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32[nd]

ANNUAL REPORT
2001-2002

ALCOBEX METALS LIMITED

NOTICE

Notice is hereby given that the thirty second Annual General Meeting of the Members of Alcobex Metals Limited will be held on Monday, the 30th day of September, 2002 at 10.00 A.M. at Surekha Farms, West End Greens, Behind Shiv Murti, Rangpuri, Rajokri, New Delhi - 110 037 to transact the following businesses:

ORDINARY BUSINESS:

1. To consider and adopt Balance Sheet of the Company as at 31-03-2002, Profit & Loss Account for the year ended on that date and the Reports of the Board of Directors and Auditors thereon.
2. To appoint directors in place of Shri S. R. Kanunga and Shri A. D. Bohra, who retire by rotation and being eligible offer themselves for reappointment.
3. To appoint Auditors who shall hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and fix their remuneration and in this regard, to consider and if thought fit, to pass with or without modification(s), the following Resolution as an Ordinary Resolution.

   "RESOLVED THAT M/s. Ray & Ray, Chartered Accountants, Delhi be and are hereby appointed Auditors of the Company for holding office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company on a remuneration of Rs. 1,10,000/- exclusive of travelling and other out of pocket expenses."

SPECIAL BUSINESS

4. To consider and, if thought fit, to pass with or without modification(s), the following Resolution as an Ordinary Resolution:-

   "RESOLVED THAT in accordance with the provisions of the sections 198, 269, 309, 310, 311 and Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, Shri G. C. Kanunga be and is hereby re-appointed as Managing Director of the Company for a period of three years w.e.f. the 15th day of June, 2003 on the existing remuneration as well as terms and conditions as set out in the Statement placed before the meeting and signed by the Chairman of the meeting for the purpose of identification thereof."

5. To consider and, if thought fit, to pass with or without modification(s), the following Resolution as a Special Resolution:-

   "RESOLVED THAT subject to the provisions of Section 314 and all other applicable provisions of the Companies Act, 1956, Shri Bharat Kanunga, a relative of the managing director of the company, be and is hereby appointed as a Consultant for assisting the company in export business at a monthly remuneration of Rs. 15,000 p.m. and reimbursement of other out of pocket expenses incurred by him."

6. To consider and, if thought fit, to pass with or without modification(s), the following Resolution as a Special Resolution:-

   "RESOLVED THAT subject to the provisions of section 314 (1) and other applicable provisions, if any, of the Companies Act, 1956 Shri Vijay Kumar Bohra, relative of a director, be and is hereby appointed as Senior Marketing Manager in the pay scale of Rs. 14000 – 1000 – 20000 with usual benefits such as provident fund, gratuity, bonus, leave etc as per the rules of the company."

7. To consider and, if thought fit, to pass with or without modification(s), the following Resolution as a Special Resolution:-

   "RESOLVED THAT subject to provisions of section 198, 309 and Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, an amount of Rs. 1,31,551 being reimbursed to Shri B.L. Kanunga, Wholetime Director, towards medical expenses incurred during the year 2001-2002 be and hereby approved."

   "RESOLVED FURTHER THAT since the expenses incurred is more than the limits prescribed under section 309 and Schedule XIII to the Act, necessary action be taken to obtain permission of the Central Government under the companies Act, wherever required."

8. To consider and, if thought fit, to pass with or without modification(s), the following Resolution as a Special Resolution

"RESOLVED THAT subject to the provisions of Section 314 (1) and other applicable provisions of the Companies Act 1956 the remuneration paid to the employees being relatives of director during the year 2001-2002 aggregating Rs. 19,28,208 be and is hereby approved"

By order of the Board of Directors,

Place: Jodhpur

Dated: 29.08.2002

(G. C. KANUNGA)
Managing Director

NOTES:

1. MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ALSO ENTITLED TO APPOINT ONE OR MORE PROXIES TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. THE PROXIES, IN ORDER TO BE EFFECTIVE, MUST BE RECEIVED BY THE COMPANY AT ITS REGISTERED OFFICE NOT LESS THAN FORTY EIGHT HOURS BEFORE THE MEETING.
2. The Members/Proxies should bring the Attendance slips duly filled in for attending the meeting.
3. The Register of Members and Share Transfer Books of the Company will remain closed from 27th September 2002 to 30th September 2002 (Both days inclusive).
4. The unpaid or unclaimed dividend amount for the years 1995-96 and 1996-97 will be deposited in the Investor Education and Protection Fund in November, 2003 and November, 2004 respectively pursuant to the provisions of section 205A of the Companies Act, 1956.
5. An Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956 in respect of Special Business Item Nos. 4,5,6,7 and 8 is enclosed.
6. The Company's Equity Shares are listed at the following Stock Exchanges and listing fees to them have been paid upto 31st March 2002.
   (1) The Delhi Stock Exchange Association Limited,
   West Plaza, I. G. Stadium, Indraprastha Estate,
   New Delhi - 110 002
   (2) The Stock Exchange, Mumbai,
   Phiroze Jeejeebhoy Towers,
   25th Floor, Dalal Street,
   Mumbai-400 001
   (3) The Jaipur Stock Exchange Limited,
   Stock Exchange Building,
   Jawahar Lal Nehru Marg, Malviya Nagar
   Jaipur - 302 017

EXPLANATORY STATEMENT PURSUANT TO SECTION 173 (2) OF THE COMPANIES ACT, 1956 IN RESPECT OF ITEM NOS. 4, 5, 6, 7, and 8

Item No. 4

As required by Section 173 (2) of the Companies Act, 1956, an explanatory statement in respect of Special Business mentioned above is given below:-

During his tenure as Managing Director, the Company has made allround progress. In view of highly satisfactory services provided by him to the Company the Board of Directors of the Company is of the view that the above director be re-appointed for a period of three years from the date of expiry of his current tenure on the existing remuneration as well as terms and conditions set out below :-

The existing salary and perquisites on he is proposed to be re-appointed are as under :-

SALARY:

(i) Shri G. C. Kanunga's existing salary is Rs. 40,000/- per month as Managing Director.

Perquisites:

The existing perquisites which he will continue to enjoy are divided into following three categories, namely :

CATEGORY - A

(i) Medical Reimbursement : Expenses incurred for self and family subject to a ceiling of one month's salary in a year or three months' salary over a period of three years.

(ii) Leave Travel Concession : Travelling expenses incurred for self and family [illegible] each year to any place within India and return for self and family.

(iii) Fees of Clubs including fees [illegible] subject to a maximum of two clubs/institutions.

(iv) Personal Accident Insurance : Premium not to exceed Rs. 5000/- (Rupees Five Thousand) per annum.

Explanation : For the purposes of (i) and (ii) above "family" shall mean the spouse and the dependent children.

CATEGORY - B

(i) Company's contribution to Provident Fund of 10% of the salary as per rules of the Company or such other percentage as may be specified from time to time.

(ii) Gratuity : Gratuity payable at a rate not exceeding half a month's salary for each completed year of service.

(iii) Earned/Privilege Leave on full pay as per rules of the Company.

CATEGORY - C

Other benefits, schemes, privileges and amenities as are applicable to senior executives of the Company in accordance with the Company's practices, rules and regulations in force from time to time.

Item No. 5

Appointment of Shri Bharat Kanunga

Shri Bharat Kanunga who is a son of the Managing Director being former Export Executive of the company is rendering [illegible] services to the company to assist Export Department for promotion of export sales and buying raw materials for the company. He has vast experience in export markets and due to his negotiating ability the company has been obtaining good export orders. Looking to the valuable services being rendered by Shri Bharat Kanunga, it is proposed to appoint him as a consultant for Export Promotion on a monthly remuneration of Rs. 15,000 and reimbursement of other out of pocket expenses incurred by him.

