

<p>AUDITORS' REPORT TO THE MEMBERS OF BHARTIYA SAMRUDDHI FINANCE LIMITED</p>

We have audited the attached Balance Sheet of Bhartiya Samruddhi Finance Limited as at March 31, 2000 and the Profit and Loss account for the Year ended on that date annexed thereto and report that:

As required by the Manufacturing and other Companies (Auditors' Report) Order, 1988 issued by the Company Law Board in terms of section 227(4A) of the Companies Act, 1956 and on the basis of such checks as we considered appropriate and according to the information and explanation given to us, we state in the annexure -marked as "Annexure 1" - a statement of matters specified in paragraphs 4 and 5 of the said Order.

As required by the Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 1998, based on the information and explanations given to us and based on the records produced, we state in Annexure – marked as "Annexure 2"- a statement of matters specified in paragraph 3 of the said Directions.

Further to our comments in the Annexures referred above:

- 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 accounts as required by the law have been kept by the company, so far as appears from our examination of the books;
- c) the Balance Sheet and the Profit and Loss account dealt with by this report are in agreement with the books of account;
- d) in our opinion and to the best of our information and according to the explanations given to us, the Balance Sheet and the Profit and Loss Account read together with the notes on accounts attached thereto, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view:
 - i. in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2000 and
 - ii. In the case of Profit and Loss account, of the profit of the company for the Year ended on that date.

*for V. NAGARAJAN & Co.,
Chartered Accountants*

Hyderabad,
April 22, 2000

(V. NAGARAJAN)
Partner

ANNEXURE TO THE AUDITORS' REPORT REFERRED TO IN OUR REPORT OF EVEN DATE TO
THE MEMBERS OF

BHARTIYA SAMRUDDHI FINANCE LIMITED

[Pursuant to the Manufacturing and Other Companies (Auditor's Report) Order, 1988]

- I. In respect of items stated in sub paragraph (A) of Paragraph 4 of the Order:
 1. The company has maintained proper records to show full particulars including quantitative details and situation of fixed assets. The fixed assets of the company have been physically verified by the management at least once in six months. Out of the verification so done, no material discrepancy was reported to have been noticed.
 2. No fixed assets have been revalued during the year under review.
 3. The company has taken an unsecured loans, from its holding company, listed in the register required to be maintained under section 301 of the Companies Act, 1956, whose rate of interest and other terms and conditions are not prejudicial to the interest of the company.
 4. The company has not given any loans, secured or un-secured to companies, firms and other parties listed in the register required to be maintained under section 301 of the Companies Act, 1956.
 5. The parties, to whom loans or advances in the nature of loans have been given by the company in the ordinary course of business, are repaying the principal amounts as stipulated and are also regular in payment of interest where applicable, except in respect of few parties. The company is taking reasonable steps against these parties to recover the amount including interest thereon.
 6. In our opinion and according to the information and explanations given to us, the company has adequate internal control procedures commensurate with the size of the company.
 7. The Company has an internal audit system commensurate with the size of the Company.
 8. The company has not accepted any deposits from the public.
 9. The company has regularly deposited during the year under review, Provident Fund with the appropriate authorities.
 10. According to the information and explanations given to us, there were no undisputed amounts payable in respect of income tax, sales tax and custom duty which were outstanding as at March 31, 2000 for a period more than six months from the date they become payable.

11. According to the information and explanations given to us and the records of the company examined by us, no personal expenses have been charged to the revenue account other than those payable under the contractual obligations or in accordance with the generally accepted business practices.
12. In respect the other activities covered by clause 4(D) of the Manufacturing and other Companies (Auditors' Report) order, 1988, the companies finance activities are considered to be under the purview of the above clause. However, in respect of items covered by this clause, we are to report that no special statute is applicable except the Non Banking Companies Directions of the Reserve Bank of India, which the company has been complying with. The company does not trade in shares and securities nor provides loans and advances against the pledge of shares and securities.

