

NOTICE

Notice is hereby given that the Forty Fourth Annual General Meeting of the Members of the Company will be held at the Community Centre, SPB Colony, Erode 638 010, on Saturday, the July 24, 2004, at 11.00 AM, to transact the following business :

ORDINARY BUSINESS

1 To consider and adopt the Balance Sheet as at 31st March 2004, the Profit and Loss Account for the year ended on that date and the Reports of the Board of Directors and Auditors thereon.

2 To declare a dividend.

3 Sri R V Subrahmanian, I A S (Retd.) and Dr V Gaurishanker retire by rotation at this meeting and do not seek re-election.

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

“RESOLVED THAT pursuant to Section 224-A of the Companies Act, 1956, Messrs Suri & Co., Chennai and Messrs S Viswanathan, Chennai, the retiring Auditors, be and are hereby re-appointed as Auditors of the Company, to hold office from the conclusion of this meeting, until the conclusion of the next Annual General Meeting, on a remuneration of Rs 2 00 000, for each of them, together with Service Tax, if any, in addition to reimbursement of travelling and other out-of-pocket expenses actually incurred by them in connection with the Audit.”

**(By Order of the Board)
For SESHASAYEE PAPER AND
BOARDS LIMITED**

**Chennai
June 12, 2004**

**(V PICHAI)
Vice President (Finance) & Secretary**

Notes :

- 1 A Member, entitled to attend and vote at the meeting, is entitled to appoint one or more Proxies, to attend and vote on a poll, instead of himself and such Proxy need not be a Member of the Company.
- 2 Proxies, in order to be effective, must be filed with the Company not later than 48 hours before the meeting.
- 3 The Register of Members and Share Transfer Books will be closed from Thursday, the July 15, 2004, to Saturday, the July 24, 2004. (both days inclusive).
- 4 Dividend, if declared, will be paid to the Members whose names appear on the Register of Members as on July 24, 2004 and in respect of shares held in Electronic Form, to the beneficial owners, as per list that will be furnished by National Securities Depository Limited / Central Depository Services (India) Limited, as on that date.
- 5 Members holding shares in physical form are requested to notify, promptly, any change in their address, to the Registrar and Share Transfer Agents of the Company, M/s Integrated Enterprises (India) Limited, Chennai, quoting their Membership Number, besides changes, if any, in the Dividend Mandates given by them and those holding shares in Electronic Form, may communicate the above information to their respective Depository Participants.
- 6 The amended provisions of the Companies Act, 1956, provide for Nomination facility to Members. Members are requested to write to the Registrar and Share Transfer Agents of the Company, M/s Integrated Enterprises (India) Limited, Chennai, for more information, if any needed, on Nomination facility and / or to get a copy of Nomination Form.
- 7 Pursuant to Section 205A of the Companies Act, 1956, all unclaimed dividends, upto the financial year ended March 31, 1995, have been transferred to the General Reserve Account of the Central Government. Members who have not encashed the dividend warrants for the said period are requested to claim the amount from the Registrar of Companies, Second Floor, Coimbatore Stock Exchange Building, Trichi Main Road, Singanallur, Coimbatore 641 005, Tamilnadu. In case any assistance is required in this regard, please write to the Registered Office of the Company.
- 8 As regards dividends pertaining to the financial year ended March 31, 1996 and thereafter, amounts remaining in the unpaid dividend accounts of the Company, shall, at the expiry of 7 years, be transferred to the Investor Education and Protection Fund, established by the Central Government. Thereafter, the Members shall have no claim against the Fund or the Company, in respect of his unpaid dividend. Members are, therefore, requested to lodge their claims for unpaid dividend, if any, immediately with the Company.
- 9 For Dematerialisation of Equity Shares, the Company has entered into a tripartite agreement with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL). The Company's Equity Shares have been included in the list in which trading is compulsory for all the investors in dematerialised form, along with other scrips, from July 24, 2000. Hence, Members are requested to convert their physical share certificates into DEMAT form, through their Depository Participants.

- 10 So far, more than 2/3 of the total number of Shares, in the Equity Capital of the Company, have been dematerialised. In view of the advantages of the Depository System and for easy trading of the shares, Members are requested to opt for Dematerialisation of the shares of the Company, through any of the Depository Participants of their choice.
- 11 Members holding shares in DEMAT form are requested to incorporate the DP ID Number and Client ID Number in the Attendance Slip / Proxy Form, for easy identification of attendance at the meeting.
- 12 For receiving Dividend through Electronic Clearing Service (ECS), in the notified Centres, Members are requested to forward the Form attached to the Circular letter, duly filled in, to the Registrar and Share Transfer Agents of the Company, M/s Integrated Enterprises (India) Limited, Chennai or to their respective Depository Participants.

DIRECTORS' REPORT

The Directors hereby present their Forty Fourth Annual Report and the Audited Accounts for the year ended 31st March 2004:

WORKING RESULTS

	2003-04 (Actuals) (in tonnes)	2002-03 (Actuals) (in tonnes)
Production	117271	113684
Sales	116598	112970
	(Rs lakhs)	(Rs lakhs)
Gross Sales	41800	39124
Other Income	89	322
Less: Excise Duty and Excise Cess	4385	3869
Sales and other income <i>(net of Excise Duty)</i>	37504	35577
Profit before interest, depreciation and tax	5565	6301
Interest	1302	1963
Depreciation	1111	1096
Profit before extraordinary items	3152	3242
Extraordinary items	--	(-) 460
Profit before tax	3152	2782
Provision for current tax	230	200
Transfer to Deferred Tax	956	894
Net Profit	1966	1688

DIVIDEND

The Directors recommend a dividend of Rs 1.80 per share, absorbing a sum of Rs 203 lakhs. As per the provisions of the Income tax Act, 1961, no tax will be deducted at source on dividends distributed. However, the Company will bear the tax at 12.5%, plus Surcharge thereon at 2.5%, on the dividend distributed.

APPROPRIATIONS

Your Directors propose the following appropriations:

	2003-04
	(Rs lakhs)
Net profit for the year	1966
<i>Add:</i> Surplus brought forward from the previous year	578
	<hr/>
	2544
<i>Less:</i>	
Transfer to General Reserve	1500
Proposed dividend and tax thereon	228
	<hr/>
	1728
	<hr/>
Balance carried forward	816
	<hr/>

OPERATIONS

During the year, the Company achieved a production of 117271 tonnes, at an overall average basis weight of 74 gsm, compared to 113684 tonnes in the previous year. The production could have been higher by another 1000 tonnes, but for the water shortage and the poor quality of water from the River Cauvery. The production of 117271 tonnes, is the highest achieved by the Company, so far.

The gross turnover was Rs 41800 lakhs, for the year 2003-04, compared to Rs 39124 lakhs, during the previous year. The turnover achieved, during the year, the highest so far, was higher by 7%, compared to the previous year.

The Profit before interest, depreciation and tax was Rs 5565 lakhs, as compared to Rs 6301 lakhs, in the previous year. The drop in profit was contributed by overall reduction in sales realisation due to difficult market conditions, coupled with increase in cost of inputs and shortage and poor quality of water from River Cauvery that not only affected production, but entailed additional expenditure on treatment. Further, in the Central Government Budget for the year 2003-04, excise duty exemption for the clearance of first 3500 tonnes of paper manufactured with unconventional raw materials was withdrawn and such paper was made to suffer excise duty at 8%.

After absorbing interest and financing charges and depreciation of Rs 1302 lakhs and Rs 1111 lakhs, respectively, the profit before tax was Rs 3152 lakhs, as

compared to Rs 2782 lakhs, in the previous year. The Company achieved substantial reduction in interest and financing charges by pre-payment of the high cost Term Loans well ahead of the respective due dates.

A sum of Rs 230 lakhs has been provided for liability towards Current tax, as against Rs 200 lakhs in the previous year. The Company was liable only to Minimum Alternate Tax (MAT), in view of availability of carried forward depreciation, for set off against the current year's income.

As per the Accounting Standard AS-22 of the Institute of Chartered Accountants of India, a sum of Rs 956 lakhs has been transferred to Deferred Tax from Profit and Loss Account, as against Rs 894 lakhs in the previous year.

In the result, profit after tax for the year was Rs 1966 lakhs, as compared to Rs.1688 lakhs, in the previous year.

WATER AVAILABILITY FROM RIVER CAUVERY

The Company depends on River Cauvery for its water requirements. Inadequate rainfall in the catchment areas led to poor inflow into the Mettur Reservoir. Consequently, Mettur Reservoir was opened and closed on and off during the year, depending on the demand for drinking water and for farming by the agriculturists in Tiruchi and Tanjore delta areas. For most part of the year, storage at Mettur Reservoir was close to dead storage level, leading to 'nil' discharge from the Reservoir. Consequently, the flow of water in the River Cauvery was almost 'nil' for major part of the year. Anticipating this difficulty, the Company, by its in-house water conservation measures, reduced the water consumption substantially. Continued drought and poor water flow in the River Cauvery are matters of great concern and will hamper production operations and may lead to production curtailments in future. Good monsoon, comfortable water storage in Mettur Reservoir and sustained flow of water in the River Cauvery are the only permanent answers to overcome the current difficult situation.

