

Auditors' Report to the Board of Directors of Pricol Limited on Consolidated Financial Statements of Pricol Limited and its Subsidiary

We have examined the attached Consolidated Balance Sheet of Pricol Limited ("the Company") and its subsidiary as at 31st March, 2005, and the Consolidated Profit and Loss Account for the year ended on that date annexed thereto, and the Consolidated Cash Flow Statement for the year ended on that date. These Consolidated financial statements are the responsibility of the Company. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in India. These Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework and are free of material misstatements. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements. We believe that our audit provides a reasonable basis for our opinion.

We did not audit the financial statements of an Associate whose financial statements reflect total assets of Rs.17.92 million as at 31st March, 2005 and total loss of Rs.0.007 million for the year ended on that date. These financial statements have been audited by an other auditor whose report has been furnished to us, and our opinion, in so far as it relates to the amounts included in respect of the Associate, is based solely on the report of the other auditor.

We report that the consolidated financial statements have been prepared by the Company in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India and on the basis of the separate audited financial statements of the Company and its subsidiary included in the consolidated financial statements.

On the basis of the information and explanations given to us and on the consideration of the separate audit report on individual audited financial statements of the Company and its aforesaid subsidiary, in our opinion, the consolidated financial statements read together Notes on consolidation, give a true and fair view in conformity with the accounting principles generally accepted in India:

- (a) in the case of the Consolidated Balance Sheet, of the consolidated state of affairs of the Company and its subsidiary as at 31st March 2005;
- (b) In the case of the Consolidated Profit and Loss Account, of the consolidated results of operations of the Company and its subsidiary for the year ended on that date; and
- (c) In the case of the Consolidated Cash Flow Statement, of the consolidated cash flows of the Company and its subsidiary for the year ended on that date.

Coimbatore
21st May, 2005

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

CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH 2005

	2004-05 Rs. Millions	2003-04 Rs. Millions
SOURCES OF FUNDS		
Share holders funds		
Share Capital	90.000	60.000
Reserve & Surplus*	1,130.253	880.620
	<u>1,220.253</u>	<u>940.620</u>
Borrowed Funds		
Secured	1,129.533	717.941
Unsecured	429.175	434.395
	<u>1,558.708</u>	<u>1,152.336</u>
Deferred Taxation	93.190	103.190
Total capital employed	<u>2,872.151</u>	<u>2,196.146</u>
APPLICATION OF FUNDS		
Goodwill	1.000	—
Fixed Assets		
a. Gross Block	2,744.468	2,499.397
b. Less : Depreciation	1,326.635	1,241.420
c. Net Block	1,417.833	1,257.977
d. Capital Work-in-progress	385.914	39.422
	<u>1,804.747</u>	<u>1,297.399</u>
Investments*	50.390	74.741
Current Assets, Loans and Advances	2,121.145	1,932.620
Less : Current Liabilities & Provisions	1,104.131	1,108.614
Net Current Assets	<u>1,017.014</u>	<u>824.006</u>
Total Assets	<u>2,872.151</u>	<u>2,196.146</u>

* Refer Note No.1 & 2 to Consolidated Financial Statements

As per our report of date attached
For SURI & Co.,

C.S. Sathyanarayanan
Partner, Chartered Accountants
Membership No.28328

Coimbatore, 21st May, 2005

For and on behalf of the Board

Vijay Mohan
Chairman & Managing Director

D. Sarath Chandran
Director

Vanitha Mohan
Executive Director

V. Srinivasan
Company Secretary

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2005

	2004-05 Rs. Millions	2003-04 Rs. Millions
INCOME		
Net Sales & Service charges - Domestic	3,891.318	3,295.051
- Export	598.364	409.236
Increase in Stock of Finished Goods	31.603	34.813
Cost of Inhouse Manufactured Machines & Toolings Capitalised	97.825	53.268
	4,619.110	3,792.368
Investment Income	5.817	1.126
Total	4,624.927	3,793.494
EXPENDITURE		
Raw Material & Components Consumed	2,524.350	1,936.817
Employees' Cost	688.031	625.576
Power & Fuel	95.262	87.805
Stores & Spares Consumed	34.059	36.654
Repairs & Maintenance	83.394	57.483
Other Expenditure	298.945	303.254
	3,724.041	3,047.589
Profit before Interest and Depreciation & Other Income	900.886	745.905
Add : Other Income	14.669	11.919
Less : Interest	68.325	80.023
Depreciation	218.902	205.468
Profit Before Tax	628.328	472.333
Less : Provision for Current Tax	220.420	182.799
Add : Provision for Deffered Tax Asset	10.000	7.000
Profit After Tax	417.908	296.534
Add : Tax Provision for earlier years withdrawn	12.272	—
Balance brought forward	113.403	158.098
Debenture Redemption Reserve no longer required	—	13.333
Capital Reserve no longer required	—	1.000
Less : Extra ordinary items		
i) Provision for Diminution in value of Investments	2.660	29.640
ii) Provision for overdue Advances	—	230.000
Less : Share of post acquisition Loss in Associates	0.003	0.003
Amount available for appropriation	540.920	209.322
APPROPRIATION		
Dividend @ 100% (Previous year 90%)	90.000	54.000
Tax on dividend	12.623	6.919
General Reserve	250.000	35.000
Surplus to be carried over	188.297	113.403
	540.920	209.322
Earnings per Share (Basic) (In Rupees)		
1) Earnings per share before Extra-ordinary items	4.64	3.29
2) Earnings Per share after Extra-ordinary items	4.75	0.41