Item No. 6

Appointment of Shri Vijay Bohra

Shri Vijay Kumar Bohra is presently working as Sr. Marketing Executive at Alcobex Metals Limited, Jodhpur. He is a graduate of 1973 and has vast experience of about 30 years. He was working abroad for about 14 years in USA in various capacities. His present salary is Rs. 7,500 p.m. It is proposed to appoint him as Senior Marketing Manager in the pay scale of Rs. 14,000 – 1,000 – 20,000 with usual benefits such as provident fund, gratuity, bonus, leave etc. as per the rules of the company. Shri Bohra is son of Prof. A. D. Bohra, who is a director of the company. As per section 314 (1) of the Companies Act 1956, consent of the company in general meeting is required if any person who is relative of a director, appointed for a place of profit exceeding Rs. 10,000 but not more than Rs. 20,000.

The Members are therefore requested to approve the appointment of Shri Vijay Kumar Bohra.

Item No. 7

Shri B.L. Kanunga, Whole time director of the company, had to undergo medical treatment, the bill of which came amounting to Rs. 1,31,551 being an amount in excess of what is prescribed in Schedule XIII to the Companies Act, 1956 hence consent of Shareholders is needed so that necessary action be taken to obtain permission of the Central Government under the Companies Act, 1956 wherever required.

Item No. 8

A remuneration amounting to Rs. 10,29,788 has been paid to certain employees being relatives of directors during the year 2001-2002. This amount is subject to provision of Section 314 (1) of the Companies Act, 1956. Hence approval of shareholders is sought by the aforesaid special resolution.

S/Shri G.C. Kanunga and Manoj Kanunga are interested in Resolutions at S. Nos. 4,5 and 8 both individually and also as relatives. S/Shri B.L. Kanunga and S.R. Kanunga are interested in the Resolution at S.No. 7, 8 & 8 and S.No. 8 respectively.

None of other directors of the company is interested in the Resolution at S. Nos. 4 to 8 above except Shri A.D. Bohra who is interested in item no. 6 only.

The Explanatory statement read with the proposed Resolutions at S.Nos. 4 to 8 above may be treated as an abstract of the terms of appointment and Memorandum of interest under section 302 (7) of the Companies Act, 1956.

By order of the Board of Directors

Place: Jodhpur

Dated: 29.08.2002

(G. C. KANUNGA)
Managing Director

DIRECTORS' REPORT

TO THE MEMBERS,

Your Directors have pleasure in presenting the 32nd Annual Report and Audited Statement of Accounts of the Company for the year ended on 31st March, 2002.

FINANCIAL RESULTS

Particulars	2001-2002	2000-2001
	Amount (Rupees in Lacs)	
Profit / Loss before depreciation and interest	(570.61)	(778.44)
Add / Less Depreciation	142.74	167.88
Add / Less Interest	1674.37	1794.78
Loss	2387.72	2740.60
Add Prior Period Expenses	428.53	1177.90
Add Tax For Earlier Years	43.98	—
Net Loss	2580.23	3918.51
Deficit as per last year	4862.77	937.36
Add Investment Allowance Reserve (Utilised) Written Back	..	23.90
Add : Excess depreciation of earlier year Written Back	..	10.82
LOSS CARRIED TO BALANCE SHEET	7430.00	4862.77

OPERATIONS

The Company continued to face extra-ordinary depressed and recessional market conditions which had highly adverse impact on your Company's working. The indigenous demand of the Company's products remained subdued and therefore Company had to considerably depend upon export which constituted 44% of the total turnover during the year under report. The Company achieved a production of 5008 M. Tones and turnover of Rs. 92.64 Crores during the year under report as against the production of 5548 M. Tones and turnover of Rs. 97.84 Crores during the previous year.

EXPORT

The Company's export during the year under report amounted to Rs. 41.02 Crores as against Rs 32.48 Crores during the previous year.

FUTURE OUTLOOK

The losses incurred by the Company consecutively during last four years on account of depressed and recessionary economic conditions had considerably eroded the working capital of the Company. While the Financial Institutions and Banks have been providing assistance to the Company from time to time but due to liquidity problem faced by the company and on account of non-implementation of rehabilitation package by some banks/financial institutions, it could not meet the growing challenges in the highly competitive market conditions. The company having realised the likely adverse impact on domestic market as a result of globalisation, has been taking effective steps to increase export of its products to the maximum extent possible. Your Company is now being recognised as a reliable source in terms of quality, price and timely delivery in the overseas market. For overcoming the current liquidity crunch, the Company's proposal for restructuring of its debts under the Corporate Debt Restructuring Scheme (CDR) is under active consideration of the Financial Institutions and Banks and hopefully the Company's proposal will get approved very soon. With such approval, the company is hopeful of during the corner in near future.

