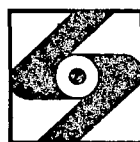


**Dooms-day predictors would advise to forget  
about your investment in SPBM.**

**We agree. But for entirely different reasons.**

For the last 30 months, the performance of corporate companies, barring a few exceptions, has at best been lack-lustre. Particularly hard hit are the cement, steel, construction and paper industries. In fact, the paper industry was passing through a rough phase as early as 1996. However, since this trough came following the boom period of the early nineties, the first rumblings were dismissed off as a cyclical feature typical to the paper industry.

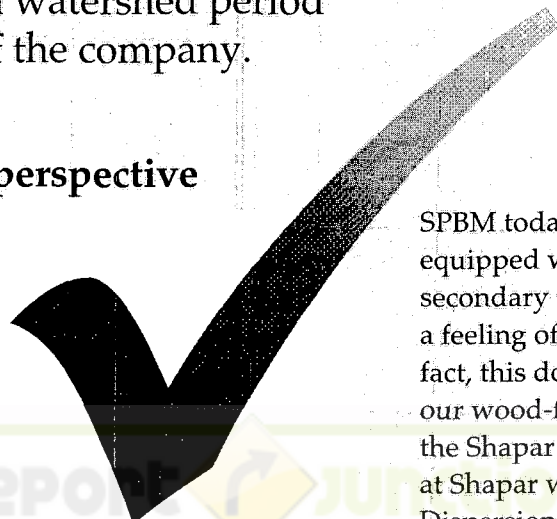
MD				BKC	
CS				DPY	NE
RO				DIV	AF
TRA				AC	
AGM				SHI	
YE					



SPBM at that time, had actually managed to stay on top of the situation. The last eighteen months however, has been a period of mixed blessings. The company, during this period has simultaneously experienced moments of extreme pride and woebegone performances. All in all, it has been a watershed period in the history of the company.

*This document has been printed on Premier, our eco-friendly paper produced at the Shapar plant which compares with the very best in the paper industry*

## The picture in perspective



SPBM today, is the only paper mill in India equipped with the state-of-the-art technology in secondary fibre processing. A fact that generates a feeling of immense satisfaction and pride. In fact, this document has been printed on Premier, our wood-free, eco-friendly paper produced at the Shapar plant. Today, the production facilities at Shapar with on-line production, Deinking and Dispersion technology are the very best in the paper industry.

## What went right...

Anticipating the growth potential in the cultural variety of paper, SPBM made a strategic shift in its product line in the early nineties. The company, however, was not willing to compromise on its twin objectives of providing good quality and eco-friendly paper which it had adhered to rigidly since inception.

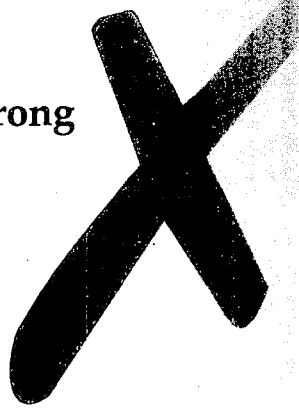
Towards this end, the company embarked on an ambitious technology upgradation programme in the mid nineties. 1997-98 saw the completion of this technology upgradation.

To augment the marketing efforts a network of dealers and customers has been systematically built up. Working closely with this network is the sales team: quick, responsive and efficient enabling a growth of over 30% in sales for the period under review over the previous year.

Besides being aggressive in the domestic market, we have worked hard to develop the overseas market with a view to avail the benefits of the distinct price advantage in these markets. With our endeavours we have established a reputation of sorts for our products which are fast gaining acceptance and popularity in the international market. In fact, today exports comprise a good 25% of our turnover. A sign that augurs well for the company.

*Exports today comprise a good 25% of our turnover*

## ...And what went wrong



Though sales have gone up during the last 18 months, profits have nose-dived due to circumstances beyond control. A decelerated economy coupled with indiscriminate import policies has left the paper industry vulnerable to an unprecedented price war and a severe resource crunch. The current crises faced by the paper industry is a classical example of the cause and ripple effect theory.