FINANCE

During the year, the Company pre-paid in full the Term Loans availed from Banks for the Expansion / Modernisation Project. However, pre-payment of Term Loan availed from Industrial Development Bank of India (IDBI) could not be made due to stiff pre-payment premium conditions stipulated by them. The Company is negotiating with IDBI for reduction in rate of interest which is under their consideration. The Company paid the instalments of the Term Loan to IDBI on or before the due dates. The Company has also paid the interest dues on Term Loan and Working Capital Limits on the respective due dates.

INTEREST FREE SALES TAX DEFERRAL SCHEME

After completion of the Expansion Project in June 2000, the Company became eligible for the Interest Free Sales Tax deferral, offered by the Tamilnadu Government for existing industries undertaking expansion / diversification projects.

The Company is entitled to the benefit of Interest free Sales Tax Deferral for ten years from 01 06 2003 and not exceeding an amount of Rs 6304 lakhs, being the eligible value of Fixed Assets. However, the deferral is available only after the Company reaches the base limits with regard to production and turnover of 60042 tonnes and Rs 14952.78 lakhs, respectively, every year. The Sales Tax so deferred is to be repaid over a period of ten years from 01 06 2013.

During the year 2003-04, the Company availed Rs 655 lakhs under the Scheme.

MARKET CONDITIONS

While the first half of the financial year witnessed stability in the paper market conditions, from third quarter onwards, the sentiments in the paper market turned subdued. The market witnessed great resistance for white varieties of paper. The movement was slow and prices were under pressure. The Company had to offer price concessions for white varieties of paper in line with the market sentiments from January 2004 onwards.

Thanks mainly to the note book season, market for Creamwove varieties improved from March 2004 onwards.

Export was maintained at last year's level. Falling prices in export markets, appreciation of the Indian Rupee against US Dollar and Government's decision to curtail the DEPB benefit from 8% to 4%, had made exports un-remunerative.

EXPORT PERFORMANCE

The Company exported 24011 tonnes of paper and paper boards during the year, as compared to 24346 tonnes, during 2002-03. The exports accounted for 20.47% of the Production.

The export proceeds amounted to US \$ 16 260 485, equivalent to Rs 7402 lakhs, as compared to Rs 7459 lakhs, during the previous year. Softening of prices in the export markets coupled with appreciation of the Indian Rupee against US Dollar forced the Company to down revise its export target and maintain it almost at the same level as in the previous year. The Company's products are now being exported to over 26 countries.

Besides the above, the Company also sold 3560 tonnes, under deemed exports whose proceeds amounted to Rs 1148 lakhs.

The Company's imports were Rs 10293 lakhs, mainly on account of import of pulp for the new Paper Machine and coal. Due to higher imports, the net foreign exchange outgo was Rs 3211 lakhs, compared to net foreign exchange inflow of Rs 378 lakhs, during 2002-03.

ISO 9001 / ISO 14001 ACCREDITATION

Company's quality systems continue to be covered by the "ISO 9001" accreditation. Company's Environmental Management System, continues to enjoy ISO 14001, accreditation.

AWARDS

(i) Exports

Golden Export House Status

The Company continues to enjoy "Golden Export House" Status, accorded by Government of India, Ministry of Commerce, Directorate General of Foreign Trade.

Special Award

A Special Award was given by CAPAXIL, in recognition of the Company's Outstanding Export Performance, in respect of Paper and Paper Boards, for the year 2002-03.

(ii) Energy Conservation

Second Prize in National Energy Conservation Award given by Government of India, Ministry of Power, in appreciation of the achievements in Energy Conservation in the Pulp and Paper Sector for the year 2003.

DEPOSITORY SYSTEM

As on March 31, 2004, 6308 Members are holding their shares in demat form and 81 46 709 Equity shares, representing 72.42% of the total Paid up Equity Share Capital of the Company, have been dematerialised.

DELISTING OF THE COMPANY'S EQUITY SHARES

At the Forty Third Annual General Meeting held on July 25, 2003, Shareholders approved voluntary de-listing of the Company's Equity Shares from the Bangalore, Calcutta and Madras Stock Exchanges. The Company has secured approval from Bangalore Stock Exchange. Approval is awaited from Madras and Calcutta Stock Exchanges.

CURRENT YEAR (2004-05)

Production during April - May 2004, was 19576 tonnes as compared to 20018 tonnes produced during April - May 2003. Sales realisation (net of excise duty and cess) during April - May 2004 amounted to Rs 5229 lakhs (16720 tonnes), as compared to Rs 5280 lakhs (16565 tonnes) during April - May 2003.

During April - May 2004, 2612 tonnes of paper and boards, valued at US \$ 1 847 072 (equivalent to Rs 838 lakhs) were exported.

Market conditions were favourable during the two month period. This trend may continue for another two months. Prices in export markets moved up marginally.

Monsoon is predicted to be normal and it is hoped that catchment areas will receive significant rainfall, resulting in storage level in Mettur Reservoir going up. Due to sharp summer showers in the month of May 2004, no acute water scarcity was felt during this two month period.

ENVIRONMENTAL PROTECTION

The Company continues to provide utmost attention to the conservation and improvement of the environment. The Power Boilers and Recovery Boilers are equipped with Electro Static Precipitators, to arrest dust emissions. The Company has installed and operates an Anaerobic Lagoon, for high BOD liquid effluents and a Secondary Treatment System, for total Mill effluent. These facilities are operating efficiently, enabling the Company to comply with the pollution control norms, prescribed by the Pollution Control Authorities, on a sustained basis. The treated effluent water continues to be utilised for irrigation purposes, in the nearby fields.

CAPTIVE POWER PROJECT

During the year, the Company embarked on setting up a 20 MW Captive Power Project at an estimated cost of Rs 65 crores. Orders have been placed for major equipments like Boiler, Turbo Alternator, Electrostatic Precipitator, etc. Civil Works are under progress. The Project is expected to be completed by end December 2004. Once commissioned and operated to full capacity, the Company will be self sufficient on power.

AUDIT COMMITTEE

The Audit Committee of the Board consists of four Non-whole time Directors, viz., Sri R V Subrahmanian, I A S (Retd.), Sri M R B Punja, Sri R V Gupta and Sri N Ravindranathan, all of whom are independent Directors.

Sri R V Subrahmanian, I A S (Retd.), is the Chairman of the Audit Committee.

DIRECTORS' RESPONSIBILITY STATEMENT

While preparing the annual financial statements, the Company has adhered to the following:

- ◇ In the preparation of the said financial statements, the Company has followed the applicable Accounting Standards referred to in Section 211(3-C) of the Companies Act, 1956
- ◇ The Company has followed the said Accounting Standards and has been applying them consistently and has made judgements and estimates that are reasonable, prudent and are in the interest of the Company's business so as to give a true and fair view of the state of affairs of the Company as at March 31, 2004 and of the profit of the Company for the said period.
- ◇ The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- ◇ The Directors have prepared the financial statements on a "going concern" basis.

CORPORATE GOVERNANCE

The Report on Management's Discussion and Analysis and Report on Corporate Governance are forming part of Directors' Report and are annexed as Annexure - III and Annexure - IV.

As required by the Listing Agreement, an Auditors' Report on Corporate Governance is also attached to the said Report.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

The information relating to Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo, as required 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 given in Annexure I and forms part of this Report.

PARTICULARS OF EMPLOYEES

The statement of employees, referred to in sub-section (2A) of Section 217 of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975 is given in Annexure - II and forms part of this Report. The employee shown therein is not a relative of any Director of the Company.

CASH FLOW STATEMENT

As required under Clause 32 of the Listing Agreement with the Stock Exchanges, a Cash Flow Statement is attached to the Balance Sheet, along with Auditors' Certificate.

LABOUR

Relations between the Management and the labour were cordial throughout the year under review.

DIRECTORS

Sri N Gopalaratnam was re-appointed as Chairman and Managing Director for a further term of three years from April 1, 2003.

The Tamilnadu Industrial Investment Corporation Limited has nominated its Chairman, Sri Arun Ramanathan, I A S, as its Nominee Director, on the Board of our Company, in place of Sri P V Rajaraman, I A S, with effect from March 27, 2004.

Your Directors place on record the invaluable services rendered by Sri P V Rajaraman, I A S, during his tenure as Director of the Company.

Sri R V Subrahmanian, I A S (Retd.) and Dr V Gaurishanker, Directors, retire by rotation, under Article 104 of the Articles of Association of the Company at the conclusion of the ensuing Forty Fourth Annual General Meeting. They do not seek re-election. An Ordinary Resolution for not filling up the vacancy for the present, caused by the retirement of the above two Directors, is proposed at the ensuing Annual General Meeting.

AUDITORS

Messrs Suri & Co., Chennai and Messrs S Viswanathan, Chennai, Auditors of the Company, retire at the conclusion of the ensuing Annual General Meeting and are eligible for re-appointment. Necessary resolution for their appointment is proposed as a Special Resolution, pursuant to Section 224-A of the Companies Act, 1956.