DIVIDEND

Owing to the losses incurred by the Company, your Directors have not recommended payment of dividend on the Equity Shares for the year under report.

DIRECTORS

Shri B. G. Daga, Nominee Director, Unit Trust of India ceased to be director with effect from 01.11.2001 consequent upon his nomination having been withdrawn by the Unit Trust of India. In his place Shri N. Kalyanasundaram was appointed as a Nominee Director of the Unit Trust of India with effect from 01.11.2001. S/Shri B. R. Kadunga and A. D. Bohra retire by rotation and being eligible, offer themselves for re-appointment.

AUDITORS REPORT

The notes to the Accounts and Accounting Policies referred to in Auditors Report are self-explanatory and therefore, do not call for any further comments.

AUDITORS

M/s Ray & Ray, Chartered Accountants, New Delhi, the Auditors of the Company, retire at the conclusion of the ensuing Annual General Meeting, and being eligible, have expressed their willingness to be re-appointed as such for the financial year 2002-2003.

AUDIT COMMITTEE

The Company has constituted an Audit Committee under section 292 A of the Companies Act, 1956 comprising of independent directors, viz.:

1. Shri Romesh Lal
2. Ms. Amla Narain
3. Dr Arya Kumar
4. Dr D. K. Kankaria
5. Shri N. Kalyanasundaram

DIRECTORS RESPONSIBILITY STATEMENT

Pursuant to section 217 (2A) of the Companies Act, 1956, your Directors, hereby confirm the following:

1. In preparation of the annual accounts, all applicable Accounting Standards have been followed except to the extent disclosed in Significant Accounting Policies and Notes to the Accounts (Schedule 23 &24)
2. Appropriate accounting policies have been selected and applied consistently and judgements and estimates that are reasonable and prudent have been made, so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit/loss of the Company for that period.
3. Proper and sufficient care for the maintenance of adequate accounting record in accordance with the provisions of the Companies Act, 1956, has been taken for safeguarding the assets of the Company and preventing and detecting fraud and other irregularities, to the best of our knowledge and ability.
4. The annual accounts have been prepared on a "going concern basis". The Udaipur Unit of the Company is closed and held for sale.

SICK INDUSTRIAL COMPANIES (SPECIAL PROVISIONS) ACT, 1985

Your Company has become sick under the meaning of clause (o) of sub section (1) of Section 3 of the aforesaid Act and have been registered with Board of Industrial and Financial Reconstruction (BIFR) on 18-12 2001.

PERSONNEL

There was no employee of the Company drawing salary in excess of the limits prescribed under section 217 (2A) of the Companies Act, 1956.

CONSERVATION OF ENERGY,TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

In accordance with the requirement of section 217 (1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, a statement showing particulars in respect of above is annexed and forms part of this Report.

CORPORATE GOVERNANCE

The Report on Corporate Governance is not applicable to the Company. As per Listing requirements, the same will be applicable in the ensuing year.

ACKNOWLEDGEMENT

Industrial relations remained cordial by and large throughout the year. Your Directors are pleased to place on record their appreciation for the sense of cooperation shown by the employees at all levels. Your Directors also acknowledge with gratitude, the assistance and cooperation provided by the Govt. of Rajasthan, the Company's bankers and financial institutions, suppliers, customers and various other Government Departments.

For and on behalf of the Board of Directors

(B.L. KANUNGA) Director

(G.C. KANUNGA) Managing Director

Place: Jodhpur
Dated: 29.08.2002

ANNEXURE TO THE DIRECTORS' REPORT

Conservation of energy, technology absorption, foreign exchange earnings and out go in accordance with the Companies (Disclosure of Particulars in the report of Board of Directors) Rules, 1988)

CONSERVATION OF ENERGY

(a) Energy conservation measures taken

Efforts are continuously being made to conserve energy. The power factor has been maintained.

