

HEAVY ENGINEERING CORPORATION LIMITED

(A Government of India Enterprise)

RANCHI - 834 004

Our Motto : Nation Building Through Machine

Balance Sheet
And
Profit & Loss Account
for the
Financial Year
2005-2006



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Board of Directors

(As on 30.09.2006)

<i>Acting Chairman-cum-Managing Director/ Director (Personnel)</i>	:	Shri S. Biswas
<i>Directors</i>	:	Shri Naresh Chaturvedi Shri Manoj Kumar Singh Shri Lakshman Jha Shri V. K. Srivastava
<i>Company Secretary</i>	:	Shri Abhay Kumar Kanth
<i>Auditors</i>	:	M/s Salarpuria Jajodia & Co. Chartered Accountants
<i>Bankers</i>	:	State Bank of India
<i>Registered Office</i>	:	Plant Plaza Road, Dhurwa Ranchi-834 004 (JHARKHAND)

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given to the Shareholders of Heavy Engineering Corporation Limited that the 47th Annual General Meeting of the Company will be held on Friday, the 3rd November 2006 at 11 AM at its Registered Office located at Plant Plaza Road, Dhurwa, Ranchi to transact the following business :

Ordinary Business :

1. To receive, consider and adopt the Directors' Report to the Shareholders for the financial year ended 31st March, 2006.
2. To receive, consider and adopt the audited Profit & Loss Account for the financial year ended 31st March, 2006 and Balance Sheet as on that date alongwith the Auditors Report thereon and our replies thereto.
3. To authorise Board of Directors to fix remuneration of the Statutory Auditor for the financial year 2006-2007.

By Order of the Board of Directors

Sd/-

(A. K. Kanth)
Company Secretary

Dated : 10.10.2006

Note : A Member of the Company entitled to attend and vote at the meeting is entitled to appoint proxy to attend and vote instead of himself and proxy need not be a Member of the Company.



DIRECTORS' REPORT

To

**The Shareholders
Heavy Engineering Corporation Limited**

Gentlemen,

Your Directors have the pleasure to present the 47th Annual Report of the Company together with Audited Accounts for the year ended 31st March, 2006.

1. PERFORMANCE HIGHLIGHTS

It gives us immense pleasure to inform you that your company has shown an appreciable growth in the concluded financial year. The net sales have gone up by 13.38% and production by 21.38% over the previous year inspite of deep financial crunch. Your company has paid the salaries and statutory dues from the funds generated through its own resources.

2. PRODUCTION & SALES

The performance figures for the year as compared to the previous year are as follows :-

(Rs. in Crore)

	2005-2006		2004-2005
	Budget	Actual	Actual
Net Sales	222.25	161.51	142.45
Production	218.25	165.63	136.46

3. FINANCIAL RESULTS

(Rs. in Crore)

	2005-2006		2004-2005
	Budget	Actual	Actual
Gross Margin	13.86	(-) 64.51	(-) 82.50
Interest	188.79	18.59	198.18
Depreciation	7.23	3.56	3.90
Net profit (+)/Loss (-) before VRS Expenditure	(-) 182.16	(-) 86.65	(-) 284.58
Net profit (+)/Loss (-) (after VRS expenditure)	(-) 182.16	(-) 86.88	(-) 285.02
Cash Gain (+)/Loss (-)	10.11	(-) 82.96	(-) 106.68

The equity of the company as on 31.3.2006 stood at Rs. 453.24 crores as against Rs. 432.15 crores on 31.03.2005. During the year the Company contributed Rs. 30.63 crores to Central and State Exchequers as compared to Rs. 21.75 crores in the previous year.

4. MARKETING ACTIVITIES

ORDERS BOOKED & ORDER BOOK POSITION

The orders booked by the Company during the financial year 2005-06 has shown an appreciable increase. The orders booked has gone up significantly to Rs. 421.40 crores as against Rs. 236.47 crores and Rs. 136.83 crores respectively for the years ending 31st March 2005 and 31st March, 2004. It amounts to an appreciable increase of 184.93 and 78% over that of the last year as well as increase of 21% over the target set for the year.

The order book position of company as on 01.04.2006 has gone up to Rs. 524.84 crores against to Rs. 244.58 crores as on 01.04.2005.

HIGH LIGHTS OF MAJOR ORDERS RECEIVED

During the year, the company received prestigious orders for Mobile Launch Pad from ISRO, Sri Harikota; 18 Cum Slag Pot Assembly from TISCO; Modified Steel Transfer Car, Door Assembly, Flash Plate & Door Frames, Mould Car Platform, Casting Volute Assembly, Gear Wheel, Wheel pair Assembly and Sinter Trolley from BSL; 5 Cum. Shovels 3 nos., 2 nos. and 6 nos. from BCCL, NCL and CCL respectively; 64/46 T EOT Crane and 180/50/15 T EOT Crane from BSP; Segment of CCM from RSP; Extension of Handling & Finishing Line # 3, from VSP; Tertiary Crusher from HCL; Ball Race segments from NLCL, Draglines spares from NCL.