As per our report of date attached
For SURI & Co.,
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Coimbatore, 21st May, 2005

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Executive Director

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Company Secretary

NOTES FORMING PART OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2005

1. In compliance with Accounting standard(AS-23), the value of investments made by the wholly owned subsidiary company- Integral Investments Limited in the associate:
- a) Shanmuga steel industries Limited has been arrived at Rs.0.157 million against the cost of Rs.0.160 million by taking into consideration the post acquisition loss from the date of acquisition to the date of Balance sheet (i.e. 31.03.2005)
 - b) The above reinstatement has resulted in a loss (net) of Rs.0.003 million, which has been debited to the Profit and Loss Account of the consolidated Financial statement.
 - c) Pricol Technologies Limited has been arrived at Rs.6.603 million against the cost of Rs. 7.200 million.
2. Other Notes and Schedules forming part of Accounts:
- These are set out in and under "Schedules and Notes forming part of accounts for the year ended 31st March, 2005" as given in the Unconsolidated Financial statements of Pricol Limited and its wholly owned Subsidiary- Integral Investments Limited.

SIGNIFICANT ACCOUNTING POLICIES TO THE CONSOLIDATED BALANCE SHEET AND PROFIT AND LOSS ACCOUNT:

1. Principles of consolidation

The consolidated financial statements relate to Pricol Limited ("the Company") and its subsidiary companies. The Consolidated financial statements have been prepared on the following basis:

- i) The financial statements of the Company and its subsidiary companies are combined on a line-by-line basis by adding together the book values of like items of assets, liabilities, income and expenses, after fully eliminating intra-group balances and intra-group transactions resulting in unrealized profit or losses in accordance with Accounting Standard (AS) 21 - "Consolidated Financial Statements" issued by the Institute of Chartered Accountants of India.
- ii) The difference between the cost of investment in the subsidiaries, over the net assets at the time of

acquisition of shares in the subsidiaries is recognised in the financial statements as Goodwill or Capital Reserve as the case may be.

- iii) As far as possible, the consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances and are presented in the same manner as the Company's separate financial statements.
2. Investments other than in subsidiaries and associates have been accounted as per Accounting Standard 13 on Accounting for Investments.

3. Other Significant Accounting Policies:

These are set out under "Notes on Accounts" as given in the Unconsolidated Financial Statements of Pricol Limited, and its wholly owned subsidiary - Integral Investments Limited.

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31st MARCH 2005

	2004-05 Rs.Millions	2003-04 Rs.Millions
A. Cash flow from operating activities:		
Net profit before tax	628.328	472.333
Adjustments for :		
Depreciation	218.902	205.468
Bad debt written off	0.189	1.944
Provision for bad debt & doubtful advances	4.683	46.469
(Profit) / Loss on Sale of Investments	(5.097)	(0.130)
Foreign Exchange fluctuation (Net)	(15.412)	0.388
(Profit) / Loss on Sale of Assets	(4.781)	0.121
Interest Income	(11.156)	(9.325)
Interest	68.325	80.023
Other investment income	(2.939)	(1.024)
	252.714	323.934
Operating profit before working capital charges	881.042	796.267
Adjustments for :		
Trade and other receivables	(178.946)	(225.353)
Inventories	(193.681)	(186.390)
Trade payable	145.741	172.857
	(226.886)	(238.886)
Cash generated from operations	654.156	557.381
Interest paid	(72.411)	(79.063)
Direct taxes paid	(215.780)	(144.756)
	(288.191)	(223.819)
Net cash flow from operating activities	365.965	333.562
B. Cash flow from investing activities:		
Purchase of fixed assets	(828.040)	(295.654)
Sale of Fixed Assets	62.900	14.816
Interest received	11.156	9.325
Purchase of investments	(8.200)	(23.000)
Sale of Investments	33.395	4.715
Other investment income	2.939	1.024
Net cash used in investing activities	(725.850)	(288.774)
C. Cash flow from financing activities:		
Debentures	—	(40.000)
Long term borrowings	179.799	(23.812)
Unsecured Loans & Deposits	(5.000)	162.513
Working Capital borrowings	247.206	(142.321)
Dividends & Tax on Dividend paid	(60.763)	(40.599)
Net cash used in financing activities	361.242	(84.219)
Net increase in cash and cash equivalents (A+B+C)	1.357	(39.431)
Cash and cash equivalents as at 1.4.2004 and 1.4.2003 (Opening balance)	60.730	100.161
Cash and cash equivalents as at 31.3.2005 and 31.3.2004 (Closing balance)	62.087	60.730

As per our report of date attached
For SURI & Co.,
C.S. Sathyanarayanan
Partner, Chartered Accountants
Membership No.28328

Coimbatore, 21st May, 2005

For and on behalf of the Board

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