

AUDITORS' REPORT



To
The Members,
Mishra Dhatu Nigam Ltd.,
Hyderabad.

We have audited the attached Balance Sheet of **Mishra Dhatu Nigam Ltd.**, as at March 31, 2006, and also the Profit and Loss Account for the year ended on that date annexed thereto and 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.

1. 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 misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in 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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.
2. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure hereto a statement on the matters specified in paragraphs 4 and 5 of the said Order.
3. Further to our comments in the Annexure referred to in paragraph 2 above, we report that:
 - a) 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.
 - b) In our opinion, proper books of account, as required by law, have been kept by the Company, so far as appears from our examination of those books.
 - c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account.
 - d) In our opinion, the attached Balance Sheet, Profit and Loss Account and Cash-Flow Statement dealt with by this report comply with the mandatory Accounting Standards referred in sub-section (3C) of Section 211 of the Companies Act, 1956, except:

(i) **Non-compliance of AS-17-segment reporting as referred in Note No. 20 in Schedule-21 to the financial statements.**

However, this has no effect on the profit for the current year.

(ii) **As mentioned in Note No. 12 in Schedule-21 to the financial statements, the whole of Plant & Machinery has been treated as continuous process plant, based on technical evaluation and depreciation provided accordingly. In the absence of any details on the basis of which such treatment has been given, we are not able to express our opinion on the adherence to the provisions of AS-6 (Depreciation Accounting) issued by ICAI especially regarding provision of depreciation for extra shift(s).**

- e) In terms of Ministry of Law, Justice and Company Affairs, Department of Company Affairs General Circular No. 8/2002, dated March 22, 2002, Government Companies are exempt from the applicability of the provisions of Section 274(1) (g) of the Companies Act, 1956. Hence, no comments are offered.
- f) In our Opinion and to the best of our information and according to the explanations given to us, the said accounts subject to Para-3 (d) above and read together with the Significant Accounting Policies and other notes thereon particularly regarding:
 - non-receipt of confirmation of balances, in respect of customer finance projects, pending settlement of accounts (Note-4 (ii)).
 - balances in Sundry Debtors, Loans & Advances, Claims Receivable, Deposits, Sundry Creditors, Materials with contractors/sub-contractors and others which are subject to confirmation and/or reconciliation (Note No. 7)

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:

- (i) In the case of Balance Sheet, of the state of affairs of the Company as at March 31, 2006.
- (ii) In the case of Profit and Loss Account, of the Profit of the Company for the year ended on that date; and
- (iii) In the case of Cash Flow Statement, of the cash flows of the Company for the year ended on that date.

For **VENUGOPAL & CHENOY**,
CHARTERED ACCOUNTANTS

(D.V. JANKINATH)

Place New Delhi,
Dated 05.07.2006.

Partner
Membership No.29505

Annexure to the Auditors' Report
(Referred to in Paragraph 2 of our report of even date)

