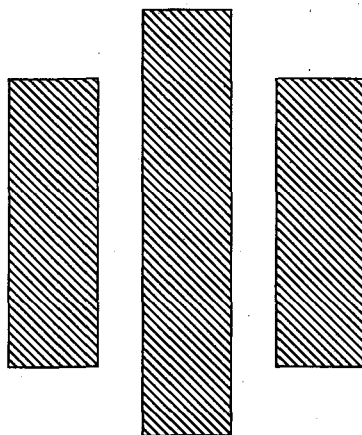


ANNUAL REPORT

2009-2011



Modern
Insulators Limited

BOARD OF DIRECTORS

Shri H.S. Ranka	- Chairman
Shri Sachin Ranka	- Director
Shri S.S. Karnavat	- Director
Shri S.B.L. Jain	- Director
Shri R.N. Goyal	- Director
Shri R.K. Ladia	- Executive Director
Shri R.R. Maheshwari	- Executive Director
Shri H.L. Sharma	- Executive Director

COMPANY SECRETARY

Shri Sonu Lakhani

AUDITORS

M/s S.S. Kothari & Co.,
Chartered Accountants
Jaipur-302 001

REGISTERED OFFICE

A-4, Vijay Path,
Tilak Nagar,
Jaipur-302 004
(Rajasthan)

CORPORATE HEADQUARTER

68/69, Godavari,
Poachkhanwala Road,
Worli,
Mumbai-400 030

PLANT

Abu Road-307 026
Distt. Sirohi
(Rajasthan)

NOTICE

Notice is hereby given that the 26th Annual General Meeting of **Modern Insulators Limited** will be held on Saturday the 24th September, 2011 at 11.00 A.M. at Registered Office of the Company at A-4, Vijay Path, Tilak Nagar, Jaipur-302004 to transact the following business :

A. ORDINARY BUSINESS :

- (1) To consider and adopt the Audited Balance Sheet as at 31st March, 2011 and the Audited Profit & Loss Account for the period ended on that date and the reports of the Board of Directors and Auditors thereon.
- (2) To re-appoint Shri H.L.Sharma as Director who retires by rotation and being eligible, offers himself for re-appointment.
- (3) To re-appoint Shri S.S.Karnavat as Director who retires by rotation and being eligible, offers himself for re-appointment.
- (4) To re-appoint Shri R. R. Maheshwari as Director who retires by rotation and being eligible, offers himself for re-appointment.
- (5) To appoint Auditors and to fix their remuneration and in connection therewith to pass the following resolution with or without modifications, as an Ordinary Resolution:

"RESOLVED THAT pursuant to the provisions of Section 224(1) of the Companies Act, 1956, M/s. S.S.Kothari & Co., Chartered Accountants, Jaipur be and are hereby re-appointed as Auditors of the company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company, on such remuneration as may be determined by the Board of Directors of the Company."

B. SPECIAL BUSINESS :

- (6) To consider, and if thought fit, to pass with or without modifications, the following resolutions as a Special Resolution:
 "RESOLVED THAT pursuant to the provisions of Section 269, 198, 309, 310, 311 and other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modifications or re-enactment thereof, for the time being in force) and further subject to approval of Central Government, if necessary and the provisions of Schedule XIII to the said Act, Company hereby accords its approval and consent to the re-appointment of Shri R. K. Ladia as an Executive Director of the Company from 01/04/2010 for a further period of three years on the terms & Conditions of remuneration as specified in the explanatory statement annexed hereto."
- (7) To consider, and if thought fit, to pass with or without modifications, the following resolutions as a Special Resolution:
 "RESOLVED THAT pursuant to the provisions of Section 198, 309 and other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modifications or re-enactment thereof, for the time being in force) and further subject to approval of Central Government, if necessary Company hereby accords its approval and consent to the payment of remuneration to Shri H. S. Ranka, Chairman of the Company with effect from 01/02/2011 for a period of three years on the terms & Conditions of remuneration as specified in the explanatory statement annexed hereto."
- (8) To consider and if thought fit to pass, with or without modification, the following resolution as an Ordinary Resolution:
 "RESOLVED THAT pursuant to the provision of Section 293 (1)(a) and all other applicable provisions, if any, of the Companies Act, 1956, consent of the Company, be and is hereby accorded to the Board of Directors of the Company for mortgaging and/or charging present and/or future properties, which is situated at Abu Road, Rajasthan whether movable or immovable on first charge basis in favour of :

On First Charge Basis

1. Central Bank of India for its working capital assistance of upto Rs. 2925 lacs (Fund based) & upto Rs. 1875 lacs (Non-fund based) respectively.
2. Punjab National Bank for its working capital assistance of upto Rs. 975 lacs (Fund based) & upto Rs. 625 lacs (Non-fund based) respectively.