(b) Additional investments and proposals, if any, being implemented for reduction in consumption of energy

The cooling system for the captive generator has already been changed by providing the heat exchangers and the system is working satisfactorily and the efficiency of D. G. Sets has improved. A separate cooling tower has been provided for the D. G. Set with the result that the cooling capacity has increased.

(c) Impact of the measures at (a) and (b) above for reduction in energy consumption and consequent impact on the cost of production of goods. Continuous efforts are being made for energy conservation and for reduction of power consumption per unit of production.

(d) Total energy consumption and energy consumption per unit of production as per Prescribed Form "A"

Not applicable

TECHNOLOGY ABSORPTION

Form "B".

(a) Research & Development (R & D)

9. Specific areas in which R & D carried out by Company

Developed new brass alloy with cobalt for synchronising ring.

Developing new route for manufacturing small copper and copper alloy sections.

10. Benefits derived as a result of the above R & D

New areas particularly export market where Company's products can be sold (expansion of marketing areas).

12. Future plan of action

To improve productivity, additional auxiliary equipments are being added.

13. R & D Expenditure

a) Capital : Nil

b) Recurring : Nil

c) Percentage of turnover : Nil

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

1. Efforts in brief made towards technology absorption, adaptation and innovations

Fullest utilisation of indigenous capabilities through continuous efforts to adopt latest technology, improved machines and methods and to manufacture new high value added items.

2. Benefits derived as a result of the above efforts e.g. product improvement, cost reduction, product development, import substitution, etc.

Improvement in quality and productivity along with development of import substitutes and exportable items.

3. In case of imported technology (imported during the last five years reckoned from the beginning of the financial year), following information may be furnished.

Not applicable

FOREIGN EXCHANGE EARNINGS AND OUT GO

(a) Activities relating to exports, initiatives taken to increase exports, development of new export market for products and services and export plans

The Company is continuing to export its products.

(b) Total Foreign Exchange earned and used

	2001-2002	2000-2001
	(Rupees in Lacs)	
Foreign Exchange Earned	3073.13	3078.99
Foreign Exchange Used	2127.53	2238.34

For and on behalf of the Board of Directors

Place : Jodhpur
Dated : 28.08.2002

(B.L. KANUNGA)
Director

(G.C. KANUNGA)
Managing Director

AUDITORS' REPORT

To
The Members
Abohar Metals Limited

1 We have audited the attached Balance Sheet of Abohar Metals Limited as at 31st March, 2002 and also the Profit and Loss Account for the year ended on that date annexed thereto which have been approved by Audit Committee and subsequently approved by The Board of Directors by majority (Note 35, Schedule 24). 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.

2 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3 As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988 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 a statement on the matters specified in paragraphs 4 and 5 of the said Order.

4 Further to our comments in Annexure referred to in para 3 above, we invite attention to the following Notes in Schedule 24:

Note 3, regarding accounts being prepared on the assumption that the company is a going concern in spite of substantial erosion of net worth and appropriate remedial measures are to be taken to remove bottle necks, [illegible]

Notes 4.1 & 4.2, regarding prior approval not obtained from Central Government in respect of the transactions covered under Section 295 and 297 of the Companies Act, 1956;

Note 5, regarding remuneration to employees covered under Section 314 of the Companies Act, 1956 which are subject to Shareholders' approval;

Notes 6.1 & 6.2, regarding accounting of Debentures and disclosure requirement of Interest accrued & due in respect of Secured loans;

Note 7 & 8, regarding fixed assets whose written down value aggregating to Rs. 842.98 lacs retired from active use and held for disposal being stated in accounts at net book value instead of lower of net book value and net realisable value and non provision of depreciation in respect of such assets aggregating to Rs. 129.97 lacs;

Note 9, regarding non provision of export sales commission and interest aggregating to Rs. 237.36 lacs;

Note 10, regarding accounting of Rs. 314.58 lacs due to change in the method of accounting of Retirement benefits from cash basis to accrual basis

Note 11, regarding adjustments not carried out in respect of translation of foreign debts & liabilities at year end;

Note 12, regarding confirmation/reconciliation of various accounts;

Note 13, regarding non provision of doubtful debts and advances aggregating to Rs. 327.37 lacs;

