

## AUDITORS' REPORT

TO  
THE MEMBERS OF  
NATH PULP AND PAPER MILLS LIMITED

We have audited the attached Balance Sheet of NATH PULP AND PAPER MILLS LIMITED as at 30th June, 1999, and also the annexed Profit and Loss Account for the year ended on that date and report that:

1. Subject to what is stated at paragraphs 7 and 8 below, 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.
2. In our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books;
3. The Balance Sheet and Profit and Loss Account referred to in this report are in agreement with the books of account;
4. In our opinion, the Balance Sheet and Profit and Loss Account dealt with by this report have been prepared in compliance with the accounting standards referred to in Section 211(3C) of the Act, to the extent applicable.
5. No provision has been made for accrued interest liability (including compound interest) of Rs.1486.53 lacs on borrowings from Financial Institutions/Banks pending settlement/finalisation of Company's proposal for remission in the rate of interest. (Refer Note No.3 in Schedule 20)
6. We are unable to express an opinion as to the extent of recoverability of the interest free overdue loan of Rs.303.59 lacs due from an associate concern. It was, however, explained by the Management that the full amount would be recovered in due course and that no provisioning is required at this stage for the reasons given in note no. 5(b) in Schedule 20.
7. The accounts of certain parties in respect of secured and unsecured loans taken, creditors, debtors, loans and advances given are subject to confirmations, reconciliations and adjustments, if any (Refer Note No.6 in Schedule 20).
8. The Company is in the process of obtaining/compiling information regarding dues/overdues to suppliers falling under the category of small scale and/or ancillary industrial undertakings (Refer note no.15 in Schedule 20).
9. We further report that, without considering the item mentioned in paragraphs 6 and 7 above, the effect of which could not be determined, had the observations made by us in paragraph 5 above been considered, the loss for the year would have been Rs.5521.17 lacs (as against the reported figure of Rs.4094.64 lacs), accumulated losses would have been Rs.6217.35 lacs (as against the reported figure of Rs.4730.82 lacs) and secured loans would have been Rs.9415.77 lacs (as against the reported figure of Rs.7929.24 lacs).

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**NATH PULP & PAPER MILLS LTD**

*(Signature)*  
**Authorised Signatory**

10. In our opinion and to the best of our information and according to the explanations given to us, the said accounts, subject to what is stated at paragraph 9 above and read together with Significant Accounting Policies and other notes in Schedule '20' particularly Note No.8 regarding non-compliance/non-updation of certain statutory requirements/records and Note No. 13 regarding old raw material stocks and stores items of Rs.91.51 lacs with respect to their quantity, useability and stock-saleability and loss, if any, being determinable on use of such stocks in due course of time and those appearing elsewhere in the accounts and our comments in paragraph 11 below, give the information required by the Act, in the manner so required (subject to what is stated at paragraph 8 above) and give a true and fair view :

- i) in the case of the Balance Sheet, of the state of affairs of the Company as at 30th June, 1999; and
- ii) in the case of the Profit and Loss Account, of the loss of the Company for the year ended on that date.

11. As required by the Manufacturing and Other Companies (Auditor's report) Order, 1988 issued by the Company Law Board in terms of Section 227 (4A) of the Act and on the basis of such checks as we considered appropriate and according to the information and explanations given to us during the course of audit, we further report that :

- i) The Company is in the process of updating its fixed assets records to show full particulars including quantitative details and the situation of fixed assets. As per the information and explanations given to us, the Company has a programme of physical verification of all of its fixed assets over a period of three years. In accordance with the said programme, specified assets were verified during the year, which in our opinion, should be such as to cover more items of assets with more frequency having regard to the size of the Company and nature of its assets.

As explained, discrepancies as may be noticed on reconciliation with the Fixed Assets records as and when completed, will be appropriately adjusted and accounted for. In these financial statements, therefore, no adjustments could be made either on capital account and/or revenue account.

- ii) None of the fixed assets have been revalued during the year.
- iii) The stocks of finished goods, stores, spare parts and raw materials have been physically verified during the year by the management at reasonable intervals.
- iv) In our opinion, the procedures of physical verification of stocks followed by the management considering the nature of stocks are reasonable and adequate in relation to the size of the Company and the nature of its business.

