A. K. JALAN & ASSOCIATES
Chartered Accountants

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Ref. : ....   Date:..........

AUDITOR'S REPORT

TO THE MEMBERS OF GANESH FOUNDRY AND CASTINGS LIMITED

01. We report that we have audited the **Balance Sheet** of GANESH **FOUNDRY AND CASTINGS LIMITED** AS AT 31ST March, 2002 and the relative **Profit and Loss Account** for the year ended 31st March, 2002 both of which we have signed under reference to this report and the above mentioned accounts are in agreement with the books of account. These financial statements are the responsibility of the **Management of the Company.** Our responsibility is to express an opinion on these financial statements based on our audit.

02. 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 mis-statement. 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** of the Company, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

03. As required by the Manufacturing and Other Companies (Auditors Report) Order, 1988 issued by the Central Government of India in terms of Sections 227(4A) of the Compaines Act, 1956 and on the basis of such checks of the books and records of the Company as we considered appropriat and according to the information and explanations given to us during the course of our audit, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

04. Further to our comments in the Annexure referred to in paragraph 3 above, We report as under:

(a) (i) *The major changes in percentage yield of product [illegible] in comparison to last year i.e. from 75.00% last year to 91.37% this year in foundry division and reason for the [illegible] have not been properly explained to us. Therefore, we are unable to frame our opinion in this regard.*

(ii) *The Company has paid to Bihar State Credit and Investment Corporation (BICICO), Patna [illegible] of Rs. 18,[illegible] [illegible] old liability of BICICO, Patna written back last year [illegible] trarily to Profit & Loss Account [illegible] above a sum of Rs. 14,99,75[illegible] has been charged [illegible] Loss Account this year [illegible] agreement [illegible].*

(iii) The [illegible] has [illegible] provided [illegible] liability of [illegible] surcharge [illegible] levied by the BSEB [illegible] unearned energy by [illegible] Company during 93-94 to 99-2000 amounting to Rs. 26,75,000 [illegible] [illegible] company had paid Rs. [illegible] upto last [illegible] and Rs. [illegible] during the year but has not provided [illegible] expenses [illegible] some other aggrieved party had gone to the court [illegible] law against the levy. Had the same been done loss of the Company would have increased with the amount.

(iv) The company has not provided for the bill of additional energy charges pertaining to financial year 1990 to 1995 raised afresh by the BSEB under arbitration award of Rs. 944.40 lacs on the ground that it had already moved to the court of Sub-Judge - 1 , Patna aginst the arbitration award,which has allowed stay by or injuction to BSEB and therefore the liability has yet not been acknowledged as debt. Hence , as Management claim the liability can at best be taken as contingent liability for which company does not think proper to provide in accounts. In our opinion it may affect substantially the financial position of the Company.

(v) The Company has changed policy of valuing raw materials stock and have valued closing stock of raw materials stock in had as at the end of the year amounting to Rs. 46,02,760.00 without including proportionate CENVAT (Excise) component in to it of Rs. 6,[illegible].00 Had it been taken, the surplus of the Company would have increased with the amount.

(vi) Insurance cover for various perils excluding Stock insurance and other minor coverage had not been taken by the Company. This act of the company may affect substantially the financial position of the Company.

(vii) The Company had closed and disposed off majority of Plant & Machinery of its rolling division during last year. No production was made during last year. However, from February, 2002, it had recorded production and sales of rolled products of Rs. 62.23 lacs (CTD Bars & in process stock) without addition to Plant & Machinary for required infrastructure etc. The matter could not be properly explained to us, as such we are unable to frame our opinion in this regard.

(viii) The Company had carried various inter and intra transfer/ adjustments in various suppliers and customers accounts during the year so as to liquidate/pay off balances. Necessary authorisations and account confirmations were not produced before us for verification. Therefore, we are unable to express our opinion in this regard.

(ix) The Company has carried large cash at several occassions during the year disproportionate of its requirements.

(b) Had the observations made by us in paragraphs (a)(iii) and (a)(v) above been considered without considering our remarks in paragraphs (a)(i),(a)(iv),(a)(vi) and (a)(vii) above as the effect of these could not be determined,the loss for the year would have been Rs.15.55 lacs (as against the reported surplus of Rs.4.90 lacs);

(c) Subject to above, We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for our Audit;

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(d) In our opinion, subject to our remarks in paragraphs (a)(i) to (a) (viii) above, proper books of account as required by law have been kept so far as appears from our examination of those books;

(e) In our opinion, subject to our above remarks and disclosures made in notes to accounts, and as per significant Accounting policies detailed in schedule - 21 and 22 herewith, these accounts have been prepared in compliance with the applicable accounting standards referred to in sub-section (3C) of section 211 of the Act;

(f) On the basis of confirmations received from directors and taken on record by the Board of Directors and according to the information and explanations given to us, none of the directors of the company are prima facie disqualified as at 31st March, 2002 from being appointed as directors of the Company in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956.

