending allocation/capitalization. Pre-operative expenses pending allocation/capitalisation are as follows:

	30 <sup>th</sup> June, 2006	Rs. in lac (0.1 million) 30 <sup>th</sup> June, 2005
Base Paper (process stock)	92.67	1,308.45
Power and Fuel	11.75	124.94
Consumption of Chemicals, Stores & Spares	31.87	589.76
Salaries & Wages	115.29	94.11
Contribution to P F & Other Funds	2.89	7.38
Employee Welfare & Other benefits	13.79	18.35
Fees for Technical Assistance	461.19	382.70
Insurance	66.16	3.82
Foreign Exchange Fluctuation (net)	157.41	26.61
Travelling expenses	118.34	68.36
Excise Duty	1.34	249.32
Miscellaneous & Other Expenses	132.01	130.45
Borrowing Cost:		
Interest on Term Loans	186.86	537.36
On others	122.64	—
Add: Stock as on 01.07.2005		
Finished Stock	246.81	—
Stock in process	14.31	—
	<b>1,775.33</b>	<b>3,541.61</b>
Less: Net Sales (inclusive of excise duty Rs. 1.34 Lac, Previous year Rs. 210.72 Lac)*	9.18	1,465.10
Finished Stock	329.29	246.81
Stock-in-process	55.61	14.31
Add: Expenditure upto previous year	2,030.80	302.05
<b>Total</b>	<b>3,412.05</b>	<b>2,117.44</b>
Less: Allocated to the Fixed Assets	2,292.25	86.64
	<b>1,119.80</b>	<b>2,030.80</b>

\*Net of discounts – Rs. 0.95 Lac (Previous year Rs. 228.52 Lac).

13. Stocks of Stores and Spares include in-transit Rs. 138.37 Lac (Previous year Rs. 2.89 Lac).
14. Sundry Debtors exceeding six months are net of provisions for doubtful debts of Rs. 58.79 Lac (Previous year Rs. 58.79 Lac).
15. The Company has not provided for the diminution (amount unascertainable) in the value of long term strategic investments, including in a company which has become a BIFR company, since in the opinion of the Board such diminution in their value is temporary in nature considering the inherent value, nature of these investments and the investees' assets.

## Schedule 20 (Contd.)

16. Fixed Assets taken on lease amount to Rs. 1,871.99 Lac (Previous year Rs. 1,871.99 Lac). Future obligations towards lease-rentals under the lease agreements as on 30<sup>th</sup> June 2006 are Rs. 0.05 Lac (Previous year Rs. 0.05 Lac).
17. During the year, Company raised Rs. 9,997.00 Lac by issue of Equity Shares on preferential basis, Rs. 5,313.10 Lac by issue of Equity Shares in the form of GDRs and Rs. 2,234.50 Lac by issue of FCCBs aggregating to Rs. 17,544.60 Lac. Out of net proceeds of Rs. 17,297.80 Lac (after deducting Rs. 246.80 issue expenses), Rs. 15,818.27 Lac has been utilised for Capital Expenditure and balance has been parked in Cash Credit account with Banks, pending utilisation.
18. Sundry Creditors include Rs. 79.09 Lac (Previous year Rs. 75.74 Lac) due to small scale industrial undertakings to the extent such parties have been identified from available information and Rs. 7441.85 Lac (Previous year Rs. 6162.32 Lac) due to the creditors other than small scale industrial undertakings. There are no small-scale industrial undertakings where outstanding is more than 30 days.
19. Consumption of Stores, Spares and Chemicals is net of scrap sale of Rs. 341.97 Lac (Previous year Rs. 304.93 Lac).
20. (a) Exchange difference (net debit) amounting to Rs. 20.36 Lac (Previous year net debit Rs. 14.87 Lac) has been included in respective heads of account in Profit and Loss Account.
- (b) Addition to fixed asset includes Rs. 262.67 Lac (Previous year Rs. 323.22 Lac included in Sales/Adjustments) on account of foreign exchange rate fluctuations.
- (c) Forward contracts US \$ 4.54 Million (Rs. 2,474.11 Lac) and US \$ 1.03 Million (Rs. 479.11 Lac) taken for the purpose of hedging of the loans and debtors respectively are outstanding as at 30<sup>th</sup> June, 2006.
- (d) Foreign currency exposure not hedged as at 30<sup>th</sup> June, 2006 [net of receivable US \$ 0.30 Million (Rs. 140.10 Lac)] are US \$ 16.94 Million (Rs. 7,869.25 Lac), GBP 0.03 Million (Rs. 28.72 Lac), EUR 3.01 Million (Rs. 1,779.83 Lac), CHF 0.09 Million (Rs. 35.34 Lac).
21. Research and Development expenditure amounting to Rs. 103.69 Lac (Previous year Rs. 90.88 Lac) has been charged to Profit and Loss Account.
22. Miscellaneous Expenditure to the extent not written off include:

	30 <sup>th</sup> June, 2006	Rs in Lac (0.1 million) 30 <sup>th</sup> June, 2005
a) Deferred Revenue Expenditure amortised over the expected duration of benefit i.e. five years :		
i) Expenditure relating to forestry development, expenditure relating to enhancement of business performance including cost compression and strategic planning having long term benefits.	145.44	311.07
ii) Compensation paid to employees under VRS	116.54	181.61
b) Syndication Fee, Upfront Fee etc. amortised over tenure of loans	139.13	228.39

## 23. Amount Paid to Auditors (including service tax):

	2005-06	2004-05
(i) Statutory Auditors :		
Audit Fee	6.06	4.96
Tax Audit Fee	1.35	1.10
Other Services	2.84	2.08
Reimbursement of expenses	0.26	0.54
(ii) Cost Auditors :	10.51	8.68
Cost Audit Fee	0.37	0.36
Reimbursement of expenses	0.03	—
	<u>0.40</u>	<u>0.36</u>

## Schedule 20 (Contd.)

Rs. in Lac (0.1 million)

**2005-06**

### 24. Computation of net profit in accordance with section 198 read with section 309 of the Companies Act, 1956 :

Profit before tax as per Profit & Loss Account		<b>5,432.97</b>
Add : Managerial Remuneration	<b>495.89</b>	
Directors' Fee	<b>1.70</b>	
Commission to Non Executive Directors	<b>9.25</b>	
Wealth Tax	<b>3.38</b>	
Loss on sale of assets (net)	<b>87.43</b>	
Assets Written off	<b>4.91</b>	<b>602.56</b>
		<b>6,035.53</b>
Less : Profit on sale of Current Investments		<b>26.62</b>
Net profit as per section 198 of the Companies Act, 1956		<b>6,008.91</b>

Commission payable, subject to overall ceiling of section 198 and 309 :

a) Chairman (Whole-time Director), Managing Director and Whole-time Director as per terms of appointment	<b>257.92</b>
b) Non Executive Directors, as approved by the Board of Directors	<b>9.25</b>

Based on the legal opinion, the charge referred in note no. B.7 of schedule 20 has been covered under Section 349(5)(c) of the Companies Act, 1956 and managerial remuneration has been computed accordingly.

Managerial Remuneration #:	<b>2005-06</b>	2004-05
i) Salaries	<b>149.56</b>	135.16
ii) Commission	<b>257.92</b>	184.71
iii) Contribution to Provident and Other Funds	<b>40.38</b>	36.49
iv) Value of Perquisites (as per Income-Tax rules)	<b>48.03</b>	50.13
	<b>495.89</b>	406.49