*for V. NAGARAJAN & Co.,
Chartered Accountants*

Hyderabad,
April 22, 2000

(V. NAGARAJAN)
Partner

*ANNEXURE TO THE AUDITORS' REPORT REFERRED TO IN OUR REPORT OF EVEN DATE TO
THE MEMBERS OF*

BHARTIYA SAMRUDDHI FINANCE LIMITED

[Pursuant to Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 1998]

- 1) IN THE CASE OF ALL NON-BANKING FINANCIAL COMPANIES
(PARAGRAPH 3 (A) OF THE ORDER):
 - a) The company has obtained a certificate of registration as a Non-Banking Financial Company vide certificate no. 14.01502 dated August 19,1999 pursuant to section 45IA of the Reserve bank of India Act, 1934 (2 of 1934)

- 2) IN THE CASE OF A NON-BANKING FINANCIAL COMPANY NOT ACCEPTING PUBLIC DEPOSITS
(PARAGRAPH 3(C) OF THE ORDER):
 - a) The Board of Directors has passed a resolution in the meeting held on January 22, 2000 for the non-acceptance of any public deposits.
 - b) The company has not accepted any public deposits during the period under review.
 - c) The company has complied with the prudential norms relating to income recognition, assets classification, accounting standards and provisioning for bad and doubtful debts during the year ended March 31, 2000.
 - d) Necessary provision for bad and doubtful debts has been made; and all loss assets have been written off; the accounting policies followed by the company in respect of the same is reported in the notes forming part of accounts.

*for V. NAGARAJAN & Co.,
Chartered Accountants*

Hyderabad,
April 22, 2000

(V. NAGARAJAN)
Partner

BHARTIYA SAMRUDDHI FINANCE LIMITED

Rs

BALANCE SHEET AS AT MARCH 31		2000	1999
	<i>Sch</i>		
LIABILITIES			
SHAREHOLDERS FUNDS :			
Share Capital	1	40,495,000	40,494,000
Share Application Money		-	11,000
RESERVES AND SURPLUS	2	2,012,376	872,874
SECURED LOANS	3	43,500,000	5,000,000
UN-SECURED LOANS	4	30,700,000	21,000,000
CURRENT LIABILITIES AND PROVISIONS			
A. Current Liabilities	5	11,995,204	5,227,866
B. Provisions			
Provision for Taxation		2,365,000	1,065,000
TOTAL		<u>131,067,580</u>	<u>73,670,740</u>
ASSETS			
FIXED ASSETS (At cost less depreciation)	6	2,983,334	1,260,188
INVESTMENTS	7	90,368	90,368
CURRENT ASSETS, LOANS & ADVANCES			
A: CURRENT ASSETS			
Cash and Bank Balances	8	7,953,455	8,574,658
B: LOANS AND ADVANCES			
Loans			
- Secured		32,937,109	18,708,434
- Unsecured		78,371,526	39,937,603
Less : Provision for Doubtful Debts		<u>753,756</u>	12,697
		110,554,879	58,633,340
Advances Recoverable:			
(unsecured - considered good)	9	9,485,545	5,112,186
TOTAL		<u>131,067,580</u>	<u>73,670,740</u>
Accounting Policies and Notes to Accounts	12		