*A decelerated economy coupled with indiscriminate import policies has left the paper industry vulnerable to an unprecedented price war and a severe resource crunch*

In the post liberalization era, the government abolished the newsprint control order which is instrumental in regulating the supply of imported newsprint in the country. Once this was decontrolled and put under the OGL category, there was a heavy influx of imported newsprint at prices which the indigenous manufacturers just could not match. Against the annual requirement of 2 lac tonnes of imported newsprint, the estimated imports in 1998 are to the tune of 5.50 lac tonnes.

This caused newsprint manufacturers, who are basically large paper mills, to shift production to writing printing paper to utilise idle capacities. This in turn resulted into a glut in the writing printing paper segment giving rise to an unprecedented price war. Prices crashed from Rs.35/kg to Rs.25/kg in the last 18 months. Moreover, the general sluggishness of the economy compounded the problem especially for the small mills, forcing them to give extended credit periods to customers. The terms of sales changed from 'advance payment' 3 years ago to credit of atleast 100 days. This lethal combination of extended credit coupled with rock bottom prices has thrown working capital management of most companies completely out of gear.

Just to stay afloat many companies have had to procure finance at irrationally high costs further eroding profits in some cases but has had a crippling effect in most cases forcing closures. Statistics indicate that 1/3 of the paper units in India have already closed down over the last 2 years.

*This lethal combination of extended credit coupled with rock bottom prices has thrown working capital management of most companies completely out of gear*



In this grim scenario, SPBM has resorted to several measures combating the crises at various fronts. Being in this business for almost half a century, the company has a formidable reputation and goodwill to its credit. Thus it has been able to garner support from its associates in these difficult times. This is reflected in the enthusiastic response received by the fixed deposits scheme of the company. It has also adopted severe austerity measures and judiciously used the resources at its disposal.

These are some of the immediate measures that the company has undertaken to meet these challenging times. But more significantly, the management has looked upon this phase as a learning experience to evolve a strategy that will insulate the company in future to a great extent from the cyclical nature of the industry and other external factors that adversely affect the company's bottom line.

## An inborn tenacity

The will to succeed, the determination to buck the trend has always characterized our efforts. We realize that what is really needed for a company like ours is the tenaciousness to ride the rough spots.

And so an action plan has been devised which will not only help us see through these difficult times with minimum bruises but will turn SPBM into an even larger and stronger company by the beginning of the next millennium.

With the world becoming a global village, only the very best or specialized products will survive. In these times of fierce competition it makes more sense to cater to a niche market with large volumes. To meet this objective, the company has planned to increase its capacity putting it in the league of large mills. Further modernisation of the production facilities with the oxygen bleach system and size press unit will enable it to produce a world class product.

*With the world becoming a global village, only the very best or specialized products will survive*

But just having a world class product is not enough if the pricing is not in keeping with the times. Or better still, ahead of times. To competitively price the product plans are afoot to cut down raw material costs, by shifting to inexpensive waste paper cutting costs by almost 30%. This will enable the company to have the winning combination of an inexpensive and value added premium product.

However, the foremost requirement to see these plans through or even initiate them is naturally, finance. On the basis of future prospects of the company and the ability and standing of the promoters, the management has been successful in persuading a NRI group in equity participation at a premium. Considering the state of the paper industry in particular and the economy in general, this is no mean feat.

*The management has been successful in persuading a NRI group in equity participation at a premium*

Undoubtedly, the company has passed through a difficult phase in the past 18 months. But the company has strong financial fundamentals. The operating profit margins are 6.20% against the industry average of 5.30%. The entrepreneurial vision of the management has converted adversity into an opportunity to emerge as a large mill with the most modern technology in keeping with global trends, produce world class products and grow through them. By September 2000 the company expects to turn around and emerge as a major player in the paper industry.

The purpose of this communication is not to raise alarm bells. In fact it is just the opposite. It is an honest attempt to appraise the shareholders of the existing scenario and renew the pledge to not only protect but to better the interests of the shareholders in the immediate future.

