

REPORT OF THE AUDITOR'S TO THE SHAREHOLDERS

We have audited the attached Balance Sheet of Pricol Limited, Coimbatore, as at 31st March, 2005 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 the accounting principles used and significant estimates made by the management, as well as evaluating the over all 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, 2005 and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31st March, 2005 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 2005; and
- b) In the case of the Profit and 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
C.S. Sathyanarayanan
Partner
Chartered Accountant
Membership No.28328

Coimbatore
21st May 2005

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 with in 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 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.

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- 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 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, Custom 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, 2005 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	1990-2004	i) Excise Duty	1.800	Nil	Commissioner (Appeals)
			ii) Excise Duty	0.478	Nil	Tribunal
			iii) Penalty	0.020	Nil	Tribunal
			iv) Excise Euty	23.131	Nil	Supreme Court
2.	Sales Tax Act	1995-1997	i) Sales Tax	13.325	Nil	Interim stay granted by High Court
			ii) Penalty	19.988	Nil	

- 10) There are no accumulated losses of the Company as at 31st March 2005. 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, 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.

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- 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 not given any guarantee during the year for loans taken by others from banks and financial institutions.
- 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 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.

Coimbatore
21st May 2005

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

SIGNIFICANT ACCOUNTING POLICIES

1. Accounting Convention

Accounts have been prepared under Historical Cost Convention and as per the requirements of the Companies Act, 1956.

2. Fixed Assets & Depreciation

- a) Fixed Assets are stated at Historical Cost.
- b) Depreciation has been provided under the Straight Line Method as per Schedule XIV of the Companies Act, 1956 except in respect of the following assets.
- | Nature of Asset | Depreciation rate |
|-----------------------|-------------------|
| Dies, Tools and Mould | 33.33% |
- c) Cenvat benefits on capital goods is credited to the respective Fixed Assets Account.
- d) Increase or Decrease in cost of assets consequent to fluctuation in exchange rate of foreign currency loan for acquisition of fixed assets is depreciated / adjusted over the remaining useful life of the assets.

3. Investments

- a) Long Term Investments are stated at cost.

- b) Current Investments are stated at lower of cost and fair value as on the Balance Sheet date.

4. Valuation of Inventories

- a) Inventories are valued at lower of cost and net realizable value. Cost is arrived at on weighted average basis.
- b) Excise Duty is added in the Closing Inventory of Finished Goods.

5. Revenue Recognition

Income and Expenditure are accounted for on their accrual. Dividend Income is recognized when the right to receive the same is unconditional at the Balance Sheet date.

6. Foreign Currency Transaction

- a) Transactions in foreign currency are accounted at the prevailing exchange rate notified by the prescribed authority.
- b) Foreign currency assets and liabilities as on the balance sheet date and any difference is recognised in the Profit & Loss account except in cases where they relate to the Fixed Asset in which case they are adjusted to the carrying cost of such assets.