# Excludes actuarial provision of gratuity & leave encashment.

### 25. Expenses included under other heads of account:

Salaries, Wages, Bonus and Gratuity etc.	<b>338.85</b>	417.33
Contribution to Provident and Other Funds	<b>21.58</b>	23.01
Employees' Welfare and Other benefits	<b>27.86</b>	49.72
Consumption of Stores and Spares	<b>32.97</b>	39.39
Power, Fuel and Water	<b>0.59</b>	0.35
Repairs to Buildings	<b>0.03</b>	0.04
Repairs to Machinery	<b>0.99</b>	—
Rent	<b>9.58</b>	6.04
Insurance	<b>6.97</b>	6.32
Freight and Transport Charges	<b>302.77</b>	335.85
Rates and Taxes	<b>16.97</b>	16.82
Royalty for Bamboo	<b>349.83</b>	268.34
Miscellaneous Expenses	<b>53.39</b>	44.65
Deferred Revenue Expenditure Written off	<b>10.97</b>	10.97
	<b>1,173.35</b>	1,218.83



## Schedule 20 (Contd.)

26. a) Pursuant to the Accounting Standard for 'Taxes on Income' (AS-22), deferred tax liability ( ) /assets for the current financial year is:

	30 <sup>th</sup> June 2006	Rs. in Lac (0.1 million) 30 <sup>th</sup> June 2005
i) Difference between book value of depreciable assets as per books of account and written down value as per Income Tax.	<b>(9,089.95)</b>	(8,659.45)
ii) Carried forward unabsorbed depreciation	<b>1,982.04</b>	3316.28
iii) Others	<b>273.04</b>	301.93
	<b>(6,834.87)</b>	(5,041.24)

- b) The Company has filed a Writ Petition challenging retrospective validity of Accounting Standard for 'Taxes on Income' (AS-22) and the case is pending in the Hon'ble High Court of Kolkata. Pending decision on the said Writ Petition, the Company has not provided deferred tax liability of Rs. 258.06 Lac (Previous year Rs. 258.06 Lac) for the transitional period up to 30.06.2001.
- c) Based on the past performance and current plans, the Company expects to continue to generate taxable income which will enable it to utilise the carried forward unabsorbed depreciation and MAT credit entitlement.
27. Disclosure as required under 'Related Party Disclosures' (AS-18) issued by The Institute of Chartered Accountants of India are as below:

a. List of Related Parties

i. Associates

JK Industries Limited  
JK Lakshmi Cement Limited

ii. Key Management Personnel

Shri Hari Shankar Singhania	—	Chairman
Shri Harsh Pati Singhania	—	Managing Director
Shri Om Prakash Goyal	—	Whole-time Director

- b. The following transactions were carried out with related parties in the ordinary course of business:

Rs. in Lac (0.1 million)

Nature of Transactions	Associates		Key Management Personnel	
	2005-06	2004-05	2005-06	2004-05
i) Sale of Fixed Assets	—	0.26	—	—
ii) Sharing of Expenses - received	<b>172.74</b>	155.07	—	—
iii) Sharing of Expenses - paid	<b>110.09</b>	102.47	—	—
iv) Purchase of Goods	<b>97.33</b>	22.23	—	—
v) Sale of Goods	<b>17.02</b>	2.34	—	—
vi) Interest received	—	—	<b>0.02</b>	0.06
Outstanding as on 30 <sup>th</sup> June 2006 Receivable	<b>19.28</b>	4.86	—	0.53

Details of remuneration to Key Management Personnel are given in the note 24 above.

## Schedule 20 (Contd.)

### 28. Earnings per Share:

	30 <sup>th</sup> June 2006	Rs. in Lac (0.1 million) 30 <sup>th</sup> June 2005
a) Profit after tax	3,552.14	3,853.15
Less : Preference Dividend (including tax on Dividend)	256.56	256.56
Profit attributable to Ordinary Shareholders@	3,295.58	3,596.59
b) Weighted average no. of Ordinary Share (Nos.)		
- Basic	6,16,24,788	5,50,69,939
- Diluted	6,22,24,092	5,50,69,939
c) Nominal Value of Ordinary Share (Rs.)	10.00	10.00
d) Earnings per Ordinary Share considering		
- Basic	5.35	6.53
- Diluted	5.30	6.53

