ANNEXURE 'B'

MANAGEMENT'S REPLIES TO THE AUDITORS' OBSERVATIONS.

	Auditors' Observations	Management's Replies
(i)	An amount of Rs.1818.00 lacs was received in an earlier year against the investment of Rs.6813.44 lacs on account of disinvestment of 68134428 nos. equity shares in Jessop & Co. Ltd. as stated in Note No.8 of Schedule 21. In our opinion the remaining amount of Rs.4995.44 lacs lying in Other Receivables (Schedule – 10) should have been provided for.	It has been clarified suitably in notes on Accounts (Note 8 of Schedule 21). However, the matter has been initiated with GOI for necessary adjustment of the value in Share Capital.
(ii)	Consequent to the disinvestment of Equity Shares in Jessop & Co. Ltd. as stated in (i) above, the company still holds the remaining 25580122 nos. Equity Shares in the said company as at 31st March 2008 as Investment. In absence of the market price of those shares held as Investment as on 31st March 2008, the diminution in the value of those shares, if any, as on that date is not ascertainable and hence cannot be commented upon.	The observation is of disclaimer in nature. However, the clarification has been given in Significant Accounting Policy [Para (d) of Schedule 22] and also in Note 16 of Schedule 21, which are self-explanatory.
(iii)	Expenses amounting to Rs.251.63 lacs (Note 8 of Schedule 21) included in 'Other Receivables' in the Accounts (Schedule – 10) in respect of disinvestment of shares in Jessop & Co. Ltd. is, in our opinion, doubtful of recovery and should have been provided for.	Already explained in Note 8 of Schedule 21 of the Accounts.
(iv)	Interest amounting to Rs.97.90 lacs for the year on Government of India loans to subsidiaries under liquidation (stated in note no.11 of Schedule 21) have not been accounted for. The aggregate amount of such unprovided interest upto 31.03.2008 is Rs.35602.93 lacs. However, the above has no effect on the reported profit of the company.	The matter has been adequately disclosed in note 11 of Schedule 21 of Accounts being self-explanatory.
(v)	The value of Company's investment in certain subsidiaries aggregating to Rs.13,367.92 lacs has considerably eroded due to continued losses over past few years and out of which Bharat Process & Mechanical Engineers Ltd. have gone into liquidation. We are unable to comment upon the realisable value of such investments and recovery of loans & advances and other dues from such companies (please refer to Note no.5 of Schedule 21) and the impact of the same in the profitability of the company is not presently ascertainable.	• Long term investments in Subsidiaries are carried at cost as per practice consistently followed by the Company in compliance with Significant Accounting Policy [Para (d) of Schedule 22]. The Company makes fresh investments in its subsidiaries out of the equity Plan fund released by the Govt. of India (GOI) for corresponding investment in specific subsidiaries at par. In any eventuality of loss suffered upon the diminution in realisable value of such investment, Company will pass on the loss to GoI for appropriate action as deemed fit. • It also deserves mention that GoI loan funds towards Plan loan, Non-Plan loan are routed through the Company for disbursement to its respective subsidiaries. In any eventuality of non-realisability of said loans, under GoI directives, the sanctioned loan disbursed to the subsidiaries as per books of the company will be adjusted with the identical amount of loan payable to GoI in the books of the Company. Hence, this will have no financial impact in the Company's books. This situation will emerge on GoI approval of financial restructuring of the concerned subsidiary/PSU.

Auditors' Observations	Management's Replies
(vi) Income for the year and Prior Period Adjustment Account (Dr) would have increased by Rs.82.72 lac for refund of Service Charges to Jessop & Co. Ltd in the year 2005-06 (Ref.Note No.17 of Schedule 21). However, it has no effect on the reported profit of the Company.	The Company has claimed to Jessop & Co. Ltd. and consequently referred the dispute to arbitration as provided in the Shareholders Agreement entered into by the Company with Indo-Wagon Engineering Ltd. However, there is no resultant impact on the profit of the Company.
(vii) Had the observations made in Para 4(i), (iii) & (iv) above been considered in the accounts, the loss for the year would have been Rs.5218.49 lacs as against the reported profit before tax of Rs.28.58 lacs, debit balance of Profit and Loss Account would have been Rs.5215.72 lacs as against reported credit balance of Profit & Loss Account of Rs.31.35 lacs. Current Liabilities would have been Rs.7157.91 lacs as against the reported figure of Rs.8975.91 lacs, Unsecured Loans would have been Rs.182268.79 lacs as against reported figure of Rs.146665.86 lacs, Loans & Advances would have been Rs.206104.29 lacs as against the reported figure of Rs.170501.56 lacs, Other Current Assets would have been Rs.373.69 lacs as against the reported figure of Rs.7438.76 lacs.	Noted. No separate comments needed since this is mandatory quantification of the Auditors' observations stated as above.