COST AUDIT

Pursuant to Section 233B of the Companies Act, 1956, the Central Government has ordered that the Company carries out an audit of cost accounts relating to paper every year. Sri M B Kannan, Cost Accountant, has been appointed as Cost Auditor. The Cost Audit Report for the year 2003-04 will be submitted to the Central Government before the due date.

ACKNOWLEDGEMENT

The Directors place on record their great appreciation of the excellent contribution made by all Executives and Employees of the Company which was instrumental in achieving improved profitable financial results in a difficult year. The Directors also express their sincere thanks to the Government of India, Government of Tamilnadu, All-India Financial Institutions and Banks, for their understanding, guidance and assistance, at all times.

On behalf of the Board

Chennai
June 12, 2004

N GOPALARATNAM
Chairman and Managing Director

**INFORMATION UNDER SECTION 217(1)(e) OF THE COMPANIES ACT, 1956
READ WITH THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT
OF BOARD OF DIRECTORS) RULES, 1988**

A CONSERVATION OF ENERGY

a) Measures taken for conservation of energy:

- ◇ Installation of High capacity and high efficiency Pump for replacing the two WL Pumps feeding to Pandia and Stationery Digesters.
- ◇ Installation of Pre-heater in one Stationery Digester.
- ◇ Installation of Condensate Collection System for Air Heaters in Paper Machines and Coating Plant.
- ◇ Insulation of hot surfaces in Boiler House.
- ◇ Installation of Product Liquor Separator in new Evaporation Plant.
- ◇ Use of MF-III Paper Machine back water for preparation of clay solution in Water Treatment Plant.
- ◇ Replacement of Worm Gear Boxes with Energy Efficient Helical Gear Boxes for Washers in Pulp Mill.
- ◇ Recycling of the sand filter back-wash water to raw water tank.

b) Additional investments and proposals, if any:

- ◇ Installation of 20 MW Captive Power Plant comprising 105 Bar Boiler and 21 MW Turbo Alternator (Double extraction cum condensing unit) with other auxiliaries.
- ◇ Installation of a Wood Chipper for supply of wood chips to Power Boilers. This will result in reduction in consumption of fossil fuels.
- ◇ Recycling of MF-III back water to its wire shower through filters to conserve fresh water.

c) Impact of the above measures on consumption of energy:

The above measures has resulted in reduced consumption of energy, reduction in cost of production, reduced machines downtime, etc.

- d) Total energy consumption and energy consumption per unit of production as per Form - A:

FORM - A

		Year ended	
		31 3 2004	31 3 2003
A	POWER AND FUEL CONSUMPTION		
	1 Electricity		
	a) Purchased		
	Unit - lakh kWh		984.70
		983.43*	
	Total amount - Rs lakhs	4293.76	4090.20
	Rate/unit - Rs	4.3661	4.1538
	b) Own generation		
	Through Steam Turbine		
	Units-lakh kWh	602.83	591.58
	Units per kg of fuel	--	--
	Cost/unit - (Variable) - Rs	1.53	1.50
	2 Coal		
	Quantity - tonnes	96078	90153
	Total cost Rs lakhs	2158.41	2080.04
	Average rate - Rs/tonne	2247	2307
	3 Lignite		
	Quantity - tonnes	19318	22140
	Total cost - Rs lakhs	233.90	255.08
	Average rate - Rs/tonne	1211	1152

		Year ended	
		31 3 2004	31 3 2003
	4 Others		
	Quantity - tonnes	689	2166
	Total cost - Rs lakhs	10.33	40.02
	Rate/Unit - Rs per tonne	1499	1847
	5 Furnace oil		
	Quantity - Kilo litres	663	802
	Total cost - Rs lakhs	74.61	84.90
	Average rate - Rs per kilo litre	11253	10586
B	CONSUMPTION PER UNIT OF PRODUCTION		
	Electricity - kwh	1353	1387
	Coal - tonne	0.819	0.793
	Lignite - tonne	0.165	0.195
	Others - tonne	0.006	0.019
	Furnace oil - Kilo litre	0.006	0.007

* excludes consumption of 15271 kWh amounting to Rs 0.67 lakhs for Captive Power Project.

B TECHNOLOGY ABSORPTION

e) Efforts made in technology absorption as per Form - B:

FORM - B

Research and Development (R & D)

1	Specific areas in which R&D was carried out by the Company:	<ul style="list-style-type: none"> - Implementation of alkaline sizing process in MF-II and MF-III Paper Machines. - Introduction of alternate Dry strength Resin for the manufacture of "SPRINT" Paper. - Introduction of refining aid to reduce electric energy consumption during refining of pulp (further plant trials are to be taken) - Improvement in quality of raw water by introducing suitable chemical treatment process. - Development of high smoothness and high bulk new products. - Introduction of upgraded quality of starch for Speed Sizer application in MF-III Paper Machine. - Introduction of alternate flocculent in water treatment process.
2	Benefits derived as a result of the above R & D.	<ul style="list-style-type: none"> - Improvements in paper quality, reduction in cost of production and introduction of new grades of paper.
3	Future plan of action	<ul style="list-style-type: none"> - Development of new grades of paper. - Introduction of alkaline sizing process for MF-I Paper Machine. - Optimising chemical consumption in the process.

Research and Development (R & D) (Contd.)

4	Expenditure on R & D	- The R & D work is carried out in the Central Laboratory attached to the Mill.
	(a) Capital	- --
	(b) Recurring	- Rs 15.52 lakhs
	(c) Total	- Rs 15.52 lakhs
	(d) Total R & D expenditure as a percentage of total turnover	- 0.04

C FOREIGN EXCHANGE EARNINGS AND OUTGO

(f) During the year under review the Company exported 24011 tonnes of Paper and Boards valued at US \$ 16 260 485 equivalent to Rs 7402 lakhs. Besides the Company earned US\$ 4491, equivalent to Rs 2 lakhs towards settlement of claims.

(g) Total Foreign Exchange earned and used:

(i) Earnings	- Rs 7404 lakhs
(ii) Outgo:	
Raw Materials	- Rs 8341 lakhs
Components, Spare Parts & Chemicals	- Rs 1952 lakhs
Capital Goods	- Rs -- lakhs
Others	- Rs 320 lakhs
Total	- Rs 10613 lakhs

ANNEXURE - II

Statement required to be furnished under Section 217(2A) of the Companies Act, 1956, as amended by the Companies (Amendment) Act, 1988 and read with Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the year ended 31 3 2004:

- I Employees of the Company who were employed throughout the financial year and in receipt of remuneration for the year which in the aggregate was not less than Rs 24 00 000/-.

1	Name of employee	:	Sri N Gopalaratnam
2	Designation / Nature of duties	:	Chairman and Managing Director
3	Remuneration received	:	Rs 28 83 947
4	Qualification	:	B.Sc., B.E. (Mech.)
5	Experience of employee (yrs)	:	35
6	Date of commencement of employment	:	01 04 1988
7	Last employment held designation / organisation	:	Project Specialist, SPB Projects and Consultancy Limited
8	Age (yrs)	:	57

- II Employees of the Company who were employed for part of the financial year and in receipt of remuneration at a rate, which in the aggregate was not less than Rs 2 00 000/- per month.

Nil

Notes:

1. Sri N Gopalaratnam is not a relative of any Director.
2. Remuneration includes salary, commission, allowances, contribution to Provident Fund, Superannuation Fund and Gratuity Fund.
3. The employment of Sri N Gopalaratnam is contractual.

REPORT ON MANAGEMENT'S DISCUSSION AND ANALYSIS

(i) Industry Structure and developments

The Indian Paper Industry is highly fragmented. There are more than 1000 players in the Industry. Their installed capacities range from 1000 tpa to 2 50 000 tpa. In 2002-03, the top ten players accounted for only 26% of the total installed capacities.

The total installed capacity, including non-operational capacity, stood at 7 million tonnes in 2002-03. The newsprint segment accounted for another 1.04 million tonnes. In the next five years, the demand is expected to increase at about 6% per annum, backed by increased demand for writing and printing paper and marginally higher demand for packaging paper.

Government policies and regulations in 1980s encouraged setting up of small scale mills and promoted use of non forest based raw materials. This led to mushroom growth in number of mills of small capacities. With gradual phasing out of protectionist policies in the last couple of years and increased competition and market demand for quality products, the small mills are forced to enhance their capacities and quality of their products.

Indian Paper Machines are mostly small in size. By global standards, even the largest machines are medium size, as large machines are today in the range of 4 00 000 - 6 00 000 tpa, with trim width upto 10 meters. Most Indian Paper Machines have a trim width of 1.5 - 3.5 meters only.

Consolidation in Indian Paper Industry is unlikely to materialize, in view of unviable capacity and poor quality of assets of units available for consolidation.

While 40% of the units in the Industry use wood as raw material, the balance 60% use non-wood raw materials like, bagasse, other agri-residues and waste paper. The scarcity of forest based raw materials resulted in scramble for acquisition of available material by competing mills, leading to raw material prices soaring to high levels in the last one year.