05. In our opinion and to the best of our information and according to the explanations given to us, and subject to comments made herein before, the Balance Sheet and the Profit and Loss account read with the significant accounting Policies in Schedule 22 and Notes on Accounts in Schedule 21 attached thereto give in the prescribed manner, the information required by the Companies Act, 1956 and also give respectively a true and fair view of the state of the Company's affairs as at 31st March, 2002 and its Loss for the year ended on that date.

For A.K.Jalan & Associates
Chartered Accountants

(A.K.Jalan), Partner
M.No. 52776

Place: Kanpur
Date: 04.09.2002

ANNEXURE TO AUDITORS' REPORT OF EVEN DATE OF
GANESH FOUNDRY & CASTINGS LIMITED
(refer to in paragraph 3 thereof)

(i) (a) The Company has maintained proper records to show particulars including quantitative details of its fixed assets.

(b) We have been informed that the fixed assets of the Company were physically verified during the year by the management and no material discrepancies were noticed on such verification .

(ii) The fixed assets of the Company have not been revalued during the year.

(iii) As explained to us, stocks of finished goods, stores, spare parts, consumables and raw materials of the Company at all its locations have been physically verifed by the management at the end of the year.

(iv) As per information given to us, the procedures of physical verification of stocks followed by the management are, in our opinion, reasonable and adequate in relation to the size of the Company and nature of its business.

(v) There were no material discrepancies between the physical stocks and the books. Minor differences, if any, have been properly dealt with in the books.

(vi) On the basis of our examination of stock records, we are of the opinion that the valuation of stocks is fair and proper in accordance with the normally accepted accounting principles. As per practice followed consistently, excise duty payable on unsold finished goods lying in factory is not included in valutaion of such goods.The valuation of Raw Materials have also been made without taking proportionate CENVAT component in to it. The valuation of finished stocks is on the same basis as in the preceding year. However, valuation of raw materials had been changed to the extent of non inclusion of CENVAT (Excise) component in it as was done upto last year.

(vii) The Company has not taken any loans, secured or unsecured from Companies, firms or 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 Act, provisions of this section are not applicable to a company on or after the commencement of the Companies(Amendement)Act, 1999.

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(viii) The Comany has not granted any loans,secured or unsecured. to Companies, Firms or 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 Act,provisions of this section are not applicable to a company on or after the commencement of the Companies(Amendement)Act,1999.

(ix) The Company has not granted any loans, or advances in the Nature of loans to any party, as such no comment is needed in this regard.

(x) In our opinion and according to the information and explanation given to us, there is an adequate internal control procedure commensurate with the size of the Company and the nature of its business, for purchases of stores, raw materials including components, plant and machinery, equipment and similar assets and for the sale of goods.

(xi) According to the information and explanations given to us, purchase of goods, materials and services and sale of goods, materials and services, made in pursuance of contracts or arrangement 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 value in respect of each party have not been made.

(xii) As explanined to us, the company has formulated a system of determining unserviceable or damaged stores, raw materials and finished goods on the basis of technical evaluation and on that basis during the year proper accounting treatment has been given on such stocks wherever applicable.

(xiii) In our opinion and according to the information and explanations submitted to us, the Company has not accepted loans which are in the nature of deposit in contravention of the provision of the Companies (Acceptance of Deposit) Rules, 1975.

(xiv) As explained to us the Company has maintained reasonable records for the sale and disposal of realisable by-products and scrap.

(xv) The Company has not implemented internal audit system, commensurate with its size and nature of business. The same is required to be implemented and strengthened immediately.

(xvi) The Central Government has not prescribed maintenance of cost records by the Company under Section 209(1) (d) of the Compaines Act, 1956, for any of its products.

(xvii) The company has generally been regular during the year in depositing provident fund dues with the appropriate authorities. We are informed that the provisions of the Employees State Insurance Act, 1948 are not applicable to the company.

(xviii) At the last day of the financial year there was no amount outstanding in respect of undisputed Income Tax, Wealth Tax, Sales Tax, Customs duty and Excise duty which were due for more than six months from the date they became payable.

(xix) During the course of our examination of the books of account carried out in accordance with generally accepted auditing practice, we have neither come across any personal expense which have been charged to the Profit and Loss account, nor we have been informed of any such case by the Management.

(xx) The Company is not a sick industrial company within the meaning of clause (o) of section 3(1) of the Sick Industrial Companies (Special Provisions) Act, 1985.

For A. K. JALAN & ASSOCIATES
CHARTERED ACCOUNTANTS

(A.K. JALAN)
PARTNER
M. No. 52776

Muzaffarpur, 04th September, 2002.