

REPORT OF THE AUDITORS TO THE SHAREHOLDERS

We have audited the attached Balance Sheet of Premier Instruments & Controls Limited, Coimbatore, 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 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 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, 2004 and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31st March, 2004 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 2004; 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.

Coimbatore
22nd May, 2004

For Suri & Co.,
C.S. Sathyanarayanan.
Partner
Chartered Accountants

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.

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

- 3) a) During the year the company has neither granted loans to nor taken any loans 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 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. Overdue loans have been fully provided for.
- c] In respect of such loans given by the company, where stipulations have been made, they have generally repaid the principal amounts as stipulated and have been regular in payment of interest, wherever applicable.
- d) In respect of such loans given by the company, the Company has provided for Overdue Advances.
- 4) There are adequate internal control procedures commensurate with the size of the Company and the nature of its business with regard to purchase of inventory, fixed assets and for the sale of goods. There is no major weakness in the internal control procedures.
- 5) a) The transactions made in pursuance of contracts or arrangements, that need to be entered into the register maintained under section 301 of the Companies Act,1956 have been recorded in the register maintained for the purpose.
- b) In our opinion and according to the information and explanations given to us, the transactions exceeding rupees five lakh each have been made at prices, which are reasonable having regard to prevailing market prices at the relevant time.
- 6) The company has complied with the directives issued by Reserve Bank of India and the provisions of Section 58A and 58AA of the Companies Act, 1956 and the Companies (Acceptance of Deposits) Rules, 1975, with regard to the deposits accepted from public.
- 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, 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,2004 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 Demand	Amount disputed Rs. Million	Amount paid Rs. Million	Forum where dispute is pending
1.	Income Tax Act	1993-2001	i) Income Tax	18.003	18.891	Commissioner of Income Tax (Appeals)
			ii) Interest	11.623		
			iii) Income Tax	2.971	3.221	Income Tax Appellate Tribunal Chennai
			iv) Interest	0.253		
2.	Central Excise Act	1995-2003	i) Excise Duty	0.352	Nil	Commissioner of Appeals Tribunal
			ii) Excise Duty	15.665	15.50	
			iii) Penalty	14.703	0.400	
			iv) Interest	0.159	Nil	
3.	Sales Tax Act	1995-97	i) Sales Tax	13.325	Nil	Interim stay granted by High Court
			ii) Penalty	19.988	Nil	

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

- 10) There are no accumulated losses of the Company as at 31st March 2004. The company has not incurred any cash losses during the financial year covered by our audit and the immediately preceding financial year.
- 11) The Company has not defaulted in repayment of its dues to financial institution, banks and debenture holders.
- 12) 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 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
22nd May, 2004

For Suri & Co.,
C.S. Sathyanarayanan
Partner
Chartered Accountants

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
Computer Software	25%
Technical Know-how	25%
Dies, Tools and Mould (Acquired on and from 1-4-1996)	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 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 equivalent rupee value on the date of transaction.
- b) Foreign currency assets and liabilities as on the balance sheet date not covered by forward contract are restated at the year end prevailing exchange rates 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.

SIGNIFICANT ACCOUNTING POLICIES

- c) In respect of Forward Contract, the difference between the forward rate and the exchange rate at date of the transaction has been recognized as income / loss over the life of the contract.

d) Commission on Export Sales :

Commission on export sales payable in Indian Currency is accounted on the basis of the turnover as converted at the exchange rate prevailing at the time of the sale and the difference, if any, payable on actual realization is accounted on realization. In respect of Commission payable in foreign currency, the commission due at the end of the year is provided at the prevailing exchange rate as on the date of Balance Sheet.

7. Research and Development

Expenditure on R & D as identified have been included under the respective head of accounts.

8. Retirement Benefits

a) Gratuity

The liability in respect of Gratuity payable to the employees of the company is covered by a scheme of LIC.

b) Service weightage scheme

The liability in respect of the Employees' Service Weightage Scheme payable to the Employees' on retirement / termination of service is covered by a scheme of LIC.

c) Superannuation

The company's contribution to superannuation fund is covered by a scheme of LIC.

9. Leave Encashment Eligibilities

Leave encashment eligibilities accrues in respect of each year as per the terms of the employment and are accounted on accrual basis.

10. Borrowing Costs

- a) In respect of the asset that takes necessarily a substantial period to get ready for its intended use, borrowing costs directly attributable are capitalized as part of the cost of that asset and in respect of the funds generally borrowed and used for the purpose of such asset, the borrowing costs are capitalized on capitalization rate determined during the relevant period by considering the borrowing costs and total borrowing outstanding.

- b) Other borrowing costs are charged to revenue.

11. Accounting for Taxes

Deferred taxation is accounted for in respect of all Timing Differences.

12. 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
2. Financial year of the Subsidiary ended on	31-3-2004
3. Holding Company's interest in the Subsidiary	2,250,000 Equity Shares of Rs.10/- each (100%)
4. Net aggregate amount of the Profit / (Loss) of the Subsidiary not dealt with in the Holding Company's Accounts	
a) For the current financial year of the Subsidiary Company	Rs.43.91 Million
b) For the previous financial years of the Subsidiary Company	Rs.5.353 Million
5. Net aggregate amount of the Profit / (Loss) of the Subsidiary dealt with in the Holding Company's Accounts	
a) For the current financial year of the Subsidiary Company	Nil
b) For the previous financial years of the Subsidiary Company	Rs.1.294 Million