

REPORT OF THE AUDITORS TO THE SHAREHOLDERS

We have audited the attached Balance Sheet of Pricol Limited, Coimbatore, as at 31st March 2008 and also the Profit & Loss Account for the year ended on that date annexed thereto and the Cash Flow Statement for the period 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 the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As required by the Companies' (Auditor's Report) Order, 2003, and according to the information and explanations given to us during the course of the audit and on the basis of such checks as were considered appropriate, we enclose in the Annexure a statement on the matters specified in paragraph 4 of the said Order.

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

- 1) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit.
- 2) In our opinion, proper books of accounts as required by law have been kept by the Company so far as appears from our examination of those books.
- 3) The Balance Sheet and the Profit & Loss Account dealt with by this report are in agreement with the books of account.
- 4) In our opinion the Balance Sheet and Profit & Loss Account dealt with by this report comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956.
- 5) On the basis of the written representation received from the Directors, as on 31st March 2008 and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31st March 2008 from being appointed as a Director in terms of

Clause (g) of Sub-section (1) of Section 274 of the Companies Act, 1956.

- 6) In our opinion and to the best of our information, and according to the explanations given to us, the said financial statements, read together with the attached schedules and notes forming part of accounts give the information required by the Companies Act, 1956, in the manner so required and present a true and fair view in conformity with the accounting principles generally accepted in India:

- a) In the case of the Balance Sheet, of the state of affairs of the Company as at 31st March 2008; and
- b) In the case of the Profit & Loss Account, of the profit for the year ended on that date, and
- c) In the case of Cash Flow Statement, of the cash flows for the year ended on that date.

For Suri & Co.,
Chartered Accountants
C.S. Sathyanarayanan
Partner
Membership No.28328

Coimbatore
29th May 2008

Annexure to Auditor's Report

- 1) a) The company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.
- b) The assets have been physically verified by the management in accordance with a phased programme of verification, which in our opinion, is reasonable, considering the size and the nature of business. The frequency of verification is reasonable and discrepancies noticed on such physical verification were not material and have been properly dealt within the books of accounts.
- c) There is no disposal of substantial part of fixed assets during the year.
- 2) a) The inventories have been physically verified by the management during the year at reasonable intervals, except materials lying with third parties where confirmations have been obtained.
- b) The procedures of physical verification of the inventories followed by the management are



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reasonable and adequate in relation to the size of the company and nature of its business.

- c) The company has maintained proper records of inventories and discrepancies noticed on physical verification of inventories as compared to book records were not material and have been appropriately dealt with.
- 3) a) During the year the company has not granted loans, secured or unsecured to companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956.
- b) The terms and conditions in respect of loans already given by the company, secured or unsecured, are in our opinion, prima facie not prejudicial to the interest of the company.
- c) In respect of such loans given by the company, the company has provided for overdue advances.
- d) During the year the company has not taken loans, secured or unsecured from companies, firms or other parties covered in the Register maintained under section 301 of the Companies Act, 1956.
- 4) There are adequate internal control systems 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 and services. There is no major weakness in the internal control system.
- 5) a) The particulars of contracts or arrangements referred to in Section 301 of the Companies Act, 1956 have been entered in the register required to be maintained under that section.
- b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of such contracts or arrangements exceeding rupees five lakh each have been made at prices, which are reasonable having regard to prevailing market prices at the relevant time.
- 6) During the year the company has not accepted deposits from public. The company has complied with the directives issued by Reserve Bank of India and the provisions of Section 58A, 58AA of the Companies Act, 1956 and the Companies (Acceptance of Deposits) Rules, 1975 or any other relevant provisions of the Act.
- 7) The Company has an adequate Internal Audit system commensurate with its size and nature of its business.
- 8) We have broadly reviewed the books of accounts maintained by the company pursuant to the order made by the Central Government for the maintenance of cost records under Section 209(1)(d) of the Companies Act, 1956 and are of the opinion that prima facie, the prescribed records have been maintained.
- 9) a) According to the information and explanations given to us and the records examined by us, the company is regular in depositing with appropriate authorities undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income Tax, Sales Tax, Wealth Tax, Service Tax, Customs Duty, Excise Duty, Cess and Other Statutory dues. According to the information and explanations given to us, no undisputed arrears of statutory dues were outstanding as at 31st March 2008 for a period of more than six months from the date they became payable.
- b) There are disputed statutory dues. The details are as under:-