Apart from above number of orders for castings, forgings, spares etc have also been received from various Steel Plants, Sugar & General Engineering Industries in private sector.

IMPORTANT AGREEMENT SIGNED DURING THE PERIOD

MOU was signed with M/s VITKOVICE, Czeck Republic for Technical collaboration and joint participation in Tenders of Indian companies.

PROJECT ACTIVITIES

Project Division was reconstituted during the financial year. The division is currently executing the biggest single value Turnkey Order of Rs. 135 crores for the work of "Planning, Design, Engineering, Construction, Fabrication, Supply, Erection, Trial Run and Commissioning of Nigahi Coal Handling Plant, Ph-II, Pkg-B" for Northern Coalfields Limited, Singrauli.



The Design and Engineering work is under progress. Major drawings for basic Engineering have been submitted to CMPDIL for approval. Survey and Soil testing work have been completed and reports submitted to CMPDIL. Site mobilization work is in progress, Excavation work for Receiving Pit Complex has started.

Number of Coal Handling Plants by Coal India Limited is in various stages of Project approval by Govt. of India and Tenders for these Projects will be invited shortly by CMPDIL on behalf of various subsidiaries of CIL. Project Division of HEC will be in a position to participate in these Tenders.

BUSINESS SCENARIO AND FUTURE PROSPECT

The Indian economy has picked up tremendously during the recent times and a growth rate of 6% to 7% is expected. In manufacturing sector also the growth rate has been 10% to 12%. Domestic Steel sector has a tremendous scope of growth. By 2010-2011 it is expected that the steel production will go up to 52 Million Tons from its present level of 37 Million Tons. All the steel majors like SAIL, TISCO, JINDAL, MITTAL, ESSAR etc have been shown keen interest in increasing their turnover considerably. Jharkhand Government has signed number of MOUs, for setting up Industries in the State in the area of Steel, Power, Mining etc.

Similarly, major coal producers have planned huge investment for development of mines to meet the increased demand of coal. Coal India has projected investment of Rs. 14310 crores during the 10th Plan period. There will be large requirement of Heavy Earth Moving Machines and other equipment from subsidiaries of CIL, SCCL, NMDC and SAIL mines.

High value tender enquiries have been received and some offers are under consideration by different Sector like Railways (CNC Surface Wheel Lathe, Radial drilling, AJTB, Axle machining line) and Defence (CNC Deep Hole Boring m/c and CNC Lathe).

In the present scenario it is presumed that there shall be no dearth of orders for your company and we ensure to supply items to our customers, meeting quality requirements, at competitive rates.

5. BIFR AND REVIVAL PACKAGE

Company and Deptt. of Heavy Industry (DHI), Govt. of India filed separate appeals before AAIFR for quashing/staying the winding-up order of BIFR. As no bench in AAIFR was functioning at that time, Company filed a writ petition before the Hon'ble High Court of Jharkhand for quashing/staying the winding up order of BIFR. Several hearings have since been held by the Hon'ble High Court of Jharkhand in this regard.

Revival Plan submitted by the company was put to Board for Reconstruction of Public Sector Enterprise (BRPSE) for their consideration. BRPSE after due deliberation recommended the Revival Proposal for Company in

October-2005 which included waiver of interest & non-plan loan, conversion of plan loan into equity, non-plan bridge loan of Rs. 102 crore, generation of resources to the tune of Rs. 330 crore by company through transfer/lease of residential/non-residential buildings to State Govt./Resident employees, ex-employees, leasing institutional complexes and settlement of dues of CISF and State Government. Recommendation of BRPSE was approved by Cabinet in December-2005. The proposal approved by Cabinet was submitted to Hon'ble High Court of Jharkhand for consideration.

Subsequently Govt. of Jharkhand filed its affidavit indicating their willingness for taking over residential/non-residential buildings and vacant land and waive outstanding dues on account of electricity, water and sales tax and suitably compensate for funding the revival process.

Thereafter, as per suggestion of Hon'ble High Court of Jharkhand, meetings between Officials of DHI and Govt. of Jharkhand were held in July & August-2006 to give final shape to revival proposal of company.

6. SAFETY, ENVIRONMENT AND POLLUTION CONTROL

As always, your company gives most importance to the occupational safety and health of workers in the company. Various training and awareness programmes were conducted regularly in order to inculcate safety consciousness among the employee. Complete medical check-ups were regularly carried as per the statutory norms. Safety appliances like different types of hand gloves, goggles, protective clothing, safety helmets, safety belts, safety shoes etc. were provided to the employees. National safety day and HEC Safety Week were celebrated by all the units.

The Company does not compromise on environmental pollution and so takes all precautions towards pollution control as detailed