- v) The discrepancies noticed on physical verification of stocks as compared to book records, which were not material as compared to the operations of the Company, have been properly dealt with in the books of account. Reference is, however, invited to note no. 13 in Schedule 20.
- vi) In our opinion, and on the basis of our examination, the valuation of stocks is fair and proper in accordance with the normally accepted accounting principles and except as stated in Note No.9 in Schedule 20 is on the same basis as in the preceding year. Reference is, however, invited to note no.13 in Schedule 20.
- vii) In our opinion the rate of interest and other terms and conditions of unsecured interest free and interest bearing loans taken/given from/to the companies/firms/parties listed in the register maintained (to be updated) under Section 301 of the Act are, prima-facie, not prejudicial to the interest of the Company. We have been informed that there is no company under the same management as defined under sub-section (1-B) of Section 370 (non-operative) of the Act.
- viii) The parties including employees to whom loans or advances in the nature of loans have been given are generally repaying the principal amounts as stipulated and are also regular in payment of interest, wherever applicable, except overdue loans (interest free) of Rs.303.59 lacs given to an associate concern. As explained, necessary steps are being taken by the Company for its recovery. However, in our opinion concerted efforts in this direction are needed.
- ix) In our opinion, and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and nature of its business with regard to purchase of stores, raw-materials and components, plant and machinery, equipment and other assets and for the sale of goods.
- x) According to the information and explanations given to us, the transactions of purchase and sale of goods and materials made in pursuance of contracts or arrangements entered in the register maintained (to be updated) under Section 301 of the Act and aggregating during the year to Rs.50,000 or more in respect of each party have been made at prices which were reasonable having regard to prevailing market prices for such goods or materials or prices at which transactions for similar goods or materials were made with other parties. There were no transactions for sale of services with these parties during the year.
- xi) Unserviceable or damaged stores, raw materials and finished goods are determined and provision for loss, if any, is made in the accounts. Reference is, however, invited to note no.13 in Schedule 20.

- xii) In our opinion, the Company has generally complied with the provisions of Section 58A of the Act and the rules framed thereunder with regard to the deposits accepted from the public. The Company has, however, not complied with the provisions of the said section and rules thereunder in as much as that of non-maintenance of liquid assets as prescribed in the said section/rules, non-filing of the returns of deposits with the Registrar of Companies, non-compliance of certain procedural formalities and non-creation of security on secured bonds of Rs.33.18 lacs.
- xiii) In our opinion, reasonable records in respect of sale and disposal of realisable scrap have been maintained by the Company, wherever feasible. The manufacturing process of the Company does not generate any by-product.
- xiv) In our opinion, internal audit system needs to be strengthened so as to be commensurate with the size of the Company and the nature of its business.
- xv) We have broadly reviewed the cost records and accounts maintained by the Company pursuant to the Order made by Central Government under Section 209 (1) (d) of the Act in respect of paper and are of the opinion that, prima-facie, the prescribed accounts and records have generally been made and maintained. We are, however, not required to make a detailed examination with a view to determine whether they are accurate and complete.
- xvi) a) According to the records of the Company, Provident Fund dues have generally been regularly deposited during the year with the appropriate authorities.
- b) As informed to us, the Employees' State Insurance Act, 1948 is not applicable to the Company.
- xvii) There were no undisputed amounts payable in respect of Income-Tax, Wealth-Tax, Customs Duty and Excise Duty outstanding as at 30th June, 1999 for a period of more than six months from the date they became payable, except for Rs.8.32 lacs in respect of Sales Tax.
- xviii) No personal expenses have been charged to revenue account other than those payable under contractual obligations or in accordance with generally accepted business practice.
- xix) The Company is not a sick industrial company within the meaning of clause (c) of sub-section (1) of Section 3 of the Sick Industrial Companies (Special Provisions) Act, 1985.

For LODHA & COMPANY  
Chartered Accountants

(N. KISHORE BAFNA)  
Partner

MUMBAI,  
DATED :

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**NATH PULP & PAPER MILLS LTD.**