As per report of even date
for **V.NAGARAJAN & Co.,**
Chartered Accountants

for **BHARTIYA SAMRUDDHI FINANCE LIMITED**

Hyderabad
April 22, 2000

(**V. NAGARAJAN**)
Partner

Asst. Company
Secretary

Director

Managing Director

BHARTIYA SAMRUDDHI FINANCE LIMITED

Rs

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED MARCH 31,		2000	1999
INCOME			
Interest on Loans to Rural Producers (net of rebates and derecognised Interest)		17,161,485	9,839,788
Interest on Investments		584,011	135,399
Loan Processing Fees		1,225,225	327,208
Consultancy Fees		1,176,801	-
Service Charges		2,215,117	645,317
Other Income		31,312	-
Total		22,393,951	10,947,711
EXPENDITURE			
Interest on Borrowed Funds		6,561,444	2,599,369
Commission to Customer Service Agents		921,412	421,100
Salaries, Allowances and Benefits to Staff	10	5,634,457	3,114,153
Travel and Conveyance			
- Directors		47,937	51,745
- Others		1,333,493	505,923
Postage and Telecommunications		374,826	337,186
Rent, Rates and Taxes		554,944	290,185
Statutory payments		450,830	270,000
Consulting Charges		540,995	629,438
Administrative Expenses	11	1,843,036	891,549
Auditors' Remuneration and Expenses		238,833	138,413
Bad Debts written off		420,688	-
Provision for Doubtful Debts		850,461	12,697
Depreciation		181,092	58,271
Total		19,954,447	9,320,027
Profit Before Taxation		2,439,504	1,627,684
Provision for Taxation		1,300,000	880,000
APPROPRIATIONS:			
Profit After Taxation		1,139,504	747,684
Profit brought forward from last account		873	189
Transferred to Portfolio Risk Reserve		-	365,000
Transferred to General Reserve		1,000,000	382,000
Balance carried over to Balance Sheet		140,377	873
Accounting Policies and Notes to Accounts	12		

As per report of even date
for V.NAGARAJAN & Co.,
Chartered Accountants

for BHARTIYA SAMRUDDHI FINANCE LIMITED

Hyderabad ,
April 22, 2000

(V. NAGARAJAN)
Partner

Asst. Company
Secretary

Director

Managing Director

BHARTIYA SAMRUDDHI FINANCE LIMITED

Rs

SCHEDULES TO THE ACCOUNTS AS AT MARCH 31	2000	1999
SCHEDULE 1 : SHARE CAPITAL		
Authorised:		
Equity Shares		
2,00,00,000 Equity Shares of Rs. 10 each	200,000,000	50,000,000
Preference Shares		
50,00,000 Preference Shares of Rs. 10 each	50,000,000	50,000,000
	<u>250,000,000</u>	<u>100,000,000</u>
Issued Subscribed and Paid up:		
40,49,500 Equity Shares of Rs.10 each fully paid up in cash	40,495,000	40,494,000
Total	<u>40,495,000</u>	<u>40,494,000</u>
SCHEDULE 2 : RESERVES AND SURPLUS		
General Reserve	507,000	507,000
Add : Transfer during the year	1,000,000	0
	<u>1,507,000</u>	<u>507,000</u>
Portfolio Risk Reserve	365,000	365,000
Income and Expenditure Account	140,377	873
Total	<u>2,012,376</u>	<u>872,873</u>
SCHEDULE 3 : SECURED LOANS		
Term Loans :		
- From Banks	3,500,000	5,000,000
- From Financial Institutions	40,000,000	-
Total	<u>43,500,000</u>	<u>5,000,000</u>
SCHEDULE 4 : UNSECURED LOANS		
Loan from Holding Company	30,700,000	21,000,000
Total	<u>30,700,000</u>	<u>21,000,000</u>
SCHEDULE 5 : CURRENT LIABILITIES		
Cash Security from Borrowers	10,264,526	5,110,957
Sundry Creditors	1,004,572	116,909
Interest Accrued but not due on Loans	470,100	
Other Liabilities	256,006	0
Total	<u>11,995,204</u>	<u>5,227,866</u>
SCHEDULE 7 : INVESTMENTS		
13.05 % Government Stock 2007	90,368	90,368
Total	<u>90,368</u>	<u>90,368</u>
SCHEDULE 8 : CASH AND BANK BALANCES		
Cash in hand	621,254	180,683
Balances With Scheduled Banks :		
On Current Accounts	4,381,277	3,425,880
On Fixed Deposits	2,950,925	4,968,095
Total	<u>7,953,455</u>	<u>8,574,658</u>