In connection with the working capital facilities sanctioned/to be sanctioned by the working capital bankers to the Company to secure the said working capital facilities together with interest thereon, commitment charges, liquidated damages, costs, charges, expenses and other moneys payable by the Company in terms of letter of sanction(s)/memorandum of the terms and conditions entered into by the Company in respect of working capital facilities, such security, to rank as the case may be to mortgage and/or charges already created or to be created in future by the Company or in such manner as may be agreed to by the banks and as may be thought expedient by the Board of Directors of the Company."

"FURTHER RESOLVED THAT the Board of Directors be and is hereby authorized to finalise the matter and method of and documents and deeds for creating the aforesaid mortgage/charge and to do all such acts, deeds and things as it may in its absolute discretion deem necessary, proper or desirable and also agree to any amendments thereto from time to time as it may think fit."

- (9) To consider and if thought fit to pass, with or without modifications, the following resolution as an Ordinary Resolution:

"RESOLVED THAT the consent of the Company be and is hereby accorded to the Board of Directors in terms of section 293(1)(a) and other applicable provisions, if any, of the Companies Act, 1956 to mortgaging and/or charging all the immovable and movable properties of the Gujarat Polyfils, a division of the Company situated at Village Nana Borsara, Tehsil Mangrol, District Surat in the State of Gujarat present and future, in favour of the Industrial Finance Corporation of India (IFCI) on exclusive first charge basis under the Corporate Loan Agreement to secure rupee term loan not exceeding Rs 4500 Lacs lent and advanced by IFCI to the Company under Corporate Loan Agreement and interest at respective agreed rates, compound/ additional interest, liquidated damages, commitment charges."

"RESOLVED FURTHER THAT the mortgage charge create and or all agreements/documents executed and all acts as done in terms of the above resolution by and with the authority of the Board of Directors are hereby confirmed and ratified."

- (10) To consider and if thought fit to pass, with or without modifications, the following resolution as an Ordinary Resolution:

"RESOLVED THAT pursuant to the provision of section 293 (1) (a) and all other applicable provisions, if any, of the Companies Act, 1956, consent of the Company, be and is hereby accorded to the Board of Directors of the Company for mortgaging and/or charging on terms and conditions and at such time or times and in such form or manner, as it may think fit, the whole or substantially the whole of moveable (other than Book Debts) and immovable properties of the Gujarat Polyfils, a division of the Company situated at Village Nana Borsara, Tehsil Mangrol, District Surat in the State of Gujarat on Second Pari Passu Charge basis in favour of :-

1. Sumurai Commercials Private Limited to secure amount upto a sum of Rs. 20,00,00,000/- for its subscription in Zero Coupon Secured Redeemable Debentures (Series I) by way of private placement basis.
2. Pirth Mercantiles Pvt. Ltd. to secure amount upto a sum of Rs. 20,00,00,000/- for its subscription in Zero Coupon Secured Redeemable Debentures (Series II) by way of private placement basis.

"RESOLVED FURTHER THAT the mortgage charge created and or all agreements/documents executed and all acts as done in terms of the above resolution by and with the authority of the Board of Directors are hereby confirmed and ratified."

By Order of the Board

Place : Mumbai
 Dated : 25th June, 2011

(SONU LAKHANI)
 Company Secretary

NOTES :

1. The Explanatory statement pursuant to Section 173(2) and/or any other applicable provisions of the Companies Act, 1956 in respect of Special Business is annexed hereto.
2. **A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND SUCH PROXY NEED NOT TO BE A MEMBER.**
3. The proxy should be deposited at the Registered Office of the Company not less than FORTY EIGHT hours before the commencement of the meeting.
4. The Ministry of Corporate affairs has taken a "Green Initiative in the Corporate Governance" by allowing paperless compliances by the companies and has issued circulars stating that service of notices/documents including Annual Report can be sent by e-mail to its members. To support this objective of the Government, members are requested to register their e-mail addresses with the registered office of the Company.
5. The Share transfer books and Register of members shall remain closed from 22.09.2011 to 24.09.2011 (both days inclusive).