- (i) In respect of its fixed assets :
- a. The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets, on the basis of available information.
- b. As explained to us, the fixed assets have been physically verified by the management and a firm of Chartered Accountants, during the year, in a phased manner, which in our opinion is reasonable, having regard to the size of the Company and nature of its assets. No material discrepancies were noticed on such physical verification.
- c. In our opinion, the Company has not disposed off any substantial part of fixed assets, during the year, and the going concern status of the Company is not affected.
- (ii) In respect of its inventories:
- a. As explained to us, inventories have been physically verified by the management and firms of Chartered Accountants at regular intervals, during the year. In our opinion, the frequency of verification is reasonable.
- b. In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
- c. The Company has maintained proper records of inventories. As explained to us, there were no material discrepancies noticed on physical verification of inventory as compared to the book records.
- (iii) The Company has neither granted nor taken any loans to/from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956. Hence, Paragraphs-(iii)(a) to (g) are not applicable.
- (iv) In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business for the purchase of inventory, fixed assets and also for the sale of goods and services. During the course of our audit, we have not observed any major weaknesses in internal controls.
- (v) In respect of transactions covered under Section 301 of the Companies Act, 1956:
- a. In our opinion and according to the information and explanations given to us, there are no transactions made in pursuance of contracts or arrangements, that needed to be entered into in the register maintained under Section 301 of the Companies Act, 1956. Hence, Paragraphs-(v) (a) & (b) are not applicable.
- (vi) The Company has not accepted any deposits from the public. Hence, provisions of Paragraph-(vi) are not applicable.
- (vii) In our opinion, the internal audit system of the Company is commensurate with its size and nature of its business.
- (viii) The Central Government has prescribed maintenance of Cost Records under Section 209(1)(d) of the Companies Act, 1956, in respect of certain manufacturing activities of the Company. We have broadly reviewed the accounts and records of the Company in this connection and are of the opinion, that prima facie, the prescribed accounts and records have been made and maintained. We have not, however, made a detailed examination of the same.
- (ix) In respect of statutory dues:
- a. According to the records of the Company, undisputed statutory dues including Provident Fund, Investor Education and Protection fund, Employees' State Insurance, Income Tax, Sales Tax, Wealth Tax, Customs Duty, Excise Duty, Cess and other statutory dues have been generally regularly deposited with the appropriate authorities. According to the information and explanations given to us, no undisputed amounts payable in respect of the aforesaid dues were outstanding as at March 31, 2006, for a period of more than six months from the date of becoming payable, except Rs. 4,710/- on account of TDS.
- b. The disputed statutory dues aggregating to Rs. 357.39 lakhs, that have not been deposited on account of matters pending before appropriate authorities are as under:

| Sl. No. | Name of the Statute | Nature of the Dues | Forum where dispute is pending | Amount (Rs.) |
|---------|-----------------------------|--------------------|--|--------------|
| 1. | HMC Act, 1955 | Property Tax | Dy. Commissioner, Municipal Corporation of Hyderabad | 1,36,34,673 |
| 2. | Central Excise | Excise Duty | Commissioner of Customs & Central Excise | 2,25,96,915 |
| 3. | Finance Act, 1994 (SauceTa^ | Service Tax | Jt. Commissioner of Customs & Central Excise | 11,04,341 |

- (x) The Company has no accumulated losses as at the end of the current financial year and has not incurred any cash losses during the financial year covered by our audit or in the immediately preceding financial year.
- (xi) In our opinion and according to the information and explanation given to us, the Company has not defaulted in repayment of dues to financial institutions or banks.
- (xii) In our opinion and according to the information and explanation given to us, no loans and advances have been granted by the Company on the basis of security by way of pledge of shares, debentures and other securities.
- (xiii) In our opinion, the Company is not a chit fund or a nidhi/mutual benefit fund/society. Therefore, Paragraph-4(xiii) is not applicable.
- (xiv) The Company does not deal or trade in shares, securities, debentures and other investments. Therefore, Paragraph-4(xiv) is not applicable.
- (xv) The Company has given guarantees for loans taken by others from banks or financial institutions.

According to the information and explanations given to us, we are of the opinion that the terms and conditions thereof are not prima-facie prejudicial to the interests of the Company.

- (xvi) The Company has not raised any new term loans during the year. The term loans outstanding at the beginning of the year were applied for the purposes for which they were raised.
- (xvii) According to the information and explanations given to us and on an overall examination of the Balance Sheet of the Company, we are of the opinion that the Company has not utilized any funds raised on short-term basis for long-term investment.
- (xviii) During the year, 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.
- (xix) The Company has not raised any money by way of issue of debentures.
- (xx) The Company has not raised any money by way of public issue. Therefore, Paragraph-4(xx) is not applicable.
- (xxi) According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the year, that causes the financial statements to be materially misstated.

For **VENUGOPAL & CHENOY,**
CHARTERED ACCOUNTANTS

(D.V. JANKINATH)

Place : New Delhi,
Date : 05.07.2006

Partner
Membership No. 29505