As per report of even date
for V.NAGARAJAN & Co.,
Chartered Accountants

for BHARTIYA SAMRUDDHI FINANCE LIMITED

Hyderabad,
April 22, 2000

(V. NAGARAJAN)
Partner

Asst. Company
Secretary

Director

Managing Director

Financial Statements for the Year ended March 31, 2000

BHARTIYA SAMRUDDHI FINANCE LIMITED

Rs

SCHEDULES TO THE ACCOUNTS AS AT MARCH 31	2000	1999
SCHEDULE 9 : ADVANCES RECOVERABLE		
Interest Receivable on Loans	4,870,814	4,475,302
Advance Tax	2,581,417	376,208
Advances and other amounts recoverable in cash or kind or value to be received		
-Customer Service Agents and Other Advances	1,620,781	174,978
-Prepaid Insurance	97,660	
-Interest receivable on Fixed Deposits	129,273	20,698
-Deposits	137,750	65,000
-Due from Krishna Bhima Samruddhi Local Area Bank Ltd (a Company under the same Management)	47,850	0
Total	9,485,545	5,112,186
SCHEDULE 10 : SALARIES, ALLOWANCES AND BENEFITS TO STAFF		
Salaries, Allowances and other Benefits	4,778,756	2,669,527
Contributions Provident and Other Funds	375,890	202,367
Contribution to Gratuity Trust	68,738	123,622
Meeting, Training and Staff Expenses	411,073	118,637
Total	5,634,457	3,114,153
SCHEDULE 11 : ADMINISTRATIVE EXPENSES		
Printing and Stationery	500,719	164,184
Bank Charges	325,576	151,483
Repairs and Maintenance	259,464	47,887
Office Maintenance	232,293	95,879
Vehicle Maintenance	151,672	270,341
Other administrative expenses	373,311	161,775
Total	1,843,036	891,549

As per report of even date
for V.NAGARAJAN & Co.,
Chartered Accountants

for BHARTIYA SAMRUDDHI FINANCE LIMITED

Hyderabad
April 22, 2000

(V. NAGARAJAN)
Partner

Asst. Company
Secretary

Director

Managing Director

BHARTIYA SAMRUDDHI FINANCE LIMITED

SCHEDULES TO THE ACCOUNTS AS AT MARCH 31

SCHEDULE 6: FIXED ASSETS

<i>Rs.</i>											
S.No	Nature of Assets	GROSS BLOCK (AT COST)				DEPRECIATION				NET BLOCK	
		As on 01.04.99	Additions during the Year	Deletions during the Year	As on 31.03.2000	Up to 01.04.99	Additions during the Year	Deletions during the Year	Upto 31.03.2000	As on 31.03.2000	As on 01.04.99
1	FURNITURE & FIXTURES	275,976	493,042	-	769,018	6,005	32,724	-	38,729	730,289	269,971
2	PROFESSIONAL EQUIPMENT	274,975	1,307,135	-	1,582,110	4,491	65,844	-	70,335	1,511,775	270,484
3	OFFICE EQUIPMENT	72,360	279,665	-	352,025	5,162	18,677	-	23,839	328,186	67,198
4	VEHICLES	701,153	41,775	246,600	496,328	48,618	63,847	29,221	83,244	413,084	652,535
	Total	1,324,464	2,121,617	246,600	3,199,481	64,276	181,092	29,221	216,147	2,983,334	1,260,188
	<i>As on 31.3.1999</i>	<i>282,954</i>	<i>1,041,510</i>	<i>-</i>	<i>1,324,464</i>	<i>6,005</i>	<i>58,271</i>	<i>-</i>	<i>64,276</i>	<i>1,260,188</i>	<i>NIL</i>

Notes: Depreciation has been provided on straight line method at the rates prescribed by Schedule XIV of the Companies Act, 1956.