**ANNEXURE TO NOTICE
EXPLANATORY STATEMENT**

(Pursuant to section 173 (2) of the Companies Act, 1956)

Item No. 6

Shri R. K. Ladia was appointed as Executive Director of the Company for a period of 3 years on 01/04/2007, as terms of his appointment expired on 31/03/2010, therefore, the Board considers it desirable that the Company continue to avail his services for a further period of 3 years w.e.f. 01/04/2010. The terms & Conditions of payment of remuneration to Shri R. K. Ladia as Executive Director has also been approved by the Remuneration Committee of Directors of the Company.

The terms and conditions of remuneration referred to above are under:

(A) Salary - Rs. 2,50,000/- (Rupees Two Lacs Fifty Thousand only) per month.

(B) Perquisites and allowances :

- (i) Furnished residential accommodation with water, gas, electricity etc. monetary value of which will be evaluated as per rule 3(a) of the Income Tax Rules, 1962. The above is subject to the following:
 - a. The expenditure incurred by the Company on hiring accommodation for him will be subject to the ceiling of 50% of the salary over and above 10% payable by him.
 - b. The expenditure incurred by the Company on gas, electricity, water and furnishing will be evaluated as per the Income Tax Rules, 1962. This will however, be subject to a ceiling of 10% of the salary paid to him.
- (ii) Medical benefits for self and family, reimbursement of expenses actually incurred, the total cost of which to the Company shall not exceed one month's salary of every year of service.
- (iii) Leave travel concession for self, wife and minor children once a year to and from any place in India subject to the condition that only actual fare and no hotel expenses etc. will be allowed as per Company's Rules.
- (iv) Company's contribution towards Provident Fund as per Company's rules but not exceeding 12% of the salary.
- (v) Gratuity not exceeding half month's salary for each completed year of service, subject to a ceiling of Rs. 10,00,000/-.
- (vi) Company's contribution towards superannuation fund as per Company's policy but not exceeding 15% of the basic salary.
- (vii) Free use of car with driver, for Company's business.
- (viii) Free Telephone facility at residence. All personal long distance calls shall be billed by the Company.
- (ix) Encashment of leaves as per Company's Rules.

(C) He shall not be paid any sitting fees for attending the meetings of Board of Directors or Committee thereof.

None of the Directors, except Shri R. K. Ladia, is concerned or interested in the said resolution in item No. 6. The details set out herein above may be treated as an abstract under section 302 of the Companies Act, 1956.

Item No. 7

Shri H. S. Ranka is working as Chairman of the Company without remuneration. The Board considers for payment of remuneration to Shri H. S. Ranka, Chairman of the Company for a period of 3 years w.e.f. 01/02/2011. The terms & Conditions of payment of remuneration to Shri H. S. Ranka, Chairman of the Company has also been approved by the Remuneration Committee of Directors of the Company.

The terms and conditions of remuneration referred to above are as under: -

(A) Salary - Rs. 60,000/- (Rupees Sixty Thousand only) per month.

(B) Perquisites and allowances :

- (i) Fees of clubs - subject to a maximum of two clubs & maximum amount of Rs. 75,000/- per annum.
- (ii) Company's contribution towards provident fund as per the rules of the Company but not exceeding 12% of the salary.
- (iii) Gratuity not exceeding one half month's salary for each completed year of service, subject to a ceiling of Rs. 10,00,000/-.
- (iv) Free use of car with driver, for Company's business.
- (v) Free telephone facility at residence for Company's business.

(C) He shall not be paid any sitting fees for attending the meetings of Board of Directors or Committee thereof.

None of the Directors, except Shri H. S. Ranka and Shri Sachin Ranka, are concerned or interested in the said resolution in item No. 7. The details set out herein above may be treated as an abstract under section 302 of the Companies Act, 1956

Item No. 8

Working capital bankers have sanctioned enhanced limits on the basis of creation of first charge on the fixed assets of the Insulator division of the Company.

