

AUDITORS' REPORT

To,
The Members of
MADHUR INDUSTRIES LTD.

We have audited attached Balance Sheet of MADHUR INDUSTRIES LTD. Ahmedabad, as at 31st March, 2006 and the Profit and Loss Account for the year ended on that date annexed thereto. 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.

We have 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 presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

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 a statement on the matters specified in paragraphs 4 and 5 of the said Order to the extent applicable to the Company.

Further to our comments in the Annexure referred to 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 accounts, as required by law, have been kept by the company so far as appears from our examination of those books.
- c. The Balance Sheet and the Profit and Loss Account dealt with by the report are in agreement with the books of accounts.
- d. In our opinion the Balance Sheet and the Profit and Loss Account comply with the accounting standards referred in Section 211 (3C) of the Companies Act, 1956, subject to our notes to the accounts forming parts of Balance Sheet.
- e. Based on the representations made by the Directors of the Company and taken on records by the Board of Directors, and in accordance with the information and explanations as made available, the Directors of the Company do not prima-facie have any disqualification as referred to in Section 274 (1)(g) of the act.



- f. The bank accounts of the company was frizzed by CBI BS & FC, Mumbai in the financial year 2001-2002 therefore no provision has been made for bank balance of Rs119.47 lacs, & Cheques on hand of Rs.75.28 lacs which are also time barred under time limit prescribed under negotiable instrument Act and also no provision has been made for diminution in the value of investment of group concern amounting to Rs. 63.85 lacs, doubtful sundry debtors of Rs.31.89 Lac & doubtful advance Rs.40.17 lacs exceeding six month. The consequential effect of this is not ascertainable.
- g. Company has not disclosed the information in respect of dues to SSI units as required and
- h. Note 4 in Schedule relating to non provision of interest on Fixed deposits, (accepted in previous years u/s 58A) for the year ending on 31st March 2006 and matured/encashed Fixed Deposits for which the cheques are issued from separate ban account, (which is frizzed by CBI BS & FC, Mumbai) but not cleared due to suspension of banking operation of Madhavpura Mercantile co-op Bank Ltd. Consequently the loss and liability are understated to that extent.
- i. Note no 5(iv) in schedule..... relating to non availability of Bank statement for the year and read with accounting policies and notes thereon give the information required by the Companies Act, 1956 in the manner so required, give true & fair view.
- j. Subject to above, 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 given a true and fair view in conformity with the accounting principles generally accepted in India,
- (i) In the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2006 and
- (ii) And the case of the Profit and Loss Account of the Profit, of the company for the year ended on that date &.
- (iii) In the case of the Cash Flow Statement, of the cash flows of the Company for the year ended on that date.

For ANIL AGARWAL
CHARTERED ACCOUNTANTS



Anil Agarwal
Proprietor

Place : AHMEDABAD
Date : 25th July, 2006

Companies (Auditor's Report) Order, 2003

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| (i) | (a) whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets; | The company has maintained proper records showing full particulars including quantitative details and situations of Fixed Assets. |
| | (b) whether these fixed assets have been physically verified by the management at reasonable intervals; whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account; | The fixed Assets have been physically verified on periodic basis by the Management during the year and no material discrepancies were noticed on such verification. |
| | (c) if a substantial part of fixed assets have been disposed off during the year, whether it has affected the going concern; | No substantial parts of Fixed Assets have been disposed off during the year. |
| (ii) | (a) whether physical verification of inventory has been conducted at reasonable intervals by the management; | The securities held as stock-in-trade is verified by the management with the depository participant's statements periodically on receipt of the statements. |
| | (b) are the procedures of physical verification of inventory followed by the management reasonable and adequate in relation to the size of the company and the nature of its business. If not, the inadequacies in such procedures should be reported; | The procedures of physical verification of securities held as stock-in-trade are reasonable and adequate in relation to the size of the company. |
| | (c) whether the company is maintaining proper records of inventory and whether any material discrepancies were noticed on physical verification and if so, whether the same have been properly dealt with in the books of account; | No material discrepancies have been noticed on physical verification to securities held as stock-in-trade as compared to book records except certain shares are held by broker & a certificate is available on records in respect thereof. |
| (iii) | (a) has the company granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 301 of the Act. If so, give the number of parties and amount involved in the transactions. | Company has granted loan to following four group concerns amount of Rs.18,70,048/- |
| | (b) whether the rate of interest and other terms and conditions of loans given by the company, secured or unsecured, are prima facie prejudicial to the interest of the company; | In respect of loans granted to and taken from the companies, firms or other parties listed in the register maintained u/s 301 of the Companies Act, |



