

AUDITORS' REPORT

To the members of
Graphite India Limited

1. We have audited the attached Balance Sheet of Graphite India Limited as at 31st March, 2003, the related Profit and Loss Account for the year ended on that date annexed thereto and the Cash Flow Statement for the year ended on that date, all of which we have signed under reference to this report. 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 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 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' of India (the 'Act') and on the basis of such checks as we considered appropriate and according to the information and explanations given to us, we further report that :
 - (i) The Company has maintained proper records to show full particulars including quantitative details and situation of its fixed assets. The fixed assets of the Company have been physically verified during the year by the management and no material discrepancies between the book records and the physical inventory have been noticed.
 - (ii) The fixed assets of the Company have not been revalued during the year.
 - (iii) The stocks of finished goods, stores, spare parts and raw materials of the Company at all its locations have been physically verified by the management during the year.
 - (iv) In our opinion, the procedures of physical verification of stocks followed by the management are reasonable and adequate in relation to the size of the Company and nature of its business.
 - (v) The discrepancies between the physical stocks and the book stocks which have been properly dealt with in the books of account were not material.
 - (vi) In our opinion, the valuation of stocks of finished goods, stores, spare parts and raw materials has been fair and proper in accordance with the normally accepted accounting principles and is on the same basis as in the preceding 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 Act and / or from the companies under the same management as defined under sub-section (1B) of Section 370 of the Act.
 - (viii) The Company has not granted any loans, secured or unsecured, to companies, firms or other parties listed in the Register maintained under Section 301 of the Act and / or to the companies under the same management as defined under sub-section (1B) of Section 370 of the Act.
 - (ix) The parties (including employees) to whom loans or advances in the nature of loans have been given by the Company are repaying the principal amount as stipulated and are regular in payment of interest where applicable.
 - (x) In our opinion, there is an adequate internal control procedure commensurate with the size of the Company and the nature of its business, for purchase of stores, raw materials including components, plant and machinery, equipment and other similar assets and for the sale of goods.
 - (xi) In our opinion, purchase of materials made in pursuance of contracts or arrangements entered in the Register maintained under Section 301 of the Act and aggregating during the year Rs.50,000 or more in value in respect of each party have been made at prices which are reasonable having

regard to the prevailing market prices for such materials or the prices at which the transactions for similar materials have been made with other parties. The Company has not purchased any goods and sold any goods, materials and services aggregating Rs. 50,000/- or more in value from/to any of the parties listed in the Register maintained under Section 301 of the Act.

- (xii) The Company has a system of determining unserviceable or damaged stores, raw materials and finished goods on the basis of technical evaluation and on such basis, in our opinion, adequate amounts have been written off such stocks in the accounts.
- (xiii) In the case of public deposits accepted by the Company, the directives issued by the Reserve Bank of India and the provision of Section 58A of the Act and the rules framed thereunder have been complied with.
- (xiv) In our opinion, reasonable records have been maintained by the Company for the sale and disposal of realisable scrap where applicable and significant. The Company has no by-products.
- (xv) In our opinion, the Company's present internal audit system is commensurate with its size and nature of business.
- (xvi) On the basis of the records produced, we are of the opinion that prima facie, the cost records and accounts prescribed by the Central Government of India under Section 209(1)(d) of the Act for generation of power have been maintained. However, we are not required to and have not carried out any detailed examination of such accounts and records.
- (xvii) The Company has regularly deposited Provident Fund and Employees' State Insurance dues during the year with the appropriate authorities in India.
- (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 the generally accepted auditing practices in India, we have not come across any personal expenses which have been charged to the Profit and Loss Account, nor have we been informed of such case by the management other than those payable under contractual obligations or accepted business practices.

- (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 of India.
 - (xxi) In respect of services rendered –
 - (a) In our opinion, the Company has a reasonable system of recording receipts, issues and consumption of materials and stores and allocating materials and stores consumed to the relative jobs, commensurate with its size and nature of its business.
 - (b) In our opinion, the Company has a reasonable system of allocating man hours utilised to the relative jobs, commensurate with its size and nature of its business.
 - (c) In our opinion, there is a reasonable system of authorisation at proper levels with necessary controls on the issue of stores and allocation of stores and labour to various jobs and the related system of internal control of the Company is commensurate with the size of the Company and the nature of its business.
4. Further to our comments in paragraph 3 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 purposes 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 and the Profit and Loss Account dealt with by this report are in agreement with books of account.
 - (d) In our opinion, the Balance Sheet and the Profit and Loss Account dealt with by this report comply

with the applicable Accounting Standards referred to in Section 211(3C) of the Act.

- (e) On the basis of written representations received from the directors and taken on record by the Board of Directors of the Company, none of the directors is disqualified as on 31st March, 2003 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act.
- (f) In our opinion and to the best of our information and according to the explanations given to us, the said accounts together with the notes thereon and attached thereto, give in the prescribed manner, the information required by the Act, and also give respectively, 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, 2003;
- ii) in the case of the Profit and Loss Account, of the profit for the year ended on that date; and
- iii) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

Kolkata,
Dated: 7th May, 2003

P. Law
Partner
For and on behalf of
PRICE WATERHOUSE
Chartered Accountants