

AUDITORS' REPORT TO THE MEMBERS OF THE PAPER PRODUCTS LIMITED

We have audited the attached balance sheet of The Paper Products Limited ('the Company') as at 31 December 2005 and the related profit and loss account and 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 auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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.

As required by the Companies (Auditor's Report) Order, 2003 ('the Order'), issued by the Central Government of India in terms of sub-section (4A) of Section 227 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.

Further to our comments in the Annexure referred to above, we report that:

- (i) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- (ii) 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;
- (iii) The balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;
- (iv) In our opinion, the balance sheet, profit and loss account and the cash flow statement dealt with by this report comply with the accounting standards referred to in sub-

section (3C) of Section 211 of the Act, *except that as more fully explained in para VI 4 of Schedule 16, inter-unit transfers amounting to Rs 345.69 million (previous year Rs 322.44 million) have been included in net sales and raw material consumption. This is not in compliance with Accounting Standard 9 - 'Revenue Recognition'. However, the above accounting treatment has no impact on the profit for the year or on the Reserves and Surplus as at 31 December 2005;*

- (v) On the basis of written representations received from the directors as on 31 December 2005 and taken on record by the Board of Directors, we report that none of the directors are disqualified as on 31 December 2005 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act; and
- (vi) *Subject to our comments in paragraph (iv) above, in our opinion, and to the best of our information and according to the explanations given to us, the said accounts 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:*
 - (a) in the case of the balance sheet, of the state of affairs of the Company as at 31 December 2005;
 - (b) in the case of the profit and loss account, of the profit of the Company for the year ended on that date; and
 - (c) in the case of cash flow statement, of the cash flows of the Company for the year ended on that date.

For BSR & Associates
Chartered Accountants

SANJAY AGGARWAL
Partner

Place: Mumbai
Date: 31 January 2006

Membership No: 040780

ANNEXURE TO THE AUDITORS' REPORT – 31 DECEMBER 2005

With reference to the annexure referred to in paragraph 3 of the Auditors' Report to the members of The Paper Products Limited ('the Company') on the financial statements for the year ended 31 December 2005, we report that:

- (i) (a) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.
- (b) The Company has a regular programme of physically verifying its fixed assets once each year. In our opinion, this periodicity of physical verification is reasonable having regard to the size of the Company and the nature of its assets. Pursuant to the programme, fixed assets were verified during the year and no material discrepancies were noticed on such verification.
- (c) Fixed assets disposed off during the year were not substantial and, therefore, do not affect the going concern assumption.
- (ii) (a) The inventory, except goods-in-transit and inventory lying with third parties, has been physically verified by the management during the year. In our opinion, the frequency of verification is reasonable. For inventory lying with third parties at the year-end, written confirmations have been obtained.
- (b) The procedures for the physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
- (c) The Company is maintaining proper records of inventory. The discrepancies noticed on verification between the physical stocks and the book records were not material.
- (iii) (a) The Company has not granted loans to the companies, firms or other parties covered in the register maintained under Section 301 of the Act. Accordingly, paragraph 4(iii)(b), 4(iii)(c) and 4(iii)(d) of the Order is not applicable to the Company.
- (b) The Company has taken loans in the nature of Fixed Deposits from the parties listed in the register maintained under Section 301 of the Act. Refer Note 5(f) on related parties of Schedule 17 to the financial statements for details.
- (c) In our opinion, the rate of interest and other terms and conditions on which loans have been taken from parties listed in the register maintained under Section 301 of the Act are not, prima facie, prejudicial to the interests of the Company.
- (d) In the case of loans taken from parties covered in the register maintained under Section 301 of the Act,

the Company has been regular in repaying the principal amounts as stipulated and in the payment of interest.

- (iv) In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to purchase of inventories and fixed assets and with regard to the sale of goods and services. We have not observed any major weakness in the internal control system during the course of the audit.
- (v) In our opinion, and according to the information and explanations given to us, there are no contracts and arrangements the particulars of which need to be entered into the register maintained under Section 301 of the Act.
- (vi) In our opinion and according to the information and explanations given to us, the Company has complied with the provisions of Section 58A, Section 58AA or any other relevant provisions of the Act and the Companies (Acceptance of Deposits) Rules, 1975 with regard to the deposits accepted from the public. Accordingly, there have been no proceedings before the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal in this matter and no order has been passed by any of the aforesaid authorities.
- (vii) In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.
- (viii) The Central Government has not prescribed the maintenance of cost records under Section 209(1) (d) of the Act for any of the products manufactured / services rendered by the Company.
- (ix) (a) According to the information and explanations given to us and on the basis of our examination of the records of the Company, amounts deducted/accrued in the books of account in respect of undisputed statutory dues including Provident Fund, Investor Education Protection Fund, Employees' State Insurance, Income tax, Sales tax, Wealth tax, Service tax, Custom duty, Excise duty, Cess and other material statutory dues have been generally regularly deposited during the year by the Company with the appropriate authorities.

According to the information and explanations given to us, no undisputed amounts payable in respect of Provident Fund, Investor Education Protection Fund, Employees' State Insurance, Income tax, Sales tax, Wealth tax, Service tax, Custom duty, Excise duty, Cess and other material

statutory dues were in arrears as at 31 December 2005 for a period of more than six months from the date they became payable.

- (b) According to the information and explanations given to us, the dues of Sales tax, Income tax, Custom duty and Excise duty as listed in Appendix 1 have not been deposited by the Company on account of disputes.
- (x) The Company does not have any accumulated losses at the end of the financial year and has not incurred cash losses in the financial year and in the immediately preceding financial year.
- (xi) In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to its bankers. The Company did not have any outstanding dues to any financial institution or debenture holders during the year.
- (xii) The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (xiii) In our opinion and according to the information and explanations given to us, the Company is not a chit fund or a nidhi/ mutual benefit fund/ society.
- (xiv) According to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments.
- (xv) 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.

- (xvi) The Company did not have any term loans outstanding during the year.
- (xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we are of the opinion that the funds raised on short-term basis have not been used for long-term investment.
- (xviii) The Company has not made any preferential allotment of shares during the year to companies/firms/parties covered in the register maintained under Section 301 of the Act.
- (xix) The Company did not have any outstanding debentures during the year.
- (xx) The Company has not raised any money by public issues during the year.
- (xxi) According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the course of our audit.

For BSR & Associates
Chartered Accountants

Sanjay Aggarwal
Partner

Mumbai
31 January 2006

Membership No: 040780

Appendix - 1

Statement of disputed dues as on 31 December 2005

Name of the Statute	Nature of the dues	Amount (Rs'000)	Period to which the amount relates	Forum where dispute is pending
State and Central Sales Tax Acts	Tax	1,399	1997-1998	Sales Tax Tribunal Assistant Commissioner
		1,312	1993-1994, 2001-2002	
		591	1988-1990, 1993-1994	Commercial Tax Officer
		469	1998-1999, 1999-2000, 2000-2001	Appellate Deputy Commissioner
Income Tax Act, 1961 Customs Act, 1962	Tax Duty	2,271	2001-2002	Commissioner of Income Tax (Appeals) Custom, Excise & Service Tax Appellate Tribunal
		133	2003	
Central Excise Act, 1944	Duty and Penalty	37,348	1988-1999	Supreme Court Custom, Excise & Service Tax Appellate Tribunal
		30,197	1993-2004	
		157	1998	Deputy Commissioner of Central Excise Commissioner of Central Excise & Customs
		1,111	1989, 1990 & 2004	