Note 14 regarding approvals to be obtained for write off of foreign debts amounting to Rs. 177.98 lacs;

Note 15, regarding non charging of penal interest of Rs. 30.81 lacs paid to Banks/Financial Institutions in earlier years;

Note 16, regarding books of account and other records of Secunderabad Branch not produced to us for verification;

Note 18,19,20,21 & 22 regarding stocks at Udaipur Unit lying since long and valued at cost, accounting of [illegible] finished goods at Jodhpur unit, adjustments to be made in respect of non moving and obsolete stocks & machinery spares pending final identification and evaluation, and change in the accounting policy for Dies;

Note 24.2 regarding excess remuneration paid to a Director for which requisite approvals are being sought;

Note 25, regarding non disclosure of amounts due to Small Scale Industrial Undertaking;

Note 26, regarding non accounting of sales reversal amounting to Rs. 54.35 lacs and the resultant rejected material in transit aggregating to Rs. 28.29 lacs;

The consequential effect of the adjustments, if carried out of the amounts not accounted for to the extent ascertainable would have increased the Loss & Liabilities by Rs. 744.32 lacs & Rs. 237.36 lacs respectively and reduced Fixed & Current Assets by Rs. 506.96 lacs.

5 Subject to our comments in paragraph 3 & 4 referred to above, we report that:

(i) we have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;

(ii) 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 except as described in Notes 8, 16 & 26 Schedule 24;

(iii) the Balance Sheet and Profit and Loss Account dealt with by this report are in agreement with the books of account;

(iv) 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 except as otherwise disclosed in Note nos. 3, 6, 13 & 14 in Schedule 23 and Note nos. 7, 11, 18 to 21, 29 & 31 in Schedule 24;

(v) As the Company has failed to redeem its debentures on due dates and such failure has continued for more than one year, the directors other than the nominees of financial institutions/banks are disqualified as on 31[st] March, 2002 for appointment as directed in terms of clause (g) of sub section (1) of Section 274 of the Companies Act, 1956.

(vi) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read in conjunction with Schedules 1 to 24 and subject to our observations in above paras give the information required by the Companies Act, 1956, in the manner so required and give 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 31[st] March, 2002, and

(b) in the case of the Profit and Loss Account, of the loss for the year ended on that date.

Place : Jodhpur
Date : 28[th] August, 2002

For RAY & RAY
Chartered Accountants

(A.K. Bhemai)
Partner

ANNEXURE TO AUDITORS' REPORT

Referred to in paragraph 3 of our report of even date.

1. The records of the Company in respect of Fixed Assets show the particulars regarding valuation of different type of assets including quantitative details and situation of fixed assets. Physical verification of fixed assets has been carried out during the year at Udaipur unit by a firm of Chartered Accountants and at Jodhpur unit by the Management. No discrepancies were noticed. In our opinion, the frequency of the verification is reasonable having regard to the size of the operations of the company and on the basis of explanations received.

2. The fixed assets of the Company have not been revalued during the year.

3. As explained to us, the stock of raw material and finished goods in company's custody have been physically verified by the management at the year end or after the year end and in respect of stores and spares, there is a perpetual inventory system and a substantial part of the value of stocks have been verified during the year. As regards semi finished goods Reference is invited to Note 18 & 19 in Schedule 24. In our opinion, the frequency of verification needs to be increased. In case of material lying with other parties, certificate confirming stocks to the extent of Rs. [illegible] lacs has not been received.

4. In our opinion, the procedures of physical verification of stocks of inventories followed by the management, as observed by us to the extent possible, needs to be strengthened in order to be reasonable and adequate in relation to the size of the Company and nature of its business.

5. The discrepancies noticed on such verification of stocks as compared to book records which were not material have been properly dealt with in the books of account.

6. On the basis of our examination of stock valuation, we are of the opinion that the valuation of the stocks is fair and proper in accordance with the normally accepted accounting principles subject to Note 8 in Schedule 23 & Note Nos. 18 & 19 in Schedule 24 and is on the same basis as in the preceding year except stated in Note No. 22 in Schedule 24.