To achieve better steam economy, many manufacturers in India use imported coal in their power boilers. From October 2003 onwards the ocean freight charges for Break-bulk shipment started steeply increasing, resulting in unprecedented increase in the CIF prices, predominantly due to:

- ◇ Slow down on shipments and activity in the SARS hit countries during 2nd and early 3rd quarter of 2003-2004 had normalised during last quarter of 2003-04, resulting in greater demand for ships.

- ◇ Improved economic activity throughout the world including USA, Western Europe, China and Far East, as well as Indian Sub continent that adversely affected the freight market and availability of dry bulk carriers.
- ◇ Very high level of import of iron ore and structural materials by China, thro' break bulk vessels from countries like India and Brazil, due to their rapid expansion in steel manufacturing sector.
- ◇ Increased thermal power generation resulting in more import of coal by European countries, particularly from South Africa, increasing the demand for bulk carriers.
- ◇ Major crop failure in Europe, because of extreme hot weather, resulting in lot of wheat and grain movement to various European destinations

Per tonne CIF price of US \$ 28.00 (with FOB @ US \$ 18.00 plus ocean freight charges @ US \$ 10.00 approx) that prevailed till December 2003 has gone up steeply and is being quoted at around US \$ 60 currently. The upward trend in ocean freight is feared to last through out the current financial year.

Another major development is the steady increase in the price of imported pulp, which has adversely the profitability of the Industry, since there is no matching price increase for end products. A variety of pulp that was being imported at US \$ 385 per tonne at the beginning of the year is currently being quoted at around US \$ 500 per tonne. In Rupee terms, the increase in price per tonne is close to Rs 7000. Scarcity of domestic fibre, coupled with high cost of imported pulp has adversely affected the financial performance of many players.

DEPB benefit is being extended by Central Government to encourage exports and to place Indian exporters on a partial level playing field with their international competitors. Paper was offered a DEPB benefit of 8% of the FOB value of exports. However, during the middle of the year, the said benefit was slashed by 50% and now paper is eligible for a DEPB benefit of only 4%.

Steady appreciation of the domestic currency against the US Dollar is a matter of concern of all the exporters. The appreciation was nearly 10% and it has impacted the export sales realisation substantially. However, the appreciation is a beneficial factor in respect of pulp and coal imports.

Currently, the paper market conditions are stable. This may turn favourable in near term, enabling units to increase the prices of their end products, to off set, at least in part, the increase in costs of inputs.

(ii) Opportunities and threats

The Indian Paper Industry is expected to register significant growth and achieve improved profit margins in the years to come. Raw material shortage, increase in prices of raw materials and increase in prices of energy will be the forces that will determine the fortunes of the Indian Paper Industry.

Major threat for the Indian Paper Industry is the wood fibre shortage. Large units use wood as the main raw material. The demand for wood fibre is expected to grow at a rate of 10-11% in the medium term. The restricted supply will force the Indian Paper Industry to face acute shortage of forest raw materials, like bamboo and wood.

With non availability of wood and its prices going up to high levels, sugar cane bagasse has become a sought-after raw material. Due to failure of monsoon and drought conditions, sugar cane plantation area has shrunk, leading to reduced level of crushing by sugar mills, resulting in lower volume of bagasse production. Further, most of the sugar mills have their own co-generation power plants, based on bagasse, thus leaving a small volume of bagasse to the paper industry, as raw material for paper making. The combined effect of the above is an abnormal increase in price of bagasse, in recent times.

Indian Paper Industry is expected to face environmental pressure for eliminating use of chlorine in bleaching. The investment required for this process change is substantial. Another un-favourable factor is the low per capita consumption of paper in India (around 5 kgs), compared to China's per capita consumption of 28 kgs and far below the consumption levels in Far East countries. The biggest challenge before the industry is to trigger growth in the domestic consumption of paper.

As stated at the last year's report, 'International Competitiveness' is the key issue that is confronting the paper industry, as of now. Government of India, recognising the constraints faced by the Indian paper industry in becoming globally competitive, engaged the services of an international consulting firm and have entrusted them with the task of assessing the competitiveness of the Indian paper industry and suggesting ways and means to improve the same to global levels. Though the study has been completed, Government is yet to initiate follow up steps for implementing the recommendations of the Consultant.

Any undue haste by Government in concluding Free Trade Agreements with ASEAN, for accelerated reduction in import duties for goods from ASEAN countries, will expose the domestic Paper Industry to unfair competition of paper imports from low cost producers of paper from the ASEAN Region.

Paper Industry is capital intensive and yields poor return on investments. The Sector is thus handicapped which is evident from the absence of large scale investments in green field Projects. As was highlighted last year, the issues that require immediate attention of the Government are:

- ◇ creation of robust raw material base for the paper industry
- ◇ creation of "technology up-gradation fund" that will help the industry move up in technology scale
- ◇ fiscal incentives for assimilation of eco-friendly technologies and
- ◇ introduction of policy frame work for substitution of plastics / wood by paper and paper boards.

(iii) Segment-wise or product-wise performance

The Company is a single product Company and hence segment wise or product wise performance is not provided.

(iv) Outlook

The long term outlook for the paper industry looks distinctly bright. Demand for paper is expected to increase at a CAGR of about 6%, mainly due to higher education spending, increased demand from office printing segments, and steady growth from the industrial paper segment, in view of increased production activities. However, the capacity growth is expected to be at a lower level of 3.6% which will lead to higher capacity utilizations by existing players. The operating rates are expected to go up from the current 84% to 94% by 2008-09.

The performance of the Indian Paper Industry is closely intertwined with global macro economic factors and demand and supply situation. The demand growth in domestic markets will closely follow the demand growth in most other countries whose economies are also improving. The capacity growth of paper industry in China is a major force to reckon with in ASEAN Region. In the next couple of years, international prices of pulp and paper are expected to go up substantially.

International prices of paper are expected to recover from their lows with firming up of pulp prices. A positive outlook of the global economy in the backdrop of expected improved performance by US economy, is expected to keep pulp prices at high levels in the medium term. Though significant additional pulping capacities are coming up in South America, China and Europe, strong Chinese demand is expected to prevent any major fall in international pulp prices.

Improved demand and supply in the domestic markets, coupled with higher prices in the international markets are expected to result in higher realisations. Further, as international prices go up, exports from the country will also increase, thereby further widening the demand and supply gap in the domestic markets which in turn will push up the paper prices.

Even though the paper prices are expected to go up, the operating profits will display only a moderate improvement, since the price increase of output is driven by increase in input costs, especially raw materials and fuel.

Despite encouraging prospects on the demand supply and price front, the Indian Paper Industry will face challenges from shortage of wood based raw materials and stringent pollution control norms involving additional large capital expenditure without return.

The need of the hour is change in forest policy of the Government to enable industry to own lands and develop industrial plantations to captively meet their raw material requirements. Indian Paper Industry also needs better investment climate, as no green field investment is in the offing due to lower RoCE for paper

industry, compared to other manufacturing sectors, mainly due to higher capital cost.

(v) Risks and concerns

- ◇ Failure of monsoon and absence of water flow in the River Cauvery, from where the Company draws its water requirements, has created anxious moments for the Company, to maintain un-interrupted production. While the Company was able to manage its operation without any significant loss of production, despite this poor water flow situation in the River during the year under review, the position is grim at the moment. Absence of copious rains in the catchment areas, resulting in considerable improvement in the storage levels of the reservoirs, upstream, will expose the Company, on and off, to curtailment of production. The Company's efforts to tap ground water resources have not met with success, so far. The Company has, however, succeeded in reducing the quantum of water used in the process, substantially,
- ◇ Domestic availability of fibre for paper making has not improved. Severe competition, in procurement, therefore is witnessed. Prices are on the rise, almost continuously.
- ◇ Continuous drought conditions for the last couple of years have led to reduced sugar cane planting by farmers in the State and consequently, the quantum of cane crushed by sugar mills has come down to record low levels. As a result, there is no availability of sugar cane bagasse as raw material for paper making, thereby further aggravating the raw material scenario.
- ◇ Imported coal, with low ash and high calorific value, is the favoured fuel of most of the domestic manufacturers. However, the spurt in prices of the said fuel, especially the ocean freight, in the recent past is a matter of concern, since the said fuel may become cost ineffective, if the spurt in price continues further.
- ◇ Consistent increase in the price of imported pulp is matter of concern of the domestic fibre starved Indian Paper Industry. A common variety of pulp that was being imported at US\$ 350 per tonne, at the beginning of the year, is currently being quoted at around US \$ 500 per tonne. In Rupee terms, the increase in price per tonne is close to Rs 7000. Scarcity of domestic fibre, coupled with high cost of imported pulp has adversely affected the financial performance of many players.
- ◇ Consequently, the margins are expected to drop significantly in the coming year.

(vi) Internal control systems and their adequacy

The Company is having an efficient and adequate internal control system commensurate with the size and level of operations of the Company.

