

## REPORT OF THE AUDITORS TO THE SHAREHOLDERS

We have audited the attached Balance Sheet of Pricol Limited, Coimbatore, as at 31st March, 2009 and also the Profit and 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 and Loss Account dealt with by this report are in agreement with the books of account.
  - 4) In our opinion the Balance Sheet and Profit and Loss Account dealt with by this report 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, 2009 and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31st March, 2009 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 2009; and
    - b) In the case of the Profit and Loss Account, of the loss 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 2009

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### 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 books of account.
  - 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 sought.

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- b) The procedures of physical verification of the inventories followed by the management are 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 granted unsecured loan of Rs.22 million to a wholly owned subsidiary company.
- b) The terms and conditions in respect of loans granted during the year and those already granted by the company, secured or unsecured, are in our opinion, prima facie not prejudicial to the interest of the company.
- c) 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 2009 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 / Service Tax	1990-2007	i) Excise Duty ii) Excise Duty iii) Excise Duty iv) Service Tax v) Service Tax	23.131 15.542 1.095 8.731 31.191	Nil Nil Nil Nil Nil	Supreme Court High Court CESTAT Tribunal CESTAT Tribunal Commissioner (Appeals)
2.	Sales Tax Act	1995-1997	i) Sales Tax ii) Penalty	13.325 19.988	Nil Nil	Interim stay granted by High Court

## REPORT OF THE AUDITORS TO THE SHAREHOLDERS (Contd..)

- 10) The accumulated losses as at 31st March 2009 are less than fifty percent of the networth of the company. The company has not incurred cash losses during the financial year covered by our audit and in the immediately preceeding financial year.
- 11) The Company has not defaulted in repayment of its dues to financial institution, banks and debenture holders.
- 12) During the year, the company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures 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 an overseas wholly owned subsidiary from a bank and the terms & conditions are not prejudicial to the interest of the company.
- 16) The Company has applied term loans 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 explanation 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 2009

## 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 amortisation 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 capitalised at cost including an appropriate share of overheads.
- c) (i) Depreciation has been provided under the Straight Line Method as per Schedule XIV to the Companies Act, 1956 except for Dies, Tools and Moulds, which are depreciated at

33.33%. Depreciation for Plant & Machinery has been provided on three shift basis.

(ii) Intangible assets are amortised as follows:

- i) Specialised 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.

## SIGNIFICANT ACCOUNTING POLICIES (Contd..)

### 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.

### 4. Valuation of Inventories:

- a) Inventories are valued at lower of cost and estimated net realisable 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 basis  
& spares
  - ii) Finished Goods and : Cost of Direct  
Work-In-Progress Material, Labour  
and other  
Manufacturing  
overheads.

### 5. Revenue Recognition:

- a) The company generally follows the mercantile system of accounting and recognises income and expenditure on an accrual basis except those with significant uncertainties.
- b) Sale of goods is recognised when the risk and rewards of ownership are passed on to the customers, which is generally on dispatch of goods.
- c) Dividend Income is recognised 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 recognised 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 recognised in the Profit & Loss account.
- c) Premium / discount in respect of Forward Contract is amortised 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 recognised in the Profit and 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 recognised as an expense at the undiscounted amount in the Profit and 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 recognised as an expense in the Profit and Loss Account for the year in which the employee has rendered service. The expense is recognised 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 and Loss Account.
- c) Payments to defined contribution schemes are charged as expense as and when incurred.
- d) Termination benefits are recognised as an expense as and when incurred.

### 9. Borrowing Costs:

- a) Borrowing costs attributable to the acquisition or construction of qualifying assets are capitalised as part of such assets. All other borrowing costs are charged to revenue.
- b) 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:

- a) 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.
- b) Deferred tax is recognised 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.
- c) Deferred tax assets are recognised 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 realised.

### 11. Accounting Standards:

Accounting Standards as prescribed under section 211(3C) of the Companies Act, 1956 have been followed wherever applicable.