*This communication renews our pledge to not only protect but better the interests of the shareholders in the immediate future*

The facts behind the figures have already been presented to you. The following pages will now reveal the figures.

*Wish you a better and happy 1999*

## NOTICE

NOTICE is hereby given that the Twenty Fourth Annual General Meeting of the Members of SAURASHTRA PAPER & BOARD MILLS LTD. will be held on Friday the 26th March, 1999 at 11:30 a.m. at Noble House, Kalavad Road, Rajkot, to transact the following business.

### ORDINARY BUSINESS

1. To receive, consider and adopt the Balance Sheet as at 30th September, 1998 and the Profit & Loss Account for the period ended on that date together with the Auditors' and Directors' Report thereon.
2. To appoint a Director in place of Shri Hemant I. Shah, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Shri Sheetal S. Mehta, who retires by rotation and being eligible, offers himself for re-appointment.
4. To Appoint auditors and to fix their remuneration.

### SPECIAL BUSINESS

5. To consider and if thought fit, to pass, with or without modification, the following resolution as a SPECIAL RESOLUTION :

"RESOLVED THAT in accordance with the provisions of Section 81(1A) and other applicable provisions, if any, of the Companies Act, 1956, and of the Securities and Exchange Board of India (SEBI) Act, 1992 and the Guidelines issued and Regulations made thereunder, and subject to the listing agreement entered into with the Stock Exchanges and subject to the consents, permissions and sanctions of SEBI, Reserve Bank of India or such other Appropriate Authorities, Institutions, Bodies, of all persons as may be necessary and/or subject to such conditions and modifications as may be considered necessary by the Board of Directors (hereinafter called "the Board" which term shall be deemed to include any Committee which the Board may have constituted or hereunder constitute to exercise its powers including the powers conferred by this Resolution) consent, authority and approval of the Company be and is hereby accorded to issue, offer for subscription and allot upto 16,77,100 (Sixteen lac Seventy Seven Thousand One Hundred Only) equity shares of Rs.10/- each at a premium of Rs.15/- per share with or without lock-in-period to the Promoters, their friends, relatives, associates and associate companies, Non Resident Indians (NRIs), Overseas Corporate Bodies (OCBs), Foreign Institutional Investors (FIIs) as the Board may in its absolute discretion decide to offer the Securities through Prospectus and/or Letter of Offer and/or Circular and/or private placement basis as may be deemed appropriate by the Board, such offer, issue and allotment to be made at such time or times in one or more tranches and in such manner on such terms and conditions as the Board may in its absolute discretion determine with power to settle the details as to the form and terms of the issue of the Shares and all other terms, conditions and matters connected therewith and to accept any modifications in the proposal as may be required by the authorities/ parties involved in/connected with such issue, but subject to such conditions as the Appropriate Authorities may impose at the time of their according/granting approvals, consents, permissions and sanctions and as agreed to by the Board;

RESOLVED FURTHER THAT the Board be and is hereby authorised to delegate all or any of the powers to any Committee of Directors of the Company to give effect to the aforesaid Resolution."

6. To consider and if thought fit, to pass, with or without modification, the following resolution as a SPECIAL RESOLUTION :

"RESOLVED THAT in accordance with the provisions of Section 80,81,81(1A) and all the applicable provisions, if any, of the Companies Act, 1956 (including any statutory modifications or re-enactments thereof, for the time being in force) and enabling provisions of the Memorandum & Article of Association of the Company and the Listing Agreements entered into by the Company with the Stock Exchanges where the Company's shares are listed, subject to approval of Reserve Bank of India and subject to the approval of all other concerned authorities, if any, and to the extent necessary and such other approvals, permissions, sanctions as may be required and subject to such conditions and modifications as may be prescribed or imposed by any of them while granting such approvals, permissions and sanctions and which may be agreed to by the Board of Directors of the Company (hereinafter referred to as the "Board") and/or a duly authorised committee thereof for the time being exercising the powers conferred by the Board, the consent of the company be and is hereby accorded to the Board to offer/issue/allot Equity Shares, redeemable preference shares/debentures convertible or non



