ANNEXURE 'B'

MANAGEMENT'S REPLIES TO THE AUDITORS' OBSERVATIONS

Auditors' observations	Management's replies
(i) An amount of Rs.1818.00 lacs received in an earlier year was refunded to Govt. of India during the year against the investment of Rs.6813.44 lacs on account of disinvestment of 68134428 nos. of Equity Shares in Jessop & Co. Ltd. as stated in Note No.6 of Schedule - 21. In our opinion the loss amounting to Rs.4995.44 lacs towards shortfall on realization against sale of said shares valuing Rs.6813.44 lacs should have been provided for. However, the Company has taken up with Government of India for necessary adjustment with issued and subscribed capital.	It has been clarified suitably in notes on Accounts (Note 6 of Schedule 21). However, the matter has been taken up with GOI for approval on necessary adjustment of the value in issued and subscribed Share Capital in Company's books.
(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. of Equity Shares in the said company as at 31st March 2011 as Investment. In absence of the market price of those shares held as Investment as on 31st March 2011, 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 14 of Schedule 21, which are self-explanatory.
(iii) Note No. 10 of Schedule 21 regarding interest on Government of India loans to subsidiaries, under liquidation, upto 31st March, 2011, the realisibility of which cannot be commented upon. However, it has no effect on the reported profit of the Company.	The matter has been suitably disclosed in note 10 of Schedule 21 of Accounts being self-explanatory.
(iv) The realizable value of the Company's investment in its Subsidiary Company, Bharat Process & Mechanical Engineers Ltd. (under liquidation), amounting to Rs. 486.30 lacs and recovery of loans & advances and other dues from it (Refer to Note no.4 of Schedule – 21) cannot be commented upon.	• 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 for subsidiaries 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, 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 under GOI directives. 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**
(v) Prior-Period Adjustment (Cr) and Prior-Period Adjustment Account (Dr) would have increased by Rs.82.72 lacs for refund of Service Charges to Jessop & Co. Ltd. in the year 2005-06 (Ref. Note No.15 of Schedule - 21). However, it has no effect on the reported profit of the Company.	The Company has lodged claim for the same amount to Jessop & Co. Ltd. and consequently has also initiated legal proceeding to recover the amount. However, there is no resultant impact on the profit of the Company, which is also confirmed by Auditors.
(vi) Note No.16 of Schedule – 21 regarding pending balance confirmation from certain parties (amount not ascertainable).	Confirmation has since been received and shown to Auditors.
(vii) Had the observations made in para 4(i) above been considered in the accounts, the loss for the year would have been Rs. 4,993.73 lacs as against the reported profit before tax of Rs. 1.71 lacs, debit balance of Profit and Loss Account would have been Rs. 4,918.94 lacs as against reported credit balance of Profit and Loss Account of Rs. 74.79 lacs and Other Current Assets would have been Rs. 1952.37 lacs as against the reported figure of Rs. 6,947.81 lacs.	Noted: No separate comments needed since this is mandatory qualification of the Auditors' observations stated as above.