@ Profit for calculation of diluted EPS is same since the interest on FCCB has been capitalized

### 29. Particulars of Capacity (as certified by the Management), Production, Sales and Stocks:

Description	Unit	Installed Capacity Quantity Per Annum	Quantity Production	Sales		Opening Stocks		Closing Stocks	
				Quantity	Rs. in Lac	Quantity	Rs. In Lac	Quantity	Rs. in Lac
<b>Paper &amp; Board incl. Pulp for sale</b>	<b>Tonnes</b>	<b>1,80,000</b>	<b>1,84,982</b>	<b>1,97,313</b>	<b>84,461.87</b>	<b>4,303</b>	<b>1,273.63</b>	<b>6,462</b>	<b>2,218.79</b>
Previous year	Tonnes	1,50,000	1,80,089*	1,82,818	72,923.70	4,531	1,273.33	4,303	1,273.63

\*Includes 6,523 MT used as internal transfer in coating paper plant.

#### Notes:

- (a) Production, Sales & Closing stock excludes 344 MT (Previous year -3,932 MT), 20 MT (Previous year -3,198 MT) (value Rs. 9.18 Lac- Previous year – Rs. 1,465.10 lac) and Nil (Previous year -734 MT) (value Rs. Nil - Previous year – Rs. 246.81 lac) respectively on account of trial run of Coated Paper.

### 30. Purchase of finished goods (Paper and Board) during the year – 13,432 tonnes (Previous year – 9,024 tonnes).

### 31. Particulars of Raw Materials consumed:

	2005-06		2004-05	
	Quantity (Tonnes)	Amount Rs. in Lac (0.1 million)	Quantity (Tonnes)	Amount Rs. in Lac (0.1 million)
i) Bamboo	1,56,981	5,110.72	1,26,602	3,429.05
ii) Hardwood	2,84,876	10,798.45	29,9231	9,976.44
iii) Pulp & Others	393	102.68	203	56.25
		<b>*16,011.85</b>		<b>*13,461.74</b>

\*Includes Rs. 34.77 Lac (Previous year – Rs. 260.60 Lac) in base paper (process stock) cost transferred to Coated Paper. Hitherto, quantities were reported on gross metric tonne basis which has now been reported at air dried metric tonne. Accordingly, previous year figure have been revised.

## Schedule 20 (Contd.)

		Rs. in Lac (0.1 million)	
		2005-06	2004-05
32. Other Particulars:			
(a) Earnings in Foreign Exchange on account of export of goods at FOB Value		3,419.81	5,028.46
(b) CIF Value of Imports :			
i) Raw Materials		43.88	301.71
ii) Stores, Spares and Chemicals		856.29	178.59
iii) Capital Goods		3,804.72	953.28
iv) Others		—	439.83
		<u>4,704.89</u>	<u>1,873.41</u>
(c) Expenditure in Foreign Currency (as remitted) on account of:			
i) Interest payment in Rupee to Financial Institutions/Banks on foreign currency loans		185.77	186.20
ii) Consultancy		115.75	276.42
iii) Others		86.50	78.76
		<u>388.02</u>	<u>541.38</u>
(d) Remittance in foreign currency on account of Dividend for the year – 2005-06 & 2004-05 (Previous year 2003-04)			
Number of Non-resident Shareholders (No.)		2	1
Number of Equity Shares held by them (No.)		25,00,500	25,00,000
Amount of Dividend remitted		85.01	10.00

		2005-06		2004-05	
		Rs. in Lac (0.1 million)	% of Total	Rs. in Lac (0.1 million)	% of Total
(e) Raw Materials, Stores, Spares and Chemicals consumed:					
i) Raw Materials					
Imported		58.23	0.36	50.96	0.38
Indigenous		15,953.62	99.64	13,410.78	99.62
		<u>*16,011.85</u>	<u>100.00</u>	<u>*13,461.74</u>	<u>100.00</u>