As the mortgage or charge on properties to secure the working capital facilities on first charge basis may be regarded as disposal of the whole or substantially the whole of the Insulators division of the Company, it is considered necessary to seek members approval pursuant to the provisions of section 293(1)(a) of the Companies Act, 1956.

None of the Directors of the Company is in any way concerned or interested in the resolution.

Item No. 9

The Company has been sanctioned Corporate Loan by IFCI to the extent of Rs. 4500 lacs. The financial assistance from the IFCI is to be secured by way of exclusive first charge of all the immovable and movable properties of the Gujarat Polyfils division of the Company, present and future.

As the mortgage or charge on properties to secure the Corporate Loan facilities on exclusive first charge basis may be regarded as disposal of the whole or substantially the whole of the Gujarat Polyfils division of the Company, it is considered necessary to seek members approval pursuant to the provisions of section 293(1)(a) of the Companies Act, 1956.

None of the Directors of the Company is, in any way, concerned or interested in the resolution.

Item No. 10

The Company has been sanctioned financial assistance for the purpose of funding the requirement of capital expenditure of Gujarat Polyfils, a division of the Company upto of Rs.20 crores by Sumurai Commercials Private Limited & upto of Rs.20 crores by Pirth Mercantiles Private Limited by way of subscription in Zero Coupon Secured Redeemable Debentures. The financial assistance from Sumurai Commercials Private Limited and Pirth Mercantiles Private Limited is to be secured by way of second pari passu charge/mortgage on all the movable (other than Book Debts) and immovable properties of the Gujarat Polyfils, a division of the Company.

As the mortgage or charge on properties to secure the financial assistance facilities on second charge basis may be regarded as disposal of the whole or substantially the whole of the Gujarat Polyfils, a division of the Company, it is considered necessary to seek members approval pursuant to the provisions of section 293(1)(a) of the Companies Act, 1956.

None of Directors is in any way concerned or interested in the resolution.

DIRECTORS' REPORT

The Members,

Your Directors have pleasure in presenting Annual Report and audited accounts for the period ended on 31st March, 2011.

1. FINANCIAL RESULTS

(Rs. in crores)

	Period ended 31.03.2011 (18 months)	Period ended 30.09.2009 (18 months)
Net Profit after tax	34.10	37.02
Add : Taxes in respect of earlier year (net)	(0.08)	8.33
Add : Balance brought forward from last year	105.31	59.96
Balance carried to Balance Sheet	139.33	105.31

2. OPERATIONS

During the period of 18 months under review the Insulator division has made a turnover of Rs. 354 crores and Yarn division made a turnover of Rs.226 crores. The operations of the Company has resulted in a net profit of Rs.34.10 crores including net profit of Rs.7.26 crores of the yarn division. However, to consolidate the long term resources for enhanced working capital and further balancing the plant and machineries of the Company to maintain the growth in productivity, profitability and turnover, the Directors of your Company are constrained not to recommend any dividend for the period under review.

INSULATORS DIVISION

Your company is a leading manufacturer and supplier of high voltage porcelain insulators that are essential components of the global electrical infrastructure. The Company's design and production technology in porcelain insulators make it the preferred supplier of leading OEMS like Siemens, ABB, AREVA etc. Your company's orientation to excellence in technology, research and marketing has helped it in maintaining its place as one of the leading manufacturer of Insulators. Both in Domestic as well as export market, Company's products are rated high due to their excellent quality, reliability in performance and good services to the customers.

YARN DIVISION

As reported in the previous period report, the yarn division has been implemented in two phases. The Commercial production of the first phase having capacity of 12500 tons per annum has commenced in September, 2008 and commercial production of second phase of the project with capacity of another 12500 tons per annum has commenced in March, 2010. The period under review was volatile for the Polyester Industry due to weak domestic textile market, over supply of polyester yarns compared to the over all demands, unprecedented increase in oil prices leading to abnormal hike in the prices of raw materials.

3. EXPORTS

The Company is one of the major exporter of Insulators from India and the largest in high voltage segment. Company's exports (Insulators) stood at Rs. 114 crores for the period as against Rs.137 crores in the previous period inspite of worldwide competitive market and deferment of delivery schedule by the overseas customers. The Company has been awarded Trading House Status by JDGFT. The decline in exports have also affected adversely the performance of the insulator division. Your company is now focusing to save cost effectively with better process control so that products of the insulator division remain competitive in terms of quality and price in the international market. The company is also exploring new markets to reduce dependence on existing markets and the future growth in exports.