*(Signature)*  
Authorised Signatory

**NATH PULP AND PAPER MILLS LTD.****BALANCE SHEET AS AT 30TH JUNE, 1999**

<b>SOURCES OF FUNDS:</b>	<b>SCHEDULE</b>	<b>AS AT 30TH JUNE, 1999 Rs</b>	<b>AS AT 30TH JUNE, 1998 Rs</b>
<b>Shareholders' Funds :</b>			
Share Capital	1	142,686,880.00	142,686,880.00
Reserves and Surplus	2	511,842,697.00	515,951,182.00
Advance against Share Capital and Premium		10,000,000.00	10,000,000.00
Deferred long term funds	3	22,323,319.00	22,323,319.00
<b>Loan Funds :</b>			
Secured Loans	4	792,924,114.28	693,292,927.65
Unsecured Loans	5	208,631,729.49	148,723,518.89
<b>TOTAL</b>		<b>1,688,408,739.77</b>	<b>1,532,977,827.54</b>
<b>APPLICATION OF FUNDS:</b>			
<b>Fixed Assets :</b>			
Gross Block	6	1,444,408,067.24	1,430,139,580.24
Less : Depreciation		365,831,538.00	261,746,846.00
<b>Net Block</b>		<b>1,078,576,529.24</b>	<b>1,168,392,734.24</b>
Capital Work-in-Progress		42,350,318.00	135,126,818.00
		<b>1,120,926,847.24</b>	<b>1,303,519,552.24</b>
<b>Investments</b>	7	3,060.00	538,060.00
<b>Current Assets, Loans and Advances :</b>			
Inventories	8	64,034,431.00	98,482,374.00
Sundry Debtors	9	33,360,494.12	37,830,036.71
Cash and Bank Balances	10	5,228,260.45	5,930,398.41
Loans and Advances	11	136,052,970.46	106,704,383.27
		<b>238,676,156.03</b>	<b>248,947,192.39</b>
<b>Less: Current Liabilities and Provisions :</b>	12		
Current Liabilities		149,758,273.33	99,332,113.14
Provisions			1,263,391.00
<b>Net Current Assets</b>		<b>88,917,882.70</b>	<b>148,351,688.25</b>
<b>Miscellaneous expenditure</b> (To the extent not written off or adjusted)			
Shares/Debentures/Bond Issue Expenses		5,478,612.93	16,950,307.93
<b>Profit and Loss Account (Loss)</b>		<b>473,082,336.90</b>	<b>63,618,219.12</b>
<b>TOTAL</b>		<b>1,688,408,739.77</b>	<b>1,532,977,827.54</b>

**SIGNIFICANT ACCOUNTING POLICIES AND****NOTES ON ACCOUNTS**

20

**SCHEDULES REFERRED TO ABOVE FORM PART OF THE BALANCE SHEET**

As per our attached report of even date

For LODHA &amp; COMPANY

Chartered Accountants

For and on behalf of the Board

(N. Kishore Bafna)  
PartnerWandkishor Kagliwal  
ChairmanJ.G. Anvikar  
DirectorR.B. Attal  
DirectorS.D. Chechani  
Director

MUMBAI :

DATED : 8th June, 2000

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PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 30TH JUNE, 1999

		1998-99	1997-98
INCOME:	SCHEDULE	Rs	Rs
Sales, Services and Other Receipts	13	222,886,589.62	238,449,226.18
Increase/(Decrease) in Stocks	14	(749,909.00)	2,209,755.00
<b>TOTAL</b>		<b>222,136,680.62</b>	<b>240,658,981.18</b>
EXPENDITURE:			
Manufacturing expenses	15	234,387,690.99	202,237,223.23
Manpower expenses	16	23,138,157.94	18,295,387.72
Excise Duty / Cess		16,377,939.00	10,732,650.00
Administration and selling expenses	17	22,446,151.53	15,908,531.10
Interest and Financial Charges	18	134,434,746.94	120,826,047.83
<b>TOTAL</b>		<b>430,784,686.40</b>	<b>367,999,839.88</b>
<b>LOSS BEFORE DEPRECIATION</b>		<b>(208,648,005.78)</b>	<b>(127,340,858.70)</b>
Depreciation		70,566,536.00	42,616,578.00
Less: Transferred from Revaluation Reserve		4,108,485.00	4,108,485.00
		<b>66,458,051.00</b>	<b>38,508,093.00</b>
<b>NET LOSS BEFORE EXTRA ORDINARY ITEMS AND PRIOR YEAR ADJUSTMENTS</b>		<b>(275,106,056.78)</b>	<b>(165,848,951.70)</b>
Extra ordinary items and prior year adjustments	19	(134,358,061.00)	12,423,880.00
Transferred from General Reserve			61,379,340.00
Balance brought forward from previous year		(63,618,219.12)	28,427,512.58
<b>BALANCE CARRIED TO BALANCE SHEET</b>		<b>(473,082,336.90)</b>	<b>(63,618,219.12)</b>

SIGNIFICANT ACCOUNTING POLICIES AND

NOTES ON ACCOUNTS

20

SCHEDULES REFERRED TO ABOVE FORM PART OF THE PROFIT AND LOSS ACCOUNT

As per our attached report of even date

For LODHA & COMPANY

Chartered Accountants

For and on behalf of the Board

(M. Kishore Bafna)  
Partner

Nandkishor Kagliwal  
Chairman

J.G. Anvikar  
Director

R.B. Attal  
Director

S.D. Chechani  
Director

MUMBAI :  
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