

AUDITORS' REPORT TO THE MEMBERS OF
BHARTIYA SAMRUDDHI FINANCE LIMITED

We have audited the attached Balance Sheet of BHARTIYA SAMRUDDHI FINANCE LIMITED as at March 31, 2004 and the Income and Expenditure account for the year ended on that date annexed thereto. 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.

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 evaluating the overall financial statement presentation. We believe that our audit provides reasonable basis for our opinion. On the basis of our audit we report that:

As required by The Companies (Auditors' Report) Order, 2003 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, a statement of matters specified in paragraphs 4 and 5 of the said Order.

Further to our comments in the Annexure referred 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 accounts as required by the law have been kept by the company, so far as appears from our examination of the books maintained at the Head office and all the branches of the company visited by us;
- c) the Balance Sheet and the Income and Expenditure account dealt with by this report are in agreement with the books of account;
- d) In our opinion, the Income and Expenditure Account and the Balance Sheet comply with the accounting standards referred to in sub section 3(C) of section 211 of the Companies Act, 1956.

- e) On the basis of the written representations received from the directors as on March 31, 2004 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2004 from being appointed as director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.
- f) 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, 2004 and
 - ii. In the case of Income and Expenditure account, of the profits of the company for the year ended on that date.

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

Hyderabad,
April 24, 2004

(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 Companies (Auditor's Report) Order, 2003]

I. In respect of items stated in Paragraph 4 of the Order:

1. The company has maintained proper records to show full particulars including quantitative details and situation of fixed assets.
2. The fixed assets have been physically verified by the management and discrepancies to the extent of Rs. 5 lacs which constitutes about 5% of gross block were noticed on such verification. A list of missing or not traceable assets has been drawn up and the management is investigating on the same. In the ensuing financial year, based on the investigations the same will be written off or other necessary action would be taken.
3. The company has disposed some fixed assets, which in our view is not substantial and does not affect its status of going concern.
4. The company has not either granted or taken unsecured loans, from any company listed in the register required to be maintained under section 301 of the Companies Act, 1956.
5. The company has an exhaustive internal control system with measures to deal with large number of low value cash transactions in the rural areas where it is operating, yet the company has been facing certain problems including misappropriations and frauds.

It has been reported to us that presently the company is seized of this issue seriously and is working towards setting up a system or modifying its collection, reporting and monitoring procedures and has set up a target to achieve a substantial progress within next three months for preventing and detecting fraud and other irregularities.

6. There are no transactions, which need to be entered in to register maintained under section 301 of the Act.
7. The company has not accepted any deposits from the public.
8. The company has an internal audit system commensurate with the size and nature of its business
9. The company has generally been regular in depositing statutory dues with appropriate authorities. As on the last date of the financial year there are no dues outstanding for more than six months.
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, 2004 for a period more than six months from the date they become payable.

11. The company does not have any accumulated losses at the end of the year. The company has not incurred any cash losses during the financial year covered by our audit and in the immediately preceding financial year
12. The company has availed loans from financial institutions and banks and there has been no default in respect of repayment of principal or interest.
13. The company has not granted any loans or advances on the basis of security by way of pledge of shares, debentures and other securities
14. The company does not deal or trade in shares or debentures or other investments.
15. The company has not given any guarantee for loans taken by others from bank or financial institutions.
16. The company has applied term loans for the purpose for which it has been raised.
17. The company is in the business of providing micro finance, which involves provision of short-term loans up to a maximum period of 18 months in most of the cases. In few cases term loans are provided up to a period three years. Most of the funds raised for these purposes are medium and long term and are rotated in the business until they become due for payment. The details of payments in respect of borrowings falling due within the next one year are reported in the financial statements.
18. The company has made a preferential allotment of shares to companies covered in register maintained under section 301 of the Act and price at which it is issued is not prejudicial to interest of the company.
19. The company has not issued any debenture during the year.
20. The company during the year has not raised any money through public issue of shares.
21. The company has noticed frauds by employees and agents to the tune of Rs. 3.6 million during the financial year 2003-04 which is mainly in the nature of misappropriation of collections from borrowers.
22. Other clauses of the order are not applicable to the Company.

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

Hyderabad,
April 24, 2004

(V. NAGARAJAN)
Partner

AUDITORS' 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]

We have audited the attached Balance Sheet of BHARTIYA SAMRUDDHI FINANCE LIMITED as at March 31, 2004 and the Income and Expenditure account for the year ended on that date annexed thereto and report that:

Further to our audit report of even date issued under section 224 of the Companies Act, 1956, 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 below a statement of matters specified in paragraph 3 of the said Directions.

- 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 April 24, 2004 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 period ended March 31, 2004.
 - d) The company has also followed the capital adequacy norms; the accounting policies followed by the company in respect of the same are reported in the notes forming part of accounts.

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

Hyderabad,
April 24, 2004

(V. NAGARAJAN)
Partner