(vii) Discussion on financial performance with respect to operational performance

During the year, the Company produced 117271 tonnes, consisting of production of 60271 tonnes, through its existing Paper Machines and 57000 tonnes through its new Paper Machine. The capacity utilisations achieved were:

◇ Existing Machines	100.45%
◇ New Machine	103.64%
◇ Overall	101.97%

During the year, both the existing Machines as well as the new Machine produced in excess of their installed capacities and consequently, the individual and overall capacity utilizations were well over 100%. The overall production has gone up by 3%, as compared to the previous year. The production could have been higher by another 1000 tonnes, but for the water shortage and the poor quality of water from the River Cauvery. The production of 117271 tonnes is the highest achieved by the Company, so far.

The Company sold 116598 tonnes, during the year, as against 112970 tonnes, in the previous year. The Company achieved Zero Stock of Finished Goods inventory, as at the end of the financial year, for the seventh time in the last ten years.

The turnover had moved up to Rs 41800 lakhs, as against Rs 39124 lakhs, in the previous year, registering an increase of 7%, over the previous year.

The first half of the financial year witnessed stability in the paper market conditions. However, from third quarter onwards, the sentiments in the paper market turned subdued. The market witnessed great resistance for white varieties of paper, like Creamwove. The movement was slow and prices were under tremendous pressure, due to competitor mills offering hefty discounts to push their products into the market. The Company had to offer price concessions for white varieties of paper in line with the market sentiments from January 2004 onwards.

Because of note book season, market for Creamwove varieties has improved from March 2004 onwards.

Export target was maintained at last year's level due to falling prices in export markets, besides appreciation of the Indian Rupee against US Dollar.

During the year, the Company exported 24011 tonnes of paper and paper boards, as compared to 24346 tonnes, during 2002-03. The proceeds amounted to US \$ 16 260 485, equivalent to Rs 7402 lakhs, as compared to Rs 7459 lakhs, during the previous year. The exports accounted for 20.47% of the Production. The Company's products are exported to over 26 countries.

Besides the above, the Company also sold 3560 tonnes, under deemed exports whose proceeds amounted to Rs 1148 lakhs.

Due to increased in import of pulp and coal, there was net foreign exchange outgo during the year, which amounted to Rs 3211 lakhs, as compared to an inflow of Rs 378 lakhs, during the previous year.

The Company continues to enjoy the "Golden Export House" Status, accorded by Government of India, Ministry of Commerce, Directorate General of Foreign Trade, in recognition of our long standing contribution to exports. Further, a Special Award was given by CAPAXIL, in recognition of the Company's Outstanding Export Performance, in respect of Paper and Paper Boards, for the year 2002-03.

During the year, the Company pre-paid in full the Term Loans availed from Banks for the Expansion / Modernisation Project. This has resulted in substantial savings in interest and financing charges. However, pre-payment of Term Loan availed from Industrial Development Bank of India (IDBI) could not be made due to stiff pre-payment premium conditions imposed by them.

After completion of the Expansion Project in June 2000, the Company became eligible for the Interest Free Sales Tax deferral offered for existing industries undertaking expansion / diversification projects.

The Company is entitled to the benefit of Interest free Sales Tax Deferral for ten years, not exceeding an amount of Rs 6304 lakhs, being the eligible value of Fixed Assets. The deferral of ten years period is from 01 06 2003 to 31 05 2013. The Sales Tax deferred upto the period of 31 05 2013 will be repaid from 01 06 2013 to 31 05 2023, free of interest.

The Company is eligible for deferral of Sales Tax only on the incremental volume of Production / Sale over the base Production / Sales. The base Production and Sales figures in this regard are 60042 tonnes and Rs 14953 lakhs, respectively.

During the year, the Company availed Interest free Sales Tax Deferral of Rs 655 lakhs under the above Scheme.

The Profit before interest, depreciation and tax was Rs 5565 lakhs, as compared to Rs 6301 lakhs, in the previous year. The drop in profit was contributed by overall reduction in sales realisation due to difficult market conditions, coupled with increase in cost of inputs and shortage and poor quality of water from River Cauvery that not only affected production, but entailed additional expenditure on treatment. Further, in the Central Government Budget for the year 2003-04, excise duty exemption for the clearance of first 3500 tonnes of paper manufactured with unconventional raw materials was withdrawn and such paper was made to suffer excise duty at 8%.

After absorbing interest and financing charges and depreciation of Rs 1302 lakhs and Rs 1111 lakhs, respectively, the profit before tax was Rs 3152 lakhs, as compared to Rs 2782 lakhs, in the previous year.

A sum of Rs 230 lakhs has been provided for liability towards Current tax, as against Rs 200 lakhs in the previous year. The Company was liable only to Minimum Alternate Tax (MAT), in view of availability of carried forward depreciation, for set off against the current year's income.

As per the Accounting Standard AS-22 of the Institute of Chartered Accountants of India, a sum of Rs 956 lakhs has been transferred to Deferred Tax from Profit and Loss Account, as against Rs 894 lakhs in the previous year.

In the result, profit after tax for the year was Rs 1966 lakhs, as compared to Rs 1688 lakhs, in the previous year.

Cash generation during the year was at Rs 4033 lakhs, compared to Rs 3678 lakhs, in the previous year.

(viii) Material developments in Human Resources / Industrial Relations front, including number of people employed.

The Company, during October 1999 / November 1999, had entered into two Memoranda of Settlements, with the Trade Unions and Staff Association, governing wages, Dearness Allowance and other benefits and services. These Settlements are for a period of five years, commencing from April 1, 1999.

The Company had also entered into two more Memoranda of Settlements during October 1999, with the Trade Unions and Staff Association, governing payment of bonus, goodwill amount and production incentive. These settlements are effective for five accounting years, commencing from 1998-99 to 2002-2003

During the current financial year, fresh agreements will be entered into with the Trade Unions and Staff Association for further years, after discussion / negotiations with them, covering the above matters.

Relations between the Management and the labour were cordial, throughout the year under review.

Currently, the Company has 1535 employees, of all ranks, on its rolls.

REPORT ON CORPORATE GOVERNANCE

1 A brief statement on company's philosophy on code of governance

Corporate Governance has several claimants, viz., Shareholders, and other stakeholders, which include suppliers, customers, creditors, bankers, the employees of the Company, the Government and the society at large. The three key aspects of Corporate Governance are accountability, transparency and equality of treatment for all stakeholders. The fundamental objective of Corporate Governance is the "enhancement of Shareholder value, keeping in view the interest of other stakeholders". In the above context, the Company's Philosophy on Corporate Governance is:

- ◇ To have systems in place which will allow sufficient freedom to the Board of Directors and Management to take decision towards the progress of the Company and to innovate while remaining within a framework of effective accountability.
- ◇ To provide transparent corporate disclosure and adopt high quality accounting practices.
- ◇ Timely and proper dissemination of material prices, sensitive information and ensure insiders do not transact in securities of the Company till such information is made public.
- ◇ To adopt good Corporate Governance policies that will contribute to the efficiency of the enterprise, creation of wealth for the Shareholders and country's economy.

2 Board of Directors

The Board of Directors, as on date, consists of ten Directors, of whom only the Chairman and Managing Director is in whole time employment of the Company. All the other nine Directors are Non Executive Directors of the Company.

The details are furnished hereunder:

Sl No.	Names of the Directors	Executive / Non Executive Director	Promoter / Independent / Nominee Director
1	Sri N Gopalaratnam	Chairman and Managing Director – Executive Director	Promoter Director
2	Sri Arun Ramanathan, I A S *	Non Executive Director	Nominee of TIIC as Equity Investor – Independent Director
3	Sri S P Elangovan, I A S	Non Executive Director	Nominee of Tamil Nadu State Government – Independent Director
4	Dr V Gaurishanker	Non Executive Director	Independent Director
5	Sri R V Gupta	Non Executive Director	Nominee of IDBI as lender – Independent Director
6	Sri Bimal Kumar Poddar	Non Executive Director	Independent Director
7	Sri M R B Punja	Non Executive Director	Independent Director
8	Dr G Rangaswami	Non Executive Director	Independent Director
9	Sri N Ravindranathan	Non Executive Director	Independent Director
10	Sri R V Subrahmanian, I A S, (Retd.)	Non Executive Director	Independent Director

* Appointed as Director on the Board with effect from March 27, 2004.

Board Meetings:

During the year 2003-04, five Board Meetings were held on June 14, 2003, July 25, 2003, October 23, 2003, January 24, 2004, and March 27, 2004. The Annual General Meeting was held on July 25, 2003.

Attendance of each Director, at the Board Meetings held during the financial year 2003-04 and at the last Annual General Meeting, is furnished hereunder:

SI No.	Names of the Directors	Board Meetings		Last Annual General Meeting	
		Held	Attended	Attended	Not attended
1	Sri N Gopalaratnam	5	5	Yes	--
2	Sri Arun Ramanathan, I A S *	5	--	--	Yes
3	Sri S P Elangovan I A S	5	4	--	Yes
4	Dr V Gaurishanker	5	5	Yes	--
5	Sri R V Gupta	5	5	Yes	--
6	Sri Bimal Kumar Poddar	5	4	Yes	--
7	Sri M R B Punja	5	4	Yes	--
8	Sri P V Rajaraman, I A S #	5	2	-	Yes
9	Dr G Rangaswami	5	5	Yes	--
10	Sri N Ravindranathan	5	5	Yes	--
11	Sri R V Subrahmanian, I A S(Retd)	5	5	Yes	--

* Appointed as Director on the Board with effect from March 27, 2004.