7. The rates of interest and other terms & conditions of the loans taken by the Company from a company listed in the register maintained under Section 301 (which is in process of being updated) of the Companies Act, 1956 is in our opinion, prima facie not prejudicial to the interest of the Company. The Company has not taken any other loans, secured or unsecured from companies, firms & other parties listed in the register maintained under

Section 301 of the Companies Act, 1956. In terms of sub section (6) of Section 370 of the Companies Act, 1956, the provisions of the Section are not applicable to a Company on or after 31st October, 1998.

8 The Company has granted loans, secured or unsecured to companies, firms and other parties listed in the register maintained under Section 301 (which is in process of being updated) of the Companies Act, 1956 for which there are no stipulation of repayment etc. and as such we are unable to comment on whether they are not prejudicial to the interest of the company or not. In terms of sub section (6) of Section 370 of the Companies Act, 1956, the provisions of the Section are not applicable to a Company on or after 31st October, 1998.

9 In respect of interest free loans or advances in the nature of loans, where repayments have been stipulated or not stipulated, the parties (including the employees) are repaying the principal amount as stipulated/not stipulated except for advances aggregating to Rs 38.28 lacs referred to in Note 13 in Schedule 24.

10 In our opinion and according to the information and explanations given to us and having regard to the explanation that for some items purchased for which comparable alternative quotations are not available because of the nature/quality of such items and delivery schedules, the internal control procedures as regards accounting of [illegible] charges, credit [illegible], collection of debts, purchase & stores, accounting and [illegible] of procedures need to be improved upon in order to be commensurate with the size of the Company and the nature of its business with regard to purchases of stores, raw materials, plant and machinery, equipment and other assets, and for the sale of goods.

11 In our opinion and having regard to our comments in para 10 above, and according to the information and explanations given to us the transactions of purchase of goods, materials and sale of goods, materials and services made in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Companies Act, 1956 and aggregating during the year to Rs. 50,000/- or more in respect of each party have been made at prices as determined by the management. In the absence of available market quotations the prices could not be compared with prevailing market prices.

12 Subject to Note 22 in Schedule 24, the Company has a procedure for the determination of unserviceable or damaged stores, raw materials and finished goods and provision has been made in the accounts for the loss arising on the items to the extent determined by the management.

13 The Company has not accepted any deposit from public coming under the purview of Section 58A of the Companies Act, 1956 other than some loans taken from individuals which have been repaid back during the year for which compliance was not made in accordance with the provisions of Section 58A of the Companies Act, 1956 and Companies (Acceptance of Deposit) Rules, 1975.

14. Reasonable records are being maintained by the Company for the sale and disposal of scraps. We are informed that no realisable by-products are generated by the Company's operation.

15 A firm of Chartered Accountants is carrying out the concurrent / internal audit of the accounts and have submitted periodical reports. In our opinion, the internal audit system is commensurate with the size of the Company and nature of its business.

16 The Central Government has not prescribed the maintenance of cost records under Section 209(1) (d) of the Companies Act, 1956 for the Company.

17 - According to the records of the Company, Provident Fund and Employees' State Insurance dues have generally been regularly deposited with the appropriate authorities.

18. According to the information and explanations given to us, there were no undisputed amounts payable in respect of income-tax, wealth-tax, custom duty, sales-tax and excise-duty as at 31.3.2002, which were outstanding for a period of more than six months from the date they became payable.

19 According to the information and explanations given to us, no personal expenses of employees or directors have been charged to the revenue account other than those payable under contractual obligations and/or in accordance with generally accepted business practice.

20 The Company is a sick industrial company within the meaning of Clause (o) of Sub-section (1) of Section 3 of the Sick Industrial Companies (Special Provisions) Act, 1985.

21 In respect of the Company's service activity we report that the system of recording receipts, issue and consumption of material and stores and allocating material consumed to the relative jobs offer scope for improvement.

22 The system of authorisation at proper levels and the system of internal control on issue of stores and allocation of labour to jobs need to be improved upon in order to be commensurate with the size of the Company and nature of its business.

Place : Jodhpur

Date : 29th August, 2002

For RAY & RAY

Chartered Accountants

(A.K. Sharma)

Partner