for V. NAGARAJAN & CO.,
Chartered Accountants

for BHARTIYA SAMRUDDHI FINANCE LIMITED

Hyderabad
April 22, 2000

V. NAGARAJAN
Partner

Asst. Company Secretary Director Managing Director

BHARTIYA SAMRUDDHI FINANCE LIMITED

SCHEDULES TO ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2000

SCHEDULE 12: NOTES ON ACCOUNTS

1) ACCOUNTING POLICIES

- a) Method of Accounting
The accounts have been prepared under historical cost conventions and on accrual basis, except otherwise stated.
- b) Revenue Recognition
 - i) Interest on loans is recognized on accrual basis, calculated on a daily product basis on the outstanding loan amount as per contracts with the borrowers.
 - ii) Income on non performing assets is recognized only when realised and no interest which has remained past due for more than six months at the end of the accounting period is treated as income.
- c) Fixed assets
 - i) These are stated at cost.
 - ii) Depreciation is provided on the straight-line method at the rates specified in Schedule XIV of the Companies Act, 1956.
- d) Loans and Advances
These are classified as standard assets, sub-standard assets, doubtful assets and loss assets in terms of the Non Banking Financial Companies Prudential Norms (Reserve Bank) Directions 1998.
- e) Provision for Loan Losses
Provision for doubtful loans and advances has been made as per the norms stated in the Non-Banking Financial Companies Norms (Reserve Bank) Directions, 1988. In addition the company also sets aside an amount in excess of the above provision, reckoned at 10% of the loan amount outstanding which have become past due over 90 days, to a Portfolio Risk Reserve.
- f) Provident Fund and Gratuity
Contribution to Provident Fund is accounted on actual liability basis. Gratuity is being computed as per statutory norms and paid into a trust created for this purpose.
- g) Preliminary and pre-incorporation expenses
These have been fully written off on the generation of profits in the first instance.

2) CONTINGENT LIABILITIES

- a) The company has agreed to stand as a guarantor, for the repayment of principal and interest in Indian rupees, in respect of certain external commercial borrowings of the holding company, Bhartiya Samruddhi Investments and Consulting Services Limited, a closely held deemed public company. The guarantee has not been formally executed as at March 31, 2000. The estimated liability including interest as at March 31, 2000 is Rs.9,830,392 (Previous year Rs.4,852,361).

BHARTIYA SAMRUDDHI FINANCE LIMITED

3) SHARE CAPITAL :

Out of the share capital consisting of 4,049,500 equity shares of Rs. 10 each, 4,040,000 equity shares (Previous year 4,040,000 equity shares) are held by the holding company, Bhartiya Samruddhi Investments and Consulting Services Limited.

4) RESERVE AND SURPLUS :

Portfolio Risk Reserve:

During the year the company has made an additional provision for doubtful debts of Rs 3,46,705 in addition to the provision of Rs 5,03,756 required to be provided as per Non-Banking Financial Companies Norms (Reserve Bank) Directions, 1988. In view of this no transfer to Portfolio Risk Reserve is effected as such, as the enlarged provision is higher than the transfer that ought to have been effected as per the Company's accounting policy.

5) SECURED LOANS :

All the loans have been secured by hypothecation of book debts, present and future:

- a) From Banks
 - Global Trust Bank Rs 35 Lakhs
- b) From Financial Institutions
 - i) Small Industries Development Bank of India, Rs 200.00 Lakhs by holding a charge in trust on the assets created out of the said loan (Viz: loans to Non Farm Sector).
 - ii) Cordaid, Netherlands, Rs 200.00 Lakhs, a lien of financial assets, being the loan portfolio stated as first class (without any repayment problems) with initial worth of Rs 300.00 Lakhs (being 150% of the loan).

6) LOANS AND ADVANCES :

- a) In the opinion of the Board of Directors, the loans and advances have a value on realization in the ordinary course of business at least equal to the amount at which they are stated in the Accounts.
- b) Of the loans and advances aggregating to Rs.111,308,635 (both secured and unsecured) outstanding as at March 31, 2000 (Previous year: Rs.58,646,000), a sum of Rs.5,037,563 (Previous year: Rs. 126,000) is classified as sub-standard assets as per the norms prescribed for classification by the Reserve Bank of India through Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1988 for which necessary provision has been made.
- c) A sum of Rs. 420,688 (Previous year: Nil), being loans unrecoverable has been written off as bad-debts during the year.
- d) Customer Service Agents and other advances recoverable include a sum of Rs 4,81,039 due from Bhartiya Samruddhi Investments & Consulting Services Limited (Maximum amount due during the year: Rs 4,81,039)
- e) Interest receivable includes interest accrued and due and interest accrued but not due.