Ceased to be a Director from March 27, 2004.

Number of other Company Boards or Board Committees in which each of the Directors of the Company is a Member or Chairperson, as on March 31, 2004:

SI No.	Names of the Directors	Other Boards		Other Board Committees	
		Number	Member / Chairperson	Number	Member / Chairperson
1	Sri N Gopalaratnam	8 ◇	7 - Chairman 1 - Member	2	Chairman
2	Sri Arun Ramanathan, I A S	14	5 - Chairman 9 - Member	2	2 - Member
3	Sri S P Elangovan, I A S	6	1 - Chairman 5 - Member	--	--
4	Dr V Gaurishanker	4	4 - Member	--	--
5	Sri R V Gupta	6	6 - Member	7	1 - Chairman 6 - Member
6	Sri Bimal Kumar Poddar	12 [@]	5 - Chairperson 7 - Member	7	1 - Chairman 6 - Member
7	Sri M R B Punja	15 [*]	6 - Chairman [#] 9 - Member	7	3 - Chairman 4 - Member
8	Sri P V Rajaraman, I A S	3	1 - Chairman 2 - Member	--	--
9	Dr G Rangaswami	--	--	--	--
10	Sri N Ravindranathan	3	3 - Member	1	1 - Member
11	Sri R V Subrahmanian, I A S (Retd.)	1	1 - Member	--	--

* Includes 5 Private Limited Companies.

Includes 1 Private Limited Company.

@ Includes 1 Private Limited Company.

◇ Includes 1 Private Limited Company

3 Audit Committee

Audit Committee of the Board was constituted in 1986 itself and is functioning effectively, without interruption. The terms of reference of the Audit Committee are:

To undertake periodical review of Company's operations and more particularly in the following areas:

- ◇ Financial performance of the Company
- ◇ Payment of dues to Institutions, both interest and principal
- ◇ Payment of Government dues, such as customs duties, excise duties, sales tax, income tax, etc.
- ◇ Inter Corporate Investments
- ◇ Policies relating to award of contracts, purchase and sale of raw materials, finished goods, etc.
- ◇ Overview of different items of expenditure incurred by the Company, with particular reference to whether they are extravagant or lavish and whether any diversion of funds, not directly relating to the affairs of the Company, has taken place and
- ◇ To do such other acts, deeds or things, as may be necessary from time to time, to fulfil the objectives aforementioned.

The Audit Committee consists of four Independent Non Executive Directors. Attendance of each Member Director, at the Audit Committee Meetings held during the financial year 2003-04, is furnished hereunder:

SI No.	Names of the Directors	Position	Audit Committee Meetings	
			Held	Attended
1	Sri R V Subrahmanian, I A S, (Retd.)	Chairman	5	5
2	Sri M R B Punja	Member	5	4
3	Sri N Ravindranathan	Member	5	5
4	Sri R V Gupta	Member	5	5

The Chairman of the Audit Committee is Sri R V Subrahmanian, I A S (Retd.).

4 Remuneration Committee

The Company has constituted a Remuneration Committee of the Board, which currently consists of the following Independent Directors:

- ◇ Sri M R B Punja
- ◇ Dr G Rangaswami and

Sri R V Gupta who was a member of the Remuneration Committee resigned from the Committee with effect from October 23, 2003.

No meeting of the Remuneration Committee was held during the year.

Remuneration to Non Whole time Directors:

Remuneration to Non Whole time Directors is paid, with the approval of the Board of Directors, Members of the Company in General Meeting and the Government of India, effective from the financial year 1994-95 onwards.

Currently, the Non Whole time Directors are paid the following remuneration:

- ◇ Restricted to a maximum of 1% of the net profits of the Company, computed in the manner laid down in Sections 349 and 350 of the Companies Act, 1956, for all of them together.
- ◇ The above shall be shared amongst the Non Whole time Directors equally.
- ◇ The above shall be subject to a further ceiling of Rs 50 000 per financial year, for each Director.
- ◇ In case any Director has held the office of Director only for a part of the financial year, then the remuneration shall be paid only proportionately, in proportion to the period for which he was a Director during that financial year.

Besides the above, the Non Whole time Directors are paid Sitting Fee for attending the Board / Committee Meetings of the Board of Directors, in accordance with the provisions of Articles of Association of the Company.

During the financial year 2003-04 a sum of Rs 3 40 000 was paid as Sitting Fee to all the Non Whole time Directors. Further, a sum of Rs 4 50 000 is payable, as Commission on Net Profits, for the financial year 2003-04.

Remuneration to Chairman and Managing Director:

Remuneration to Chairman and Managing Director is approved by the Board of Directors within the ceilings prescribed under Schedule XIII to the Companies Act, 1956. The same is also approved by the Members of the Company in General Meeting.

No Sitting Fee is paid to the Chairman and Managing Director.

Remuneration to Chairman and Managing Director, for the financial year 2003-04 is under:

	Rs
Salary	12 00 000
Commission	12 00 000
Contribution to:	
(i) Provident Fund	1 44 000
(ii) Superannuation Fund	1 80 000
(iii) Gratuity Fund	1 56 000
Insurance Premium on Personal Accident Policy	3 947
Total	28 83 947

5 Share Transfer and Shareholders / Investors Grievance Committee

Name of non-executive Director heading the committee	:	Dr G Rangaswami
Name and designation of compliance officer	:	Sri V Pichai Vice President (Finance) & Secretary
Number of shareholders complaints received during 2003-04	:	During the year under review, there were four complaints from Investors relating to non-receipt of Dividend Warrants and Share Certificates after effecting transfer. All the complaints were satisfactorily redressed, in time.
Number of complaints not solved to the satisfaction of shareholders	:	Nil
Number of pending share transfers as on March 31, 2004	:	Nil

6 General Body Meetings

Last three Annual General Meetings were held at 11.AM on July 28, 2001, July 27, 2002 and at 10.15 AM on July 25, 2003 at the "Community Centre", SPB Colony, Erode 638 010.

In all the three meetings, there were Special Resolutions relating to either appointment of Auditors or payment of remuneration to Non Whole time Directors, by way of commission on the Net Profits of the Company and Voluntary De-listing of Equity Shares of the Company from the three Stock Exchanges, namely, Madras Stock Exchange Limited, The Calcutta Stock Exchange Association Limited and Bangalore Stock Exchange Limited.

The system of voting, by Postal Ballot, was introduced by the Companies (Amendment) Act, 2000, through the insertion of a new Section 192A to the Companies Act, 1956. The new provision has come into effect from May 10, 2001. Government of India has also notified, items of business that require voting through Postal Ballot. After the notified date, none of the items of business mentioned in the Notification, requiring voting by Postal Ballot, has been included in the Agenda of the Annual General Body Meetings of the Company.

7 Disclosures

(i) (a) Ponni Sugars (Erode) Limited (PEL):

Our Company's investment in Ponni Sugars (Erode) Limited is as under:

Nature of investment	Ponni Sugars (Erode) Limited	
	No. of Shares	% of holding
Equity Capital	13 85 160	16.70%
Preference Capital	20 00 000	100.00%

Three of our Directors, viz., Sri N Gopalaratnam, Sri N Ravindranathan and Sri Bimal Kumar Poddar are also the Directors of Ponni Sugars (Erode) Limited. Sri N Gopalaratnam, our Chairman and Managing Director is also the Chairman of Ponni Sugars (Erode) Limited.

Our Company has entered into a long term arrangement, with Ponni Sugars (Erode) Limited, for procurement of entire bagasse produced by them, in their unit at Erode. The arrangement includes, procurement and supply of fuels to them, provision and maintenance of infrastructure facilities, like Boilers and Turbo Alternator Sets, supply of water, etc.

Our Company has also entered into a tri-partite arrangement, with Ponni Sugars (Erode) Limited and three Lift Irrigation Societies, for supply of treated effluent water, free of cost, to the Members of the Lift Irrigation Societies, for growing sugar cane in their fields and in turn, supply the sugar cane so grown to Ponni Sugars (Erode) Limited. The running and maintenance cost of the Pump Houses, for distribution of the treated effluent water to the fields of the farmers, is shared, equally, between our Company and Ponni Sugars (Erode) Limited.

(b) SPB Projects and Consultancy Limited (SPB-PC):

SPB Projects and Consultancy Limited (SPB-PC) is a renowned consultancy company, in pulp and paper and their services were enlisted for the recently completed Expansion / Modernisation Project. Again their services are enlisted as Project Consultants for the implementation of the on going Captive Power Project. Sri N Gopalaratnam, our Company's Chairman and Managing Director, is on the Board of SPB-PC and he is also the Chairman of SPB-PC. Our Company has invested Rs 5 lakhs, in the Equity Share Capital of SPB-PC, representing 22.22% of the total Equity Capital of SPB-PC.

(c) High Energy Batteries (India) Limited (HEB)

High Energy Batteries (India) Limited (HEB) was established in 1979-80, at the instance of Directorate of Technical Development and Production (DTD &P) Air, to initially develop and manufacture high energy specialized batteries for use by the Air force in MIG Aircrafts, in substitution of batteries that were then being imported from USSR.

