

P. C. BAFNA & CO.**CHARTERED ACCOUNTANTS****AUDITORS' REPORT****To**

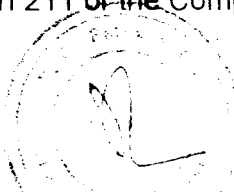
The Memb
 Bhilai Engineering Corporation Limited
 Bhilai (C.G.)

We have audited the attached Balance Sheet of Bhilai Engineering Corporation Limited, Bhilai (C.G.) as at 31st March 2004 and also Profit & Loss Account 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 management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis of our opinion.

1. As required by the Companies (Auditors' Report) Order, 2003 issued by the Central Government of India in terms of Section 227(4A) of the Companies Act, 1956 we annex hereto a statement on the matters specified in paragraphs 4 and 5 of the said order.
2. Further to our comments in the Annexure referred to in paragraph (1) above, we state 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, the Profit & Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of accounts.
 - (d) In our opinion, the Balance Sheet, the Profit & Loss Account and Cash Flow Statement dealt with comply with the Accounting Standards referred to in subsection (3C) of Section 211 of the Companies Act, 1956.

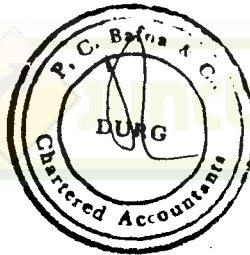
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- (e) In our opinion and based on information and explanations given to us, none of the directors are disqualified as on 31st March, 2004 from being appointed as director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956
- (f) In our opinion and to the best of our information and according to the explanations given to us, the said accounts, 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;
- i) in the case of Balance Sheet of the state of affairs of the Company as at 31st March, 2004
 - ii) in the case of the Profit & Loss Account, of the profit for the year ended on that date and
 - iii) in the case of cash flow statement, of the cash flows for the year ended on that date.

Place : Bhilai
Date : 2nd September, 2004



for P.C. BAFNA & CO.
Chartered Accountants

A handwritten signature in black ink, appearing to be "Sunil Kashyap".

(SUNIL KASHYAP)
PARTNER
Membership No.75681

Annexure to the Auditors' Report

(Annexure as Referred to in paragraph (1) of our report of even date on the accounts of Bhilai Engineering Corporation Limited, Bhilai (C.G.) for the year ended 31st March 2004).

I. In respect of its Fixed Assets:-

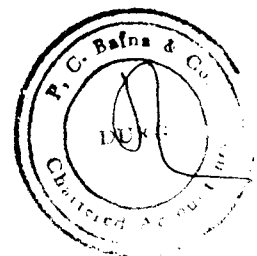
- a) The company has maintained proper records showing full particulars including quantitative details and situation of fixed assets on the basis of available information.
- b) As explained to us, the fixed assets have been physically verified by the management during the year in a phased periodical 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 of substantial part of the fixed assets during the year and the going concern status of the company is not affected.

II. In respect of its Inventories:-

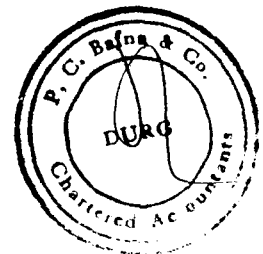
- a) As explained by the management, the Inventories have been physically verified by the management during the year.
- b) In our opinion and according to the information and explanation given to us the procedures of physical verification of stocks followed by the management were found to be reasonable and adequate in relation to the size of the company and nature of business.
- c) In our opinion and according to the information and explanations given to us the company is maintaining proper records of inventory. The discrepancies noticed on verification between physical stock and book records were not significant and the same has been properly dealt with in the books of account.

III. In respect of the loans, secured and unsecured, granted or taken by the company to/from companies, firms and other parties covered in the register maintained u/s 301 of the Companies Act, 1956:-

- a) The company has taken loan from 7 companies covered in the register maintained u/s 301 of the Companies Act, 1956. The maximum amount involved during the year and the yearend balance of loan taken was Rs.184.45 lacs. The company has granted loan to 7 companies, Firms and Others covered in the register maintained u/s301 of the Companies Act, 1956. The maximum amount involved during the year and the year end balance of loan granted was at Rs.274.82 lacs.
- b) In our opinion and according to the information and explanations given to us, the rate of interest and other terms and conditions on which loan has been taken from/granted to companies, firms or other parties listed in the register maintained u/s 301 of the Companies Act, 1956, are prima facie not prejudicial to the interest of the company.