4. FUTURE PROSPECTS

The future of insulator industry looks promising due to major thrust on power sector reforms and speedier implementation of new power projects. The Government of India has given emphasis on upgrading transmission system in the country along with plans for construction of new power transmission grids. The Company carries sufficient orders in hand and is having long term; understanding with multinationals for supply of insulators for their world-wide requirement. The company has been successful in getting repeat orders from US market with increased volume.

5. AMALGAMATION OF MODERN TERRY TOWELS LIMITED WITH THE COMPANY

Modern Terry Towels Limited had filed Draft Rehabilitation Scheme with Hon'ble BIFR for its amalgamation with your company by taking deemed date of amalgamation as 1.1.2008 and same is under active consideration for circulation and thereafter for sanction.

6. DEMERGER OF YARN DIVISION OF THE COMPANY

With a view to implement and develop the business plan of Insulator division of the company as a focused entity and to take the further opportunities in the Insulator business, it has been decided by the Board of Directors of the company to demerge the Yarn division into a separate corporate entity by a Scheme of Arrangement under section 391 to 394 of the Companies Act, 1956 with effect

from 1st April, 2011. The demerger would result in benefit to the shareholders, creditors, employees and the general public. Requisite application before the Hon'ble High Court of Rajasthan at Jaipur has been filed for sanction of the Scheme of Arrangement.

7. CHANGE OF ACCOUNTING YEAR

It has been decided by the Board of Directors to change the Accounting Year to end on 31st March, 2011 instead of 30th September, 2010 and therefore the accounting year under review is for a period of 18 months from 1.10.2009 to 31.3.2011. Accordingly necessary approval from the Ministry of Corporate Affairs, Office of Registrar of Companies has also been obtained.

8. SUBSIDIARY COMPANY

The statement under Section 212 of the Companies Act, 1956 in respect of Motile Power Trade Pvt. Ltd. and Gujarat Polyfils (India) Ltd., subsidiaries of the Company along with audited accounts are attached.

9. DIRECTORS

Shri H.L. Sharma, Shri S.S. Karnavat and Shri R.R. Maheshwari are liable to retire by rotation and being eligible, offer themselves for reappointment. Appropriate resolution for the reappointment of the aforesaid Directors are being moved at the ensuing Annual General Meeting, which the Board recommends for your approval.

10. AUDITORS

M/s. S.S. Kothari & Co., Chartered Accountants, Jaipur retire at the forthcoming Annual General Meeting. Your Directors recommend their reappointment as Auditors of the Company for the year 2011-12. The observations made by Auditors are self explanatory and have been dealt with in the notes vide Schedule No.14 forming part of the accounts and hence need no further clarifications.

11. INDUSTRIAL RELATIONS & PARTICULARS OF EMPLOYEES

Your Directors sincerely appreciate the workers, staff and officers for putting their best efforts. The Company has enjoyed healthy and cordial industrial relations throughout the period under review. There is no employee getting remuneration as prescribed under Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 as amended.

12. DIRECTORS' RESPONSIBILITY STATEMENT

In terms of Section 217 (2AA) of the Companies Act, 1956, the Directors would like to state that :-

- in the preparation of the Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent 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 or loss of the Company for the period under review;
- the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities and;
- the Directors have prepared the annual accounts on a going concern basis.

13. PARTICULARS OF ENERGY CONSERVATION, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

The statement of particulars relating to energy conservation, technology absorption and foreign exchange earnings and outgo as required in accordance with Section 217 (1) (e) of the Companies Act, 1956 read with Rule 2 (A), 2(B) and 2 (C) of the Companies (Disclosures of particulars in the report of Board of Directors) Rules, 1988 is annexed hereto and forms part of this report.

14. CONSTITUTION OF AUDIT COMMITTEE

The Board of Directors have constituted the Audit Committee of Directors to exercise powers and discharge functions as stipulated in section 292A of the Companies Act, 1956. The present Audit Committee consists of member directors as under:-

Shri S.S. Karnavat, Chairman
Shri S.B.L.Jain
Shri H.L.Sharma

15. ACKNOWLEDGEMENTS

The Board places on record its sincere thanks and gratitude for the assistance and continued co-operation that the Company has been receiving from the executives, staff, workers, financial Institutions, working capital bankers and Central as well as State Government of the Company.