convertible of an aggregate amount not exceeding Rs. 15 crores (Rs. Fifteen Crores only) with or without detachable or non-detachable warrants or any other financial instruments (hereinafter for brevity's sake referred to as "Securities") as the Board at its Sole discretion may at any time or times hereafter decide, to such person or persons, whether or not shareholders of the Company, as the Board or Committee may at its sole discretion decide, including one or more of the members, promoters, debenture-holders, employees, Non Resident Indians (NRIs), Overseas Corporate Bodies (OCBs), Foreign Institutional Investors (FIIs), bodies corporate, companies, private or public or other entities, in one or more combinations thereof, whether through public issue, rights issue, private placement, preferential allotment, exchange of securities, conversion of loan or otherwise, in one or more modes or combinations thereof and in one or more tranches, at such price or prices as the Board or Committee thereof may in its absolute discretion think fit, in consultation with advisors or such persons and on such terms and conditions including the number of shares to be issued, rate of dividend, amount of premium, if any, on redemption, redemption period, manner of redemption, the ratio of exchange of shares or Securities and matters incidental thereto;

RESOLVED FURTHER THAT in the event of any equity shares being issued against the Securities, this resolution shall be deemed to have authorised the Board/Committee in terms as the Board/Committee may in its sole discretion deem proper;

RESOLVED FURTHER THAT such of these Securities to be issued if are not subscribed may be disposed of by the Board/Committee thereof to such persons and in such manner and on such terms as the Board/Committee in its absolute discretion think most beneficial to the Company including offering or placing them with Banks/ Financial Institutions/Bodies Corporate/ Non Resident Indians (NRIs), Overseas Corporate Bodies (OCBs), Foreign Institutional Investors (FIIs), such other persons or otherwise as the Board or Committee thereof may in its absolute discretion decide;

RESOLVED FURTHER THAT for the purpose of giving effects to this resolution, the Board/Committee be and is hereby authorised to do all such acts, deeds, matters and things as it may in its absolute discretion deem necessary, proper or desirable and to settle any question, difficulty or doubt that may arise with regard to the offer/issue, allotment and utilisation of the proceeds, issue of securities and further to do all such acts, deeds, matters and things and to finalise and execute all documents and writings as may be necessary, proper, desirable or expedient as it may deem fit".

Date : 24.02.1999

Registered Office:  
Pattani Building,  
M. G. Road,  
RAJKOT 360 001.

By order of the Board  
For SAURASHTRA PAPER &  
BOARD MILLS LTD.

NALIN GANATRA  
Company Secretary

#### NOTES

1. The relative Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of the Special Business under Item Nos. 5 and 6 above are annexed hereto.
2. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THAT THE PROXY NEED NOT BE A MEMBER.
3. The proxy form duly executed and stamped should be deposited at the Registered Office of the Company not later than 48 hours before the time of the meeting.
4. The register of members and Share transfer books of the Company will remain closed from Monday the 22nd March, 1999 to Friday the 26th March, 1999 (both days inclusive).
5. Members desiring any information as regards accounts are requested to write to the Company at least seven days in advance of the Annual General Meeting so as to enable the Management to keep the information ready.
6. Shareholders are requested to bring their copies of the Annual Report at the Meeting.
7. Members are requested to immediately intimate any change in their address registered with the Company to its Registered Office at 204, Pattani Building, M. G. Road, Rajkot 360 001.

**ANNEXURE TO NOTICE****EXPLANATORY STATEMENT PURSUANT TO SECTION 173 OF THE COMPANIES ACT, 1956****ITEM NOS. : 5 & 6**

The Board of Directors of the Company intends to double its manufacturing capacity by the turn of the century with further modernisation and expansion of its manufacturing facilities with eco-friendly state-of-the-art Oxygen Bleaching Paper Recycling technology to be imported from Europe in the near future. To finance the approximate project cost of Rs.10 crores, the Company intends to issue 16,77,100 Equity Shares of Rs.10/- each at a premium of Rs.15/- per share to a NRI group on the terms and conditions set out in Resolution No.5. The offer price of Rs.25/- per share for preferential allotment to the NRI group is well above the price of Rs.19/- per share calculated as per the formula of SEBI guidelines for preferential allotment of shares.