\*including Rs. 34.77 Lac ( Previous year –Rs 260.60 Lac) in base paper (process stock) cost transferred to Coated Paper

ii) Stores, Spares and Chemicals:					
Imported		912.73	5.85	426.52	3.21
Indigenous		14,677.60	94.15	12,866.90	96.79
		<u>*15,590.33</u>	<u>100.00</u>	<u>*13,293.42</u>	<u>100.00</u>

\*Includes Rs. 21.58 Lac (Previous year – Rs. 494.76 Lac) base paper (process stock) cost transferred to Coated Paper, Rs. 31.87 Lac (Previous year – Rs. 589.76 Lac) trial run consumption, Rs. 341.97 Lac (Previous year – Rs. 304.93 Lac) scrap sale & Rs. 32.97 Lac (Previous year – Rs. 39.39 Lac) grouped in other head of account.

33. Previous year's figures have been re-grouped/re-arranged wherever necessary.

As per our report of even date

FOR LODHA & CO.  
Chartered Accountants

FOR S.S. KOTHARI MEHTA & CO.  
Chartered Accountants

H. S. SINGHANIA  
H. P. SINGHANIA

Chairman  
Managing Director

N.K. LODHA  
Partner

ATUL SEKSARIA  
Partner

S. C. GUPTA  
Company Secretary

DHIRENDRA KUMAR  
GAJANAN KHAITAN  
O. P. GOYAL  
P. K. KAUL  
SHAIENDRA SWARUP  
UDAYAN BOSE

Directors

New Delhi, the 25th September, 2006

## BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE AS PER SCHEDULE VI, PART IV OF THE COMPANIES ACT 1956

### I. REGISTRATION DETAILS :

Registration No.	04-18099
State Code	04
Balance Sheet Date	30.06.2006

### II. CAPITAL RAISED DURING THE YEAR :

(Amount in Rs./Thousands)	
Public Issue	5,31,310
Rights Issue	Nil
Private Placement	9,99,700

### III. POSITION OF MOBILISATION AND DEVELOPMENT OF FUND:

(Amount in Rs./Thousands)	
Total Liabilities	10,414,989
Total Assets	10,414,989
<b>SOURCES OF FUNDS</b>	
Paid-up Capital	1,317,199
Reserves & Surplus	2,836,552
Deferred Tax Liability	683,487
Secured Loan	4,961,324
Unsecured Loan	616,427

#### APPLICATION OF FUNDS

Net Fixed Assets	7,947,991
Investments	136,058
Net Current Assets	2,290,829
Miscellaneous Expenditure	40,111

### IV. PERFORMANCE OF THE COMPANY

(Amount in Rs./Thousands)	
Turnover including Other Income	6,651,158
Total Expenditure	6,107,861
Profit before Tax	543,297
Profit after Tax	355,214
Earnings Per Share (Rs.)	5.35
Dividend Rate (%)	20%

### V. GENERIC NAMES OF PRINCIPAL PRODUCTS/ SERVICES OF THE COMPANY

(As per Monetary terms)	
Item Code No.	4907.00
Product Description	Paper and Board

H. S. SINGHANIA	<i>Chairman</i>
H. P. SINGHANIA	<i>Managing Director</i>

DHIRENDRA KUMAR GAJANAN KHAITAN O. P. GOYAL P. K. KAUL SHAILENDRA SWARUP UDAYAN BOSE	<i>Directors</i>
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S. C. GUPTA  
*Company Secretary*

New Delhi, the 25th September, 2006



# CASH FLOW STATEMENT

For the year ended 30th June 2006

Rs. in Lac (0.1 Million)