Their Current production range include batteries for Commercial and Military Aircrafts, Underwater Propulsion (Torpedo), Remote Sensing and Telemetry, Power Sources for Satellite Launch Vehicles, Missile Guidance Power Source, NiCd / NiMh rechargeable batteries, etc.

The National Award for the R & D efforts in industry for the year 1990-91 was given to HEB in recognition of their outstanding work in the battery technology field. In recognition of the successful indigenisation of the primary battery for SUT torpedo, HEB received an award for indigenisation during the year 1998-99.

Sri N Gopalaratnam, our Company's Chairman and Managing Director, is on the Board of HEB and he is also the Chairman of HEB. SPB is holding 45268 Equity Shares of Rs 10 each, in the Equity Capital of HEB, constituting 5.05% of the total Equity Share Capital of HEB.

(d) Esvin Advanced Technologies Limited (Esvin Tech):

Esvin Advanced Technologies Limited (Esvin Tech), is a company which was promoted for undertaking basic research in Energy Conservation / Pollution Abatement (Chemical Energy Recovery from Pulp / Sugar Mill Waste Liquor and Sludge), Membrane Technology (Ultra Filtration, Reverse Osmosis and Electro Dialysis, for purification / concentration of sugar cane juice) and Bio-technology (Bio-Pulping and Bio-Bleaching). Though, Esvin Tech successfully developed a TCCR System, it could not be commercialised, due to uneconomical operating costs and high capital cost of the System. Our Company is holding 41 000 Equity Shares of Rs 100 each, (whose cost was written down to Re 1 per share), in the Equity Capital of Esvin Tech, constituting 25.81% of the total Equity Share Capital of Esvin Tech.

- (ii) The Company has complied with all the Regulations of the Securities Exchange Board of India (SEBI) and Stock Exchanges. Hence, no penalties or strictures were imposed on the Company, by any Stock Exchange or SEBI or any Statutory Authority, on any matter related to capital markets, during the last three years.

8 Means of communication

Currently, the Un-audited Quarterly / Half Yearly Financial Results are published not only in news papers, but are also sent to each Shareholder, by post. The Results are generally published in 'The Hindu Business Line', in English and in 'Dinamalar', in Tamil. The Results are also placed on the Company's Web Site, www.spbltd.com. As per the directives of Securities and Exchange Board of India, information relating to shareholding pattern, quarterly results, etc., are also placed on the official web site of SEBI (www.sebi.gov.in) under the Electronic Data Information Filing And Retrieval System (EDIFAR).

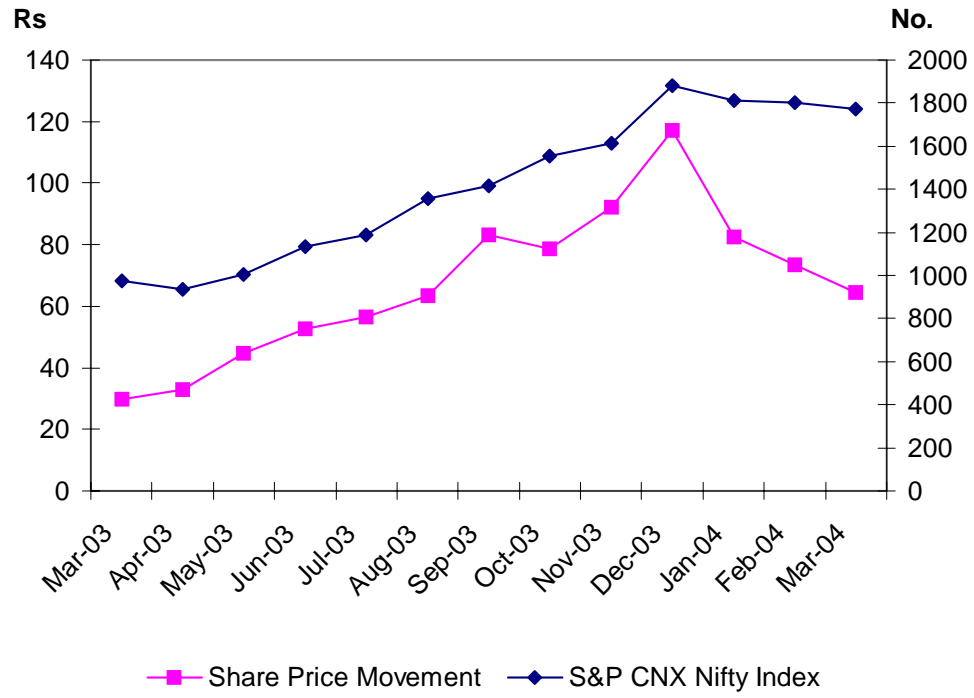
Management's Discussion and Analysis Report is forming part of Directors' Report to Shareholders.

9 General Shareholder information

AGM : Date, time and venue	:	11.00 AM Saturday, July 24, 2004 "Community Centre" SPB Colony ERODE 638 010 Tamilnadu	
Financial Calendar (tentative and subject to change)	:	June 2004 July 2004 October 2004 January 2005 March 2005 June 2005 July 2005	Audited results for 2003-2004 Annual General Meeting and First Quarter Results for 2004-05 Second Quarter Results Third Quarter Results Review of performance Audited Results for 2004-05 Annual General Meeting and First Quarter Results for 2005-06.
Date of Book closure	:	July 15, 2004 to July 24, 2004 (both days inclusive).	
Dividend Payment Date	:	On or after July 24, 2004, but before the statutory time limit of 30 days, from the date of declaration.	

Listing on Stock Exchanges	: 1 Madras Stock Exchange Limited Exchange Building 11, Second Line Beach Chennai 600 001 Ph: (91)(44) 2522 4382, 2522 4392, 2522 8951 E-mail: mseed.@md3.vsnl.net.in Fax: (91)(44)2524 4897
	2 The Stock Exchange, Mumbai Phiroze Jeejeebhoy Towers Dalal Street Mumbai 400 001 Ph: (91)(22) 2272 1233 - 1234 (General) 2272 1121 - 1122, 2272 2375 (Corporate Relations Department) Web Site: www.bseindia.com E-mail: isc@bseindia.com Fax: (91)(22) 2272 1919, 2272 3027 (General) 2272 3719, 2272 2039, 2272 2061 2272 3121, 2272 2037, 2272 2041 (Corporate Relations Department)
	3 National Stock Exchange of India Limited "Exchange Plaza" Bandra – Kurla Complex Bandra (East) Mumbai 400 051 Ph: (91)(22)2659 8100- 8114 Web Site: www.nseindia.com E-mail: cmlist@nse.co.in Fax: (91)(22)2659 8237 - 8238
	4 The Calcutta Stock Exchange Association Limited 7, Lyons Range Kolkata 700 001 Ph: (91)(33) 2210 4470 - 4477, 2220 6957, 2220 3741 Fax: (91)(33) 2210 4492, 2210 4500

Payment of Annual Listing Fees to the Stock Exchanges	:	Listing Fee has been paid to all the four Stock Exchanges, in which the Company's Equity Shares are listed, upto March 31, 2005.			
De-listing	:	At the Forty Third Annual General Meeting held on July 25, 2003, Shareholders approved voluntary de-listing of the Company's Equity Shares from the Bangalore, Calcutta and Madras Stock Exchanges. The Company has secured approval from Bangalore Stock Exchange. Approval is awaited from Madras and Calcutta Stock Exchanges.			
Stock Code	:	Under Demat System the ISIN allotted to the Company's Equity Shares is : INE630A01016 The Company's Stock Code SESHAPAPER in the National Stock Exchange and 502450 in the Bombay Stock Exchange.			
Market Price Data:	:	Month	Highest	Lowest	Volume
			Rs	Rs	No. of Shares
High, low and volume during each month in the last financial year (reported at the National Stock Exchange of India Limited)	:	April 2003	35.05	29.25	59 873
		May	47.90	32.65	1 69 986
		June	56.95	43.50	3 71 021
		July	58.50	49.60	5 51 675
		August	68.50	56.00	7 08 196
		September	89.50	63.20	4 69 516
		October	89.75	76.55	3 91 914
		November	92.15	72.30	5 71 559
		December	129.00	95.90	10 97 242
		January 2004	125.00	82.55	3 30 833
		February	84.00	72.50	37 262
		March	74.00	58.00	1 66 318
		Total			49 25 393
Performance, in comparison to broad-based indices, such as, BSE Sensex, CRISIL Index, etc.	:	Please see the Chart below for comparison of the Price movement of the Company's Shares with Nifty Index movement.			