The Company is also considering other options for raising balance cost of project by issuing of appropriate instruments at appropriate times to such persons and in such manner as stated in Resolution No. 6. The Resolution set out at Item No.6 is an enabling Resolution, conferring authority to the Board to cover all present and future contingencies and corporate requirements.

Section 81 of the Companies Act, 1956 provides, inter alia, that when it is proposed to increase the issued capital of the Company by allotment of further shares, such further shares shall be offered to the existing shareholders of the Company in the manner laid down in Section 81 unless the shareholders in the General Meeting decide otherwise.

The Listing Agreements with the Stock Exchanges provide, inter alia, that the Company in the first instance should offer all the shares to be issued for subscription pro-rata to the equity shareholders unless the shareholders decide otherwise in a general meeting.

Accordingly, consent of the Shareholders is being sought pursuant to the provisions of Sections 80,81,81(1A) and all other applicable provisions of the Companies Act, 1956 and in terms of the provisions of the Listing Agreements executed by the Company with the various Stock Exchanges in India where the company's Securities are listed.

The Directors recommend the resolutions for the approval of the shareholders.

All the Directors of the Company may be deemed to be concerned or interested to the extent that they may be entitled to the Securities that may be offered to them on rights basis or otherwise and applied for and allotted to them.

Date : 24.02.1999

Registered Office:  
Pattani Building  
M. G. Road  
RAJKOT 360 001

By order of the Board  
For SAURASHTRA PAPER &  
BOARD MILLS LTD.

NALIN GANATRA  
Company Secretary



## Directors' Report

Your Directors have pleasure in presenting their 24th Annual Report along with Audited Accounts for the period ended 30th September, 1998.

Financial Results (in Rs. Lacs)	1997-98 (18 Months)	1996-97
Profit/(Loss) before interest, depreciation and taxation	426.09	404.70
Less :		
Interest	521.07	212.01
Depreciation	183.36	93.85
Taxation	—	—
Profit/(Loss) for the year	(278.34)	98.84
Add		
Last years balance of P & L A/c.	55.05	53.41
Total	(223.29)	152.25
Less		
Prior period adjustment	(1.04)	(7.57)
Amount Available for appropriation	(224.33)	144.68
Less		
Appropriations		
Proposed dividend	—	36.03
Tax on Dividend	—	3.60
Transfer to General Reserve	—	50.00
Balance carried forward	(224.33)	55.05

## Performance

Your company's turnover, during the extended financial year, amounted to Rs.3376 lacs, compared to Rs.1753 lacs in the preceding year. Even amidst a highly depressed paper market, the turnover increased, on an annualised basis, by 28% over the last year in value and by 31% in volume. But on account of the continuing situation of excess supply in the market (arising out of large scale imports), paper prices were further depressed during the year, which in turn reduced your Company's per ton sales realisation. On the other hand, cost of production and operating expenses continued to rise. Despite the combined impact of lower sales realisation and higher costs, your Company could keep its operating profit margin positive, though it was reduced from 21% of sales last year to 7% this year. However, due to a fall in operating profit amount as well as higher interest and depreciation, your Company incurred a net loss of Rs.278.34 lacs for the extended year under report as against a net profit of Rs. 98.84 lacs last year.

## Operations

The comparative figures of operations of the two categories of paper from your Company's two paper mills during the period under report and last financial year are as under :

		1997-98 (18 Months)	1996-97
Production	White	10672	5396
	Kraft	6711	4000
		17383	9396
Sales	White	11105	5055
	Kraft	6732	4003
		17837	9058

Combined capacity utilisation during the year was higher at 75% compared to 60% last year. It will be evident from the figures of production and sales that your Company's management spared no efforts to combat the acute slump in the paper market by achieving 23% rise in output and 31% rise in sales. Company's both plants are working satisfactorily, producing quality that is found acceptable both in the domestic and export markets.