	2005-06	2004-05
<b>A. CASH FLOW FROM OPERATING ACTIVITIES :</b>		
Net Profit before Tax and Extra-ordinary Items	5,432.97	3,859.36
<b>Adjustments for :</b>		
Depreciation	4,687.15	3,935.43
Income from Investment	(26.62)	(57.71)
Loss on sale of Assets (Net)	87.43	10.60
Interest and Lease Rent (Net)	3,380.12	3,934.94
Assets Written off	4.91	8.73
Doubtful Debt written off	-	12.50
Miscellaneous Expenditure Written off	333.73	372.27
Provision for earlier years no longer required	(62.88)	(38.20)
Operating Profit before Working Capital Changes	13,836.81	12,037.92
<b>Adjustments for :</b>		
Trade and Other Receivables	(387.03)	(257.58)
Inventories	(1,697.74)	(840.04)
Trade and Other Payables	678.18	1,641.51
Cash generated from Operations	12,430.22	12,581.81
Taxes paid	(513.88)	(190.36)
Miscellaneous Expenditure	(13.77)	(134.63)
<b>Net Cash from Operating Activities</b>	<b>11,902.57</b>	<b>12,256.82</b>
<b>B. CASH FLOW FROM INVESTING ACTIVITIES :</b>		
Purchase of Fixed Assets	(14,537.86)	(8,327.66)
Sale of Fixed Assets	369.48	47.48
Sale/(Purchase) of Investments (net)	618.78	1,505.69
Interest Received	756.93	265.42
<b>Net Cash from Investing Activities</b>	<b>(12,792.67)</b>	<b>(6,509.07)</b>

# CASH FLOW STATEMENT

For the year ended 30th June 2006

Rs. in Lac (0.1 Million)

	2005-06	2004-05
<b>C. CASH FLOW FROM FINANCING ACTIVITIES :</b>		
Proceeds from Issue of Equity Share Capital	15,310.10	—
Redemption of Preference Share Capital incld. Premium	(688.00)	—
Share Issue Expenses	(192.66)	(123.69)
Proceeds of Long-term Borrowings	7,940.68	26,394.25
Repayment of Long-term Borrowings	(11,041.25)	(22,589.41)
Proceeds/(Repayment) from Short-term Borrowings (net)	(3,454.07)	(2,224.63)
Interest and Lease Rent	(4,041.74)	(4,377.92)
One Time Additional Interest (exceptional)	(159.00)	(2,066.43)
Syndication Fee Paid	—	(309.09)
Dividend (including Dividend Tax)	(2,568.01)	(568.92)
<b>Net cash from Financing Activities</b>	<b>1,106.05</b>	<b>(5,865.84)</b>
D. Increase/(Decrease) in Cash and Cash Equivalents - Cash & Bank Balance	215.95	(118.09)
E. Cash and Cash Equivalents as at the beginning of the the year - Cash & Bank Balances (schedule No. 9)	458.75	576.84
F. Cash and Cash Equivalents as at the close of the year - Cash & Bank Balances (Schedule No. 9)	674.70	458.75

## Notes :

I. Previous year's figures have been re-grouped / re-arranged wherever necessary.

As per our report of even date

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O. P. GOYAL  
P. K. KAUL  
SHAIENDRA SWARUP  
UDAYAN BOSE

Directors

New Delhi, the 25th September, 2006

# A socially committed corporate citizen



JK Paper Ltd. is a member unit of the JK Organisation, one of India's oldest and most reputed business groups. The Organisation is acknowledged unanimously for its humane approach and deep-felt commitment to the social cause.

JK Paper has always been a front runner in taking initiatives for improving the quality of life, especially among communities in the vicinity of its manufacturing plants. Some notable initiatives towards this direction include:

- Education development through setting up of Schools, Adult Education Programmes and sponsoring educational aids
- Health care facilities in terms of hospitals as well as mobile dispensaries to carry out health awareness camps
- Promotion of sports and other recreational activities through sponsorship of Tournaments and distribution of sports kits
- Development of rural infrastructure in neighbouring villages
- Help with man and material during natural calamities like Surat Floods, Orissa Cyclones etc.



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