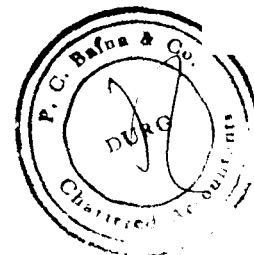
- c) According to the information and explanations given to us, the principal and interest thereon are repayable on call.
- d) In respect of aforesaid loans there is no overdue amount
- iv. In our opinion and according to the information and explanation given to us during the course of our audit, there are adequate internal control procedures commensurate with the size of the company and the nature of its business with regard to the purchases of stores, raw-materials, plant & machinery, equipments and other assets and for the sale of goods.
- v. In respect of the transaction covered u/s 301 of the Companies Act 1956:-
 - a) To the best of our knowledge and belief and according to the information and explanations given to us, we are of the opinion that the transactions that need to be entered into the register maintained u/s 301 of the Companies Act, 1956 have been so entered
 - b) In our opinion and according to the information given to us the transactions made in pursuance of the contracts or arrangements entered in the register maintained u/s 301 of the Companies Act, 1956 aggregating during the year to Rs.5,00,000/- or more in respect of any party were made at prices which are reasonable having regard to prevailing market prices at the relevant time where such market prices are available.
- vi. In our opinion and according to the explanations given to us, the company has not accepted deposits within the meaning of the provisions of section 58A and 58AA of the Companies Act, 1956 and the rules made thereunder.
- vii. In our opinion, the company has an adequate internal audit system commensurate with the size and nature of its business.
- viii. As explained to us, the Company has maintained cost records for its Fertiliser Division, Steel Casting & foundry unit of Engineering Division under section 209(I)d of Companies Act. However, we are not required to and have not carried out any detailed examination of such accounts and records
- ix) In respect of statutory dues:-
 - a) According to the information and explanations given to us, undisputed statutory dues including Provident Fund, Employees State Insurance, Income Tax, Sales Tax, Cess Wealth Tax, Customs Duty and other dues have generally been 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 31st March 2004 for a period of more than six months from the date of becoming payable.



- b) The disputed statutory dues that have not been deposited on account of matters pending before appropriate authorities are as under:

S. No.	Nature of Dues	Forum where dispute is pending	Period	Amount (Rs in Lacs)
1.	Excise Duty	Dy/ Asst. Commissioner Excise Duty (Appeals)	92-93 to 2003-04	392.30
2.	Sales Tax	Dy /Asst. Commissioner Sales Tax (Appeals)	1994-95 to 2000-01	127.62
3.	Entry Tax	Dy Asst. Commissioner Sales Tax (Appeals)	1994-95 to 2000-01	14.10
4.	Sales Tax	Appellate forum of Industries C.G. Govt. Raipur	2001-02 to 2003-04	29.64
5.	Entry Tax	Appellate forum of Industries C.G. Govt. Raipur	2001-02 to 2003-04	17.38
6.	Income Tax	Commissioner of Income Tax (Appeals) Raipur	1998-99 & 1999-00	34.97
7.	Others	Mineral & Metal Trading Corporation	1987-91	10.77
		Total		626.78

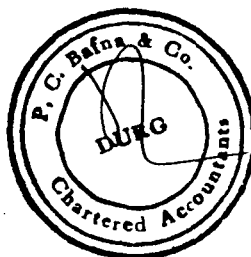
- x) The company does not have accumulated losses and has not incurred any cash losses during the financial year and in the immediately preceding financial year.
- xi) Based on our audit procedures and on the information and explanation given by the management the company has not defaulted in repayment of dues to banks and financial institutions. The company has not issued any debenture during the year.
- xii) In our opinion and according to the information and explanation given to us no loans or advances have been granted by the company on the basis of security by way of pledge of shares, debentures or other securities.
- xiii) In our opinion, the company is not a chit fund or a nidhi/mutual benefit fund/society. Accordingly, clause 4(xiii) of the Companies (Auditor's Report) Order 2003 is not applicable to the company.
- xiv) In our opinion and according to the information and explanation given to us the company is not dealing in or trading in shares, securities and other investments. Accordingly the provisions of clause 4(xiv) of the Companies (Auditor's Report) Order 2003 are not applicable to the company.
- xv) In our opinion and according to the information and explanation given to us, the terms and conditions on which the company has given guarantee for loan taken by others from banks or financial institutions is prima-facie not prejudicial to the interest of the company.
- xvi) In our opinion and explanations given to us, the term loans have been applied for the purpose 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 report that prima facie no funds raised on short-term basis have been utilized for any long-term investment purposes or vice versa.