### Dividend

In view of the loss incurred during the period under review, the Board of Directors do not recommend payment of dividend for the year under consideration for both, Equity and Preference Shares.

### Current Year

One of the redeeming features of your Company's current year's operations has been its successful entry in the highly competitive export markets. While paper worth Rs. 187.86 lacs accounting for 7.20% of Writing Paper sale was exported during the period under review, in the first four months of the current year, exports have already amounted to Rs.113.32 lacs, accounting for almost 25% of writing paper sales for the period. Exports are to East Africa, Bangladesh and United States of America.

### Paper Industry Review

While the Indian industry in general continues to face recessionary conditions, such as reduced rate of growth, slowdown in demand and liquidity shortage, paper industry in particular showed no signs of recovery during the year under review. It continues to be one of the worst hit industries, facing combined adverse impact of general recession as well as unhealthy competition from unfairly cheap imports of paper, particularly newsprint. Our government policies have wantonly allowed our country to become a favourite and an obvious dumping ground of paper produced abroad, by effecting reckless reduction of import duty on paper from 140% in 1992-93 to 65% in March 1994 to 40% in March 1995 and just a couple of months later in May 1995, yet again to 20%. Although previous year's budget of 1998-99 did marginally enhance the import duty on paper to 30%, it proved too little to repair the severe damage which was already done. The extent of impact of this import duty reduction, which has been made under the banner of liberalisation and opening up of the Indian economy, can be gauged from the fact that volume of imports of paper has more than doubled in last five years. The situation has been further worsened by imports working out to be cheaper, because many East European and Far Eastern Countries dump their supply in India at prices much below prevailing international prices. The resultant increased supply in the domestic market forced many Indian newsprint mills to switchover to writing-printing variety of paper, which in turn triggered off a price-slashing negative chain reaction, so as to withstand increased supply in the writing-printing segment. The virtual shakeout in the industry has compelled many small mills to close down, as their operations became unviable.

Time and again, the industry has represented to the Government, establishing the fact of dumping with facts and figures and making out a clear-cut case for levy of anti-dumping duty on paper imports. It is most unfortunate that the Government has not so far heeded to these appeals and has remained a mute spectator to the travails of the domestic paper industry.

### Future Plans

Your Company's policy of adopting latest recycling technology has enabled it to withstand stiff competition from large mills even during the currently turbulent times for the paper industry in India. The exportable quality produced by your company was achieved after it installed Deinking and Dispersion technology of recycling paper. The management is aware that if the company has to beat the industry downturn or cyclicity, continuous technology upgradation is imperative. Your management has therefore already framed its strategy for the next century to further modernise and expand your Company's operations, by adopting Oxygen Bleaching Recycling Technology. This technology will enable production of still superior quality of various paper grades with lower input costs. This project is estimated to cost Rs.10 crores, to be funded by way of preferential allotment of 16,77,100 Equity Shares of Rs.10 each at a premium of Rs.15/- per share to a NRI group. The balance cost of the projects is to be funded by raising a cheaper cost debt from NRI group.

Your directors are conscious of the need for the paper industry to accept economic liberalisation as an irreversible process. If your company is to remain in the paper industry, it must, and it will, in the long-run, finetune its strategies so as to respond positively in the fast-changing economic milieu. In the short-term, however, it could not avoid the fallout of sweeping and indiscriminate policy changes that have been inflicted upon so far.

### Subsidiary Company

The subsidiary of your company, SPB COMER INDIA LTD., for its financial year 1997-98, continued its manufacturing operations of paper-mill machinery items. It also commenced trading in imported speciality paper. It has achieved a turnover of Rs.104.22 lacs for the year 1997-98 as compared to Rs.59.47 lacs for the period ended 31st March, 1997. Although it made an operating surplus, due to the slump in the paper industry and rising expenses, it has reported a net loss of Rs. 4.13 lacs. During the current year, some of the machineries developed by the Company have received good response, resulting in export orders too.