7) INTEREST ON LOANS TO RURAL PRODUCERS:

- a) This is net of rebates for On time Rebate of Rs 722,632 (Previous Year: Rs 426,017) and Interest derecognised of Rs 1,063,473 (Previous Year : Rs 20,430)

BHARTIYA SAMRUDDHI FINANCE LIMITED

8) AUDITORS' REMUNERATION

This includes:

	<u>Year ended</u>	<u>March 31, 2000</u>	<u>Rs.</u> <u>March 31, 1999</u>
a) Audit Fees		78,750	75,000
b) Fee for Certification		6,075	-
c) Taxation		26,000	-
d) Out of Pocket Expenses		1,28,008	63,413
	<u>Total</u>	<u>2,38,833</u>	<u>1,38,413</u>

9) Earnings in Foreign Currency:

	<u>Year ended</u>	<u>March 31, 2000</u>	<u>March 31, 1999</u>
Consultancy Fees		<u>11,76,801</u>	-

10) MISCELLANEOUS:

- Additional information pursuant to paragraph 4-C and 4-D of Part B to Schedule VI of the Companies Act, 1956 – None other than stated above.
- Balance sheet abstract and company's general business profile, pursuant to Part III to Schedule VI is separately attached
- Previous period figures have been regrouped and rearranged wherever necessary.

for **V. NAGARAJAN & Co.,**
Chartered Accountants

for **BHARTIYA SAMRUDDHI FINANCE LIMITED**

Hyderabad,
April 22, 2000

(V. NAGARAJAN)
Partner

Director

Managing Director

BHARTIYA SAMRUDDHI FINANCE LIMITED

Enclosure to Notes forming part of accounts for the year ended March 31, 2000

The Information Relating to the Balance Sheet abstract and the Company's General Business Profile.
As per Part IV of Schedule VI to the Companies Act, 1956 as under:

I. Registration Details

Registration No.

		5	5	-	8	1	1	2	7
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Balance Sheet Date

3	1		0	3		2	0	0	0
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State Code

5	5
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II. Capital Raised During the Year (Amount in Rs. Thousands)

Public Issue

									0
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Bonus Issue

									0
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Right Issue

									0
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Private Placement

									0
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III. Position of Mobilization and deployment of Funds (Amount in Rs. Thousands)

Sources of Funds
Total Liabilities

		1	3	1	0	6	8
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Total Assets

		1	3	1	0	6	8
--	--	---	---	---	---	---	---

Paid up Capital

		4	0	4	9	5
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Secured Loans

		4	3	5	0	0
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Reserves and Surplus

				1	9	1	2
--	--	--	--	---	---	---	---

Unsecured Loans

				3	0	7	0	0
--	--	--	--	---	---	---	---	---

Application of Funds

Net Fixed Assets

				2	9	8	3
--	--	--	--	---	---	---	---

Net Current Assets

		1	2	7	8	9	4
--	--	---	---	---	---	---	---

Accumulated Losses

								0
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Investments

							9	0
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Miscellaneous Expenditure

								0
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IV. Performance of Company (Amount in Rs. Thousands)

Total Receipts

+			2	2	3	9	4
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+ -

+	-
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Profit/Loss before Tax

			2	4	4	0
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Earning Per Share Rs.

			0		2	6
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Total Expenditure

+			1	9	9	5	4
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+ -

+	-
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Profit/Loss before Tax

			1	0	3	9
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Dividend

								0
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VI. Generic Name of Three Principal Products/Services of the Company.

Item Code No. (ITC Code):

	N	.	A	.			
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Product Description

FINANCIAL SERVICES

As per our report of even date
for V. NAGARAJAN & CO.,
Chartered Accountants

for BHARTIYA SAMRUDDHI FINANCE LIMITED

Hyderabad
April 22, 2000

(V. NAGARAJAN)
Partner

Asst. Company
Secretary

Director

Managing Director