ON BEHALF OF THE BOARD

Place : Mumbai
Dated : 25th June, 2011

(H.S. RANKA)
Chairman

AUDITORS' REPORT

To,

The Members,

1. We have audited the attached Balance Sheet of **MODERN INSULATORS LIMITED** as at 31st March, 2011, the Profit & Loss Account and cash flow statement of the Company for the period from 1st October, 2009 to 31st March, 2011 annexed hereto. 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. These 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 the 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 Companies (Auditor's Report) Order, 2003 as amended by Companies (Auditor's Report) (Amendment) Order, 2004, issued by the Central Government of India in terms of Section 227 (4-A) of the Companies Act, 1956, we give in the annexure a statement on the matters specified in paragraphs 4 and 5 of the said order.
4. Further to our comments in the annexure referred to in paragraph 3 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 purpose 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.
 - (iii) The Balance Sheet, Profit & Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account.
 - (iv) In our opinion, the Balance Sheet, Profit & Loss Account and Cash Flow Statement dealt with by this report, comply with the applicable accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956.
 - (v) (a) *Balances of debtors and creditors are subject to reconciliations/ confirmations (Note No.4 of Schedule 13).*
 - (b) *The Company has not received information from vendors regarding their status under the Micro, Small and Medium Enterprises*

Development Act 2006 and hence disclosure relating to amounts unpaid as at the period end together with interest paid/payable under this Act have not been given. (Note No.11 of Schedule 13).

- (c) *Provision for taxation (including interest etc.) estimated at Rs.1239.23 lacs for current period (upto the period Rs.3491.88 lacs) has not been made in accounts, in view of proposed amalgamation proceedings awaiting approvals. Meanwhile Income Tax Department has completed assessment for Assessment Year 2008-09 and demand of Rs.1413.30 lacs has been raised in respect of disallowance of losses pertaining to proposed amalgamation, which is under appeal (Note No.14 of schedule 13).*
- (vi) Some of the existing directors of the company are not eligible from being re-appointed as directors under the proviso to Section 274(1)(g) of the Companies Act, 1956. However, the Company has obtained an opinion according to which such directors of the Company can continue to be in office during their tenure and they can also be re-appointed as directors on the expiry of their tenure. We have been further informed that the Company had made representation to the Central Government (Department of Company Affairs) seeking appropriate exemption from the applicability of the said section.
- (vii) In our opinion and to the best of our information and according to the explanations given to us, the said accounts subject to our comments in para (v) above and read with other notes thereon, 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 Balance Sheet, of the state of affairs of the Company as at 31st March, 2011,
 - (b) In the case of Profit & Loss Account, of the profit of the Company for the period from 1st October, 2009 to 31st March, 2011.
 - (c) In the case of Cash Flow Statement, of the cash flows for the period from 1st October, 2009 to 31st March, 2011.

For S.S. KOTHARI & CO.
Chartered Accountants

(B.L. VERMA)
Partner

Place : Jaipur
Date : 25th June, 2011

(Membership No. 10900)

ANNEXURE FORMING PART OF THE AUDITORS' REPORT

Referred to in the report of even date of the Auditors to members of **MODERN INSULATORS LIMITED.**