Sl. No.	Name of the Statute	Period to which the amount relates	Nature of the Dues	Amount disputed Rs. Million	Amount paid Rs. Million	Forum where dispute is pending
1.	Central Excise Act	1990-2007	i) Excise Duty	20.779	Nil	Commissioner of Appeals Tribunal Supreme Court
			ii) Excise Duty	1.014	Nil	
			iii) Excise Duty	23.131	Nil	
2.	Sales Tax Act	1995-1997	i) Sales Tax	13.325	Nil	Interim stay granted by High Court
			ii) Penalty	19.988	Nil	
3.	Income Tax Act	1993-2003	i) Income Tax	21.804	21.804	Tribunal High Court
			ii) Income Tax	0.096	0.096	

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- 10) There are no accumulated losses of the Company as at 31st March 2008. The company has not incurred any cash losses during the financial year covered by our audit and in the immediately preceding financial year.
- 11) The Company has not defaulted in repayment of its dues to financial institution and banks.
- 12) During the year, the company has not granted any loans and advances on the basis of security by way of pledge of shares or other securities.
- 13) The provisions of Special Statutes applicable to Chit Fund, Nidhi or Mutual Benefit Fund / Societies are not applicable to the Company.
- 14) The Company is not dealing or trading in shares, securities, debentures or other investments.
- 15) According to the information and explanations given to us, the Company has given guarantee for loans taken by others from banks and terms and conditions are not prejudicial to the interest of the company.
- 16) The Company has applied term loan for the purposes for which they were obtained.
- 17) According to the information and explanations given to us and on an overall examination of the Source and Application of the Funds of the company, we report that no funds raised on short term basis have been used for long term investments by the company.
- 18) The Company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Companies Act, 1956.
- 19) During the year, the Company has not issued Debentures.
- 20) During the year, the Company has not raised money by Public issue.
- 21) According to the information and explanations given to us and the books and records examined by us, there are no frauds on or by the Company that has been noticed or reported during the year.

For Suri & Co.,
Chartered Accountants
C.S. Sathyanarayanan
Partner
Membership No.28328

Coimbatore
29th May 2008

SIGNIFICANT ACCOUNTING POLICIES

1. Accounting Convention

The financial statements have been prepared under Historical Cost Convention on the basis of going concern and in accordance with the accounting standards referred to in Section 211 (3C) of the Companies Act, 1956, wherever applicable.

2. Fixed Assets & Depreciation

- a) Fixed Assets are stated at original cost net of tax / duty credits availed, if any, less accumulated depreciation, accumulated amortization and cumulative impairment. Costs include pre-operative expenses and all expenses related to acquisition and installation of the assets concerned.
- b) Own manufactured assets are capitalized at cost including an appropriate share of overheads.
- c) (i) Depreciation has been provided under the Straight Line Method as per Schedule XIV of the Companies Act, 1956 except for Dies, Tools and Moulds, which are depreciated at 33.33%.

(ii) Intangible assets are amortized as follows :

- i) Specialized software : Over a period of 4 years.

ii) Fees for technical know-how : Over a period of 4 years.

d) As at each balance sheet date, the carrying amount of assets is tested for impairment so as to determine;

- i) the provision for impairment loss, if any, required or;
- ii) the reversal, if any, required of impairment loss recognised in previous periods.

Impairment loss is recognised when the carrying amount of an asset exceeds its recoverable amount.

3. Investments

- a) Long Term Investments are stated at cost.
- b) Current Investments are carried at lower of cost and fair value as on the Balance Sheet date.
- c) Provisions for diminution in value of long term investments is made, if the diminution is other than temporary.



SIGNIFICANT ACCOUNTING POLICIES

4. Valuation of Inventories

- a) Inventories are valued at lower of cost and estimated net realizable value. Cost is arrived at on weighted average basis.
- b) Excise Duty is added in the Closing Inventory of Finished Goods.
- c) The basis of determining cost for various categories of inventories are as follows:
 - i) Raw Materials, Packing : Weighted Average Materials and Stores and spares basis.
 - ii) Finished Goods and Work-In-Progress : Cost of Direct Material, Labour and other Manufacturing overheads.