- xviii) According to the information and explanations given to us, the company has not made any preferential allotment of shares to parties and companies covered in the register maintained u/s 301 of the Companies Act, 1956.
- xix) In our opinion and according to the informations and explanations given to us the company has not issued any secured debentures during the period covered by our report. Accordingly, the provisions of clause 4 (xix) of the Companies (Auditor's Report) Order 2003 are not applicable to the company.
- xx) During the period covered by our audit report, the company has not raised any money by way of public issue.
- xxi) In our opinion and according to the information and explanation 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 **P.C. BAFNA & CO.**
Chartered Accountants

Place : Bhilai
Date : 2nd September, 2004




(SUNIL KASHYAP)
PARTNER

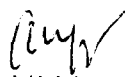
Membership No.75681

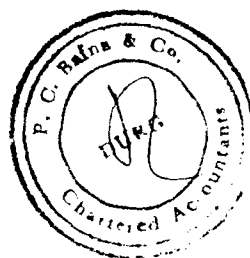
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Particulars	Schedule	As At 31st March	
		2004 (Rs. in Lacs)	2003 (Rs. in Lacs)
SOURCES OF FUNDS			
SHARE HOLDERS' FUNDS			
Share Capital	'A'	471.93	466.95
Reserves & Surplus	'B'	2,373.13	2,677.40
		2,845.06	3,144.35
LOAN FUNDS			
Secured Loans	'C'	7,402.59	7,027.14
Unsecured Loans	'D'	161.87	308.31
Total Loan Funds		7,564.46	7,335.45
Total Funds Employed		10,409.52	10,479.80
APPLICATION OF FUNDS			
FIXED ASSETS			
Gross Block	'E'	7,753.01	7,375.18
Less : Depreciation		5,241.86	4,823.64
Net Block		2,511.15	2,551.54
Capital Work-in-Progress		47.96	49.31
		2,559.11	2,600.85
INVESTMENTS (At Cost)	'F'	135.50	106.78
CURRENT ASSETS, LOANS & ADVANCES			
Inventories	'G'	4,846.49	4,887.97
Sundry Debtors		5,054.16	4,719.36
Cash & Bank Balances		884.52	541.06
Other Current Assets		59.69	98.01
Loans & Advances		2,086.30	2,128.84
		12,931.16	12,375.24
Less :			
CURRENT LIABILITIES & PROVISIONS.	'H'	5,281.72	4,644.01
Current Liabilities		5,281.72	4,644.01
Net Current Assets		7,649.44	7,731.23
Deferred Tax Assets		65.47	40.94
Total Funds Utilised		10,409.52	10,479.80
ACCOUNTING POLICIES & NOTES ON ACCOUNTS			

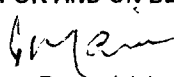
FOR P.C. BAFNA & CO.
Chartered Accountants

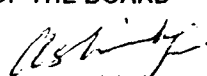
(SUNIL KASHYAP)
Partner
Place : Bhilai
Date : 2nd Sept '2004.


A.K. Jain
Jt. Mg. Director



FOR AND ON BEHALF OF THE BOARD


Pramod Jain
Director


Ashish Jain
Whole time Director

S.P. Gupta
G.M Finance & Company Secretary


PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2004,

Particulars	Schedule	For the year ended 31st March	
		2004 (Rs. in Lacs)	2003 (Rs. in Lacs)
INCOME			
Income from Operations	'J'	15,854.97	15,042.39
Variation in Stock	'K'	(327.44)	442.10
TOTAL INCOME		15,527.53	15,484.49
EXPENDITURE			
Material	'L'	9,553.93	9,374.99
Operational Expenses	'M'	4,815.09	4,889.60
Financial Charges	'N'	834.00	917.79
Depreciation		407.13	400.79
		15,610.15	15,583.17
PROFIT / (LOSS)		(82.62)	(98.68)
Income Tax for earlier Year		(1.59)	(0.34)
Transferred To / From Deferred Tax Assets		24.53	(5.03)
Balance transferred to General Reserve		(59.68)	(104.05)

Schedules referred to above form an integral part of the Profit & Loss account

This is the Profit & Loss Account referred to in our report of even date.


FOR P.C. BAFNA & CO.
Chartered Accountants

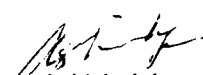

A.K. Jain
Jt. Mg. Director

(SUNIL KASHYAP)
Partner
Place : Bhilai
Date : 2nd Sept '2004.



FOR AND ON BEHALF OF THE BOARD;


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