- 1956 where no stipulation as to repayment is fixed along with non provision of interest on loan is made.
- (c) **whether receipt of the principal amount and interest are also regular;** Payment of the principal amount and interest are not regular.
- (d) **if overdue amount is more than rupees one lakh, whether reasonable steps have been taken by the company for recovery of the principal and interest;** Yes, reasonable steps have been taken by the Company for payment of the principal and interest.
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- (e) **has the company taken any loans secured or unsecured from companies, firms or other parties covered in the register maintained under section 301 of the Act. If so, give the number of parties and the amount involved in the transaction;**
- (f) **whether the rate of interest and other terms and conditions of loans taken by the company, secured or unsecured, are prima facie prejudicial to the interest of the company;**
- (g) **whether payment of the principal amount and interest are also regular;**
- (iv) **Is there an adequate internal control system commensurate with the size of the company and the nature of its business, for the purchase of inventory and fixed assets and for the sale of goods? Whether there is a continuing failure to correct major weaknesses in internal control system;** In our opinion, according to the information and explanations given to us, there are adequate internal control procedures, commensurate with size of the Company and the nature of its business for purchase and sale of plant and machinery, equipment and other assets and purchase & sale of securities.
- (v) (a) **whether the particulars of contracts or arrangements referred to in section 301 of the Act have been entered in the register required to be maintained under that section; and** On the basis of information made available to us there was no such transaction which needs to be entered in the register maintained u/s301f the Act during the year.
- (b) **whether transactions made in pursuance of such contracts or arrangements have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time;** Applicable
- (This information is required only in case of transactions exceeding the value of five lakh rupees in respect of any party**



and in any one financial year).

- (vi) In case the company has accepted deposits from the public, whether the directives issued by the Reserve Bank of India and the provisions of sections 58A, 58AA or any other relevant provisions of the Act and the rules framed there under, where applicable, have been complied with. If not, the nature of contraventions should be stated; If an order has been passed by Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal whether the same has been complied with or not?

In our opinion and according to the information and explanation given to us, the company has not accepted/renewed the deposits from public during the year. However the honorable Company Law Board (CLB) western region bench Mumbai, by its order dated 29th April, 2002 in Company petition no. 58AA/58A(9)/CLB/WR/2002/494 has order that there is a default on the part of the company to repay the small depositors their deposits as per terms and conditions of acceptance of deposits. However considering the submissions made by the company that the company is already having a separate Bank account for accepting and repaying Fixed deposits with the Madhavpura Mercantile Co-op. Bank Ltd., the banker for the Company, and has transferred funds to the tune of Rs.175 lacs to the said accounts (which is frizzed by CBI BS & FC, Mumbai) for repayment of depositors and since the clearing of the Madhavpura Mercantile Co-Op Bank Ltd., the banker of the company has been suspended w.e.f.13th March 2001 the company is unable to repay to depositor whose FDs stands matured & for repayment of their prematured FDs, Hon'ble Company Law Board has given directions to the company as contained in the order. One of prime direction of the order is that:

The company shall make repayment of deposits along with interest at the contracted rate till the date of payment to



depositors whose deposits become matured and also to depositors who have requested the company for repayment of their premature fixed deposits within 30 days of start of clearing of Madhavpura Mercantile Co-op Bank Ltd., However Clearance of Bank already has been started but the above bank account has been freezed by CBI BS & FC Mumbai hence company could not paid deposits.

- (vii) in the case of listed companies and/or other companies having a paid-up capital and reserves exceeding Rs.50 lakhs as at the commencement of the financial year concerned, or having an average annual turnover exceeding five crore rupees for a period of three consecutive financial years immediately preceding the financial year concerned, whether the company has an internal audit system commensurate with its size and nature of its business;
- (viii) where maintenance of cost records has been prescribed by the Central Government under clause (d) of sub-section (1) of section 209 of the Act, whether such accounts and records have been made and maintained;
- (ix) (a) is the company regular in depositing undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income-tax, Sales-tax, Wealth Tax, **Service Tax**, Custom Duty, Excise Duty, cess and any other statutory dues with the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as at the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated by the auditor.
- (b) In case dues of Income tax/Sales tax/Wealth tax/**Service tax**/Custom duty/Excise duty/cess have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned."
- In our opinion, according to the information and explanations given to us, the Company has not adequate Internal Audit System commensurate with size and nature of its business.
- The maintenance of cost records has not been prescribed by the Central Government under section 209 (i) (d) of the Companies Act, 1956.
- According to information and explanation given to us no undisputed amount in respect of income tax, sales tax, wealth tax, custom duty, cess and excise duty and no other statutory liabilities were outstanding for a period more than six month as on 31st March, 2006.
- Disputed claims pending before different Appellate forum are as under:
- | Item | Amount | Forum |
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