5. Revenue Recognition

- a) The company generally follows the mercantile system of accounting and recognizes income and expenditure on an accrual basis except those with significant uncertainties.
- b) Sale of goods is recognized when the risk and rewards of ownership are passed on to the customers, which is generally on despatch of goods.
- c) Dividend Income is recognized when the right to receive the dividend is unconditional at the Balance Sheet date.
- d) Claims made by the company and those made on the company are recognized in the profit and loss account as and when the claims are accepted.

6. Foreign Currency Transactions

- a) Foreign currency transactions are recorded at exchange rates prevailing on the date of such transaction.
- b) Foreign currency assets and liabilities at the year end are realigned at the exchange rate prevailing at the year end and difference on realignment is recognized in the Profit & Loss account.
- c) Premium / discount in respect of Forward Contract is amortized as expense / income over the period of contract. Exchange difference arising on forward contracts between the exchange rate on the date of the transaction and the exchange rate prevailing at the year end is recognized in the Profit & Loss account.

7. Research and Development

Revenue expenditure on Research and Development is charged under respective heads of account. Capital

expenditure on research and development is included as part of fixed assets and depreciated on the same basis as other fixed assets.

8. Employee Benefits

- a) Short term employee benefits are recognized as an expense at the undiscounted amount in the Profit & Loss Account of the year in which the related service is rendered.
- b) Post employment and other long term benefits which are defined benefit plans are recognized as an expense in the Profit & Loss Account for the year in which the employee has rendered service. The expense is recognized based on the present value of the obligation determined in accordance with Revised Accounting Standard 15 on "Employee Benefits". Actuarial gains & losses are charged to the Profit & Loss Account.
- c) Payments to defined contribution schemes are charged as expense as and when incurred.
- d) Termination benefits are recognized as an expense as and when incurred.

9. Borrowing Costs

Borrowing costs attributable to the acquisition or construction of qualifying assets are capitalized as part of such assets. All other borrowing costs are charged to revenue.

A qualifying asset is an asset that necessarily requires substantial period of time to get ready for its intended use or sale.

10. Taxes on Income

Current tax on income for the period is determined on the basis of taxable income and tax credits computed in accordance with the provisions of the Income Tax Act, 1961 and based on the expected outcome of assessment / appeals.

Deferred tax is recognized on timing differences between the accounting income and the taxable income for the year and quantified using the tax rates and laws enacted or substantively enacted as on the Balance Sheet date.

Deferred tax assets are recognized and carried forward to the extent that there is a reasonable certainty that sufficient future income will be available against which such deferred tax assets can be realized.

11. Accounting Standards

Accounting Standards prescribed by the Institute of Chartered Accountants of India have been followed wherever applicable.

STATEMENT IN PURSUANCE OF SECTION 212 OF THE COMPANIES ACT, 1956

1. Name of the Subsidiary Company	Integral Investments Limited	English Tools and Castings Limited	PT Pricol Surya, Indonesia
2. Financial year of the Subsidiary ended on	31st March 2008	31st March 2008	31st March 2008
3. Holding Company's interest in the Subsidiary	2,250,000 equity shares of Rs.10/- each (100%)	7,933,700 equity shares of Rs.10/- each (100%)	1,500 equity shares of USD 1,000 each (100%)
4. Net aggregate amount of the Profit / (Loss) of the Subsidiary not dealt within the Holding Company's Accounts			
a) For the current financial year of the Subsidiary Company	Rs.0.837 Mn	Rs.4.520 Mn	(Rs.18.726 Mn) (Indonesian Rupiah 3.879.320.471)
b) For the previous financial years of the Subsidiary Company	(Rs.5.395 Mn)	(Rs.0.831 Mn)	(Rs.19.385 Mn) (Indonesian Rupiah 4.259.509.932)
5. Net aggregate amount of the Profit / (Loss) of the Subsidiary dealt within the Holding Company's Accounts			
a) For the current financial year of the Subsidiary Company	Nil	Nil	Nil
b) For the previous financial years of the Subsidiary Company	Rs.1.294 Mn	Nil	Nil

As per our report of date attached
For Suri & Co.,
Chartered Accountants
C.S. Sathyanarayanan
Partner
Membership No.28328
Coimbatore, 29th May 2008

Vijay Mohan
Chairman & Managing Director

Vanitha Mohan
Executive Director

For and on behalf of the Board

P. Ravi
General Manager
Finance & Secretarial

D. Sarath Chandran
Director

T.G. Thamizhanban
Company Secretary