<p>Registrar and Transfer Agents from April 1, 2003.</p>	<p>: Securities Exchange Board of India (SEBI) has mandated, vide Circular No. D&CC/FITTC/CIR - 15 / 2002 dated December 27, 2002 that all Share Registry work relating to both physical shares and shares held in electronic mode must be maintained at a single point, either in-house or by a SEBI registered Registrar and Transfer Agent. Consequently, the Company has enlisted the services of M/s Integrated Enterprises (India) Limited, Chennai to act as Registrar and Transfer Agents to handle all investor services relating to shares held in physical form as well as in electronic mode. Their address is given below:</p> <p>Integrated Enterprises (India) Limited</p> <p>Kences Towers', Second Floor No.1, Ramakrishna Street, North Usman Road, T Nagar, Chennai 600 017.</p> <p>Ph: (91)(44) 2814 0801 - 803 Fax: (91)(44) 2814 2479 Email: yesbalu@iepindia.com</p>
<p>Share Transfer System</p>	<p>: Share transfers are registered and returned within the statutory time limit, if the documents are clear in all respects.</p> <p>As per the Guidelines of SEBI / Stock Exchanges, a Demat Option Letter is sent to the transferees, seeking their option, as to whether the shares transferred in their name, would be demated by them or they would like to hold the shares, in physical form. After 30 days time, if the Demat Request Form is not received along with the Demat Option Letter, duly accepted, physical share certificates are despatched to the transferees.</p> <p>With effect from February 2004, the above procedure / facility of transfer-cum-demat scheme has been withdrawn by SEBI.</p>

Share Transfer System (Contd.)	:	While the Share Transfer and Shareholders / Investors Grievance Committee of the Board of Directors meets once in three months, the Chairman and Managing Director has been delegated with the powers to approve transfers, if the documents are in order.				
		Distribution	No. of Share holders	% of Share holders	No. of Shares	% of Share holding
Distribution of shareholding as on March 31, 2004	:	1- 100	13096	71.35	659164	5.86
		101- 200	2770	15.09	430844	3.83
		201- 500	1667	9.08	545455	4.85
		501- 1000	467	2.54	354286	3.15
		1001- 5000	282	1.54	605278	5.38
		5001-10000	39	0.22	287359	2.55
		10001 and above	33	0.18	8367614	74.38
		Total	18354	100.00	11250000	100.00
		Category	No. of Share holders	Voting strength %	No. of Shares held	
Pattern of Shareholding as on March 31, 2004	:	Individuals	17870	24.81	2790696	
		Companies	369	32.89	3700381	
		FII's, NRIs, OCBs	83	14.07	1582418	
		Mutual Funds, Insurance Companies and Banks	24	1.86	209367	
		FIs	8	26.37	2967138	
		Total	18354	100.00	11250000	
Dematerialisation of shares and liquidity	:	For Dematerialisation of Equity Shares, the Company has entered into a tripartite agreement with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL). The Company's Equity Shares have been included in the list in which trading is compulsory for all investors in dematerialised form, along with other scrips, from July 24, 2000.				

Dematerialisation of shares and liquidity (Contd.)	:	As on March 31, 2004, 6308 Shareholders are holding Shares in Demat form and 81 46 709 shares have been dematerialised, representing 72.42% of the total Equity Share Capital.
Outstanding GDRs / ADRs / Warrants or any Convertible instruments, conversion date and likely impact on equity	:	NIL
Plant Location	:	Pallipalayam Namakkal District Cauvery RS PO ERODE 638 007 Tamilnadu
Address for correspondence	:	Seshasayee Paper and Boards Limited Pallipalayam Namakkal District Cauvery RS PO Erode 638 007 Tamilnadu Ph: (91)(4288)240 221-228 Cable: ESPEEBE, ERODE Fax: (91)(4288)240 229 Email: edoff@spbltd.com Web Site: www.spbltd.com

SURI & CO.,
CHARTERED ACCOUNTANTS

M/s. S VISWANATHAN
CHARTERED ACCOUNTANTS

**CERTIFICATE OF THE AUDITORS TO THE SHAREHOLDERS OF
M/s SESHASAYEE PAPER AND BOARDS LIMITED
ON CORPORATE GOVERNANCE**

We have examined the compliance of conditions of Corporate Governance by M/s Seshasayee Paper and Boards Limited, for the year ended on March 31, 2004, 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 implementations hereof, adopted by the Company for ensuring the compliance of the conditions of 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 with the conditions of Corporate Governance, as stipulated in the above mentioned Listing Agreement.

We state that no investor grievance is pending for period exceeding one month against the Company, as per the records maintained by the Shareholders / Investors Grievance Committee.

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

For SURI & CO.,

For M/s. S VISWANATHAN

S Swaminathan
Membership No. 20583
Partner
Chartered Accountants

Chella K Srinivasan
Membership No. 23305
Partner
Chartered Accountants

Chennai
June 12, 2004

SURI & CO.,
CHARTERED ACCOUNTANTS

M/s. S VISWANATHAN
CHARTERED ACCOUNTANTS

**REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF
M/s SESHASAYEE PAPER AND BOARDS LIMITED**

We have audited the attached Balance Sheet of M/s SESHASAYEE PAPER AND BOARDS LIMITED, as at 31st March 2004 and also the Profit and Loss Account for the year ended on that date annexed thereto and the Cash Flow Statement for the year ended on that date. 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 accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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.

The Balance Sheet, Profit and Loss Account and the Cash Flow Statement, dealt with by this Report, are in agreement with the books of account.

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 Section 211(3C) of the Companies Act, 1956, so far as applicable.

On the basis of declarations from the Directors of the Company, as at March 31, 2004, and taken on record by the Board of Directors of the Company, no Director is disqualified as on March 31, 2004, from being appointed as a Director of the Company, in terms of Section 274(1)(g) of the Companies Act, 1956.

Payment of Cess, as contemplated under Section 441A of the Companies Act, 1956, is not applicable for the year under audit, since the Central Government has not yet notified the quantum of Cess payable and the effective date, so far.

In our opinion and to the best of our information and according to the explanations given to us, the said accounts, read with the notes thereon, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles, generally accepted in India:

- (i) in the case of the Balance Sheet, of the state of the Company's affairs, as at March 31, 2004;
- (ii) in the case of Profit and Loss Account, of the PROFIT for the financial year ended on that date; and
- (iii) in the case of Cash Flow Statement, of the cash flows for the year ended on that date.

As required by the Companies (Auditors' Report) Order, 2003, made by the Central Government under Section 227(4A) of the Companies Act, 1956, we state that:

- 1 (a) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.
- (b) The fixed assets have been physically verified by the Management at reasonable intervals and no material discrepancies were noticed on such verification.
- (c) Fixed assets of a substantial part, affecting the going concern, have not been disposed off during the year.
- 2 (a) The Management has carried out physical verification of inventory at reasonable intervals.
- (b) The procedure of verification of inventory followed by the management is 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 and no material discrepancies were noticed on physical verification.
- 3 (a) The Company has granted unsecured loans amounting to Rs 120 lakhs to two Companies covered in the Register maintained under Section 301 of the Companies Act, 1956. Both the parties have fully repaid the loan of Rs 120 lakhs during the year. The Company has not taken any loans, secured or unsecured, from Companies, firms or other parties covered in the Register maintained under Section 301 of the Companies Act, 1956.
- (b) The rate of interest and other terms and conditions of the unsecured loans given are prima facie not prejudicial to the interest of the Company.
- (c) Payment of principal and interest were regular.

- 4 There is an adequate internal control procedure commensurate with the size of the Company and the nature of its business for the purchase of inventory, fixed assets and for the sale of goods.
- 5 (a) Transactions that need to be entered into a register in pursuance of Section 301 of the Companies Act, 1956, have been so entered.
(b) Transactions exceeding the value of Rs five lakhs, in respect of any such party, have been made at prices which are reasonable, having regard to the prevailing market prices at the relevant time.
- 6 The Company has not accepted any deposits from the public.
- 7 The Company has an internal audit system commensurate with its size and nature of its business.
- 8 Central Government has prescribed maintenance of Cost Records under Section 209(1)(d) of the Companies Act, 1956 and such accounts and records have been made and maintained.
- 9 (a) The company is regular in depositing undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income-tax, Sales-tax, Wealth Tax, Custom Duty, Excise Duty, Cess and any other statutory dues with the appropriate authorities.
(b) The Company has not remitted the disputed Excise Duty of Rs 40.88 lakhs and Rs 0.70 lakhs on which appeals are pending before CESTAT, and Commissioner of Central Excise (Appeals) respectively and disputed Sales Tax of Rs 2.63 lakhs on which appeal is pending before the Joint Commissioner of Commercial Taxes (Appeals).
- 10 The Company has not defaulted in repayment of dues to financial institution or banks.
- 11 The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities and hence maintenance of adequate documents and records for such cases does not arise.
- 12 The Company has not given any guarantee for loans taken by others from banks or financial institutions.
- 13 Term loans borrowed by the Company were applied for the purpose for which the loans were obtained.
- 14 Funds raised on short term basis have not been used for long term investments and vice versa.
- 15 No fraud on or by the Company has been noticed or reported during the year.

16 The other paragraphs of Companies (Auditors' Report) Order 2003, not dealt with by this Report, are not applicable to the Company.

For SURI & CO.,

S Swaminathan
Membership No. 20583
Partner
Chartered Accountants

Chennai
June 12, 2004

For M/s. S VISWANATHAN

Chella K Srinivasan
Membership No. 23305
Partner
Chartered Accountants