- (i) (a) The company has maintained proper records showing full particulars including quantitative details and situation of fixed assets except furniture & fixtures for which detailed records are not maintained.
- (b) As per information and explanations given to us, most of the fixed assets have been physically verified during the period by management in accordance with a phased programme of verification at reasonable intervals. According to the information and explanations given to us, no material discrepancies were noticed on such verification.
- (c) During the period, the company has not disposed off substantial part of the fixed assets.
- (ii) (a) As explained to us, the inventory has been physically verified during the period by the management. In our opinion, the frequency of verification is reasonable.
- (b) 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) On the basis of our examination of the records of inventory, we are of the opinion that the company is maintaining proper records of inventory. As explained to us, the discrepancies noticed on physical verification between the physical stocks and the book records were not material.
- (iii) (a) The company has given loans to two subsidiaries. In respect of the said loans, the maximum amount outstanding at any time during the period was Rs.4750 lacs and the period end balance is Rs.4500 lacs (Previous year Rs.1300 lacs & Rs.1300 lacs respectively). The said loans are without interest and principal amounts are repayable on demand.
- (b) The company has also given interest-free loan/advance of Rs.1945.61 lacs to a company covered under section 301 of companies Act, 1956 in view of proposed amalgamation awaiting approvals. Maximum amount outstanding during the period was Rs.1945.61 lacs and the period end balance was Rs.1945.61 lacs (previous period Rs.280 lacs & Rs.280 lacs respectively).
- (c) The company has not taken any loans, secured or unsecured, from Companies, firms or other parties covered in the register maintained under section 301 of the Act. Accordingly, the provisions of clause 4(iii) (f) and 4(iii) (g) of the order 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 purchases of inventory, fixed assets and for the sale of goods. During the course of our audit, we have not observed any major weakness in internal controls.
- (v) a) Based on audit procedures applied by us and according to the information and explanations given to us, 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.
- b) In our opinion and according to the information and explanations given to us, there are no transactions made in pursuance of such contracts or arrangements exceeding Rupees Five lacs in respect of any party during the period.
- (vi) The Company has not accepted any deposits from the public during the period.
- (vii) In our opinion, the internal audit carried out during the period commensurates with the size of the company and the nature of its business.
- (viii) The Central Government has prescribed the maintenance of cost records u/s 209(1)(d) of the Companies Act, 1956 in respect of the Yarn product only. On the basis of the records produced, we are of the opinion that prima-facie the records and accounts have been maintained as prescribed by the Central Government u/s 209(1)(d) of the Companies Act, 1956. However we have not carried out detailed examination of such records and accounts with a view to ascertain whether they are accurate or complete. Maintenance of such records has not been prescribed for insulators.

- (a) According to the records of the company, the company is regular in depositing with appropriate authorities undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, service tax, sales-tax, custom duty, excise duty and other statutory dues applicable to it and no undisputed statutory dues as noted above is outstanding for a period of more than six months from the date they became payable. The company has not paid/provided income tax (refer clause 4(v)(c) of Auditors' Report).
- (b) According to the information and explanations given to us and the records of the Company examined by us, the particulars of dues of Income tax, sales tax, excise duty and cess as at 31st March-2011 which have not been deposited on account of dispute, are as follows:

Name of the Statute	Nature of dues	Amount (Rs. in lacs)	Period to which the amount relates	Forum where the dispute is pending
Central Sales Tax Act 1956 and RV Act 2003	CST and VAT	447.94	2007-08 & 2008-09	Deputy Commissioner (Appeals), Jodhpur
Income Tax Act 1961	Income Tax	1087.37	2007-08	CIT(Appeals)-II, Jaipur
Excise duty Act 1944	Excise Duty	51.31	2009-10	Commissioner (Appeals), Jaipur

- (x) The Company does not have accumulated losses as at the end of the financial period and it has not incurred any cash losses during the financial period covered by our audit and the immediately preceding financial year.
- (xi) Based on our audit and as per information and explanations given by the management, there has been no default in repayment of dues to any financial institution or bank or debenture holders during the period.
- (xii) Based on our examination of books of account and information and explanations given to us, the company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (xiii) The provisions of any special statutes applicable to chit fund, nidhi or mutual benefit fund/society are not applicable to the company.
- (xiv) The Company is not dealing or trading in shares, securities, debentures and other investments and hence requirement of para 4(xiv) is not applicable.
- (xv) As per information and explanations given to us, the Company has not given any guarantee for loans taken by others from bank or financial institutions.
- (xvi) On the basis of records examined by us, we have to state that the company has prima facie, applied the term loan for the purpose for which it was obtained.
- (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 no funds raised on short-term basis have been used for long-term investment.
- (xviii) No allotment of shares has been made by the company during the period.
- (xix) The company has not issued any debenture during the period covered by audit.
- (xx) During the period the company has not raised any money by way of public issue.
- (xxi) Based upon the audit procedures performed and information and explanations given by the management, no fraud on or by the company has been noticed or reported during the period.

For S.S. KOTHARI & CO.
Chartered Accountants

(B.L. VERMA)

Partner

Place : Jaipur

Date : 25th June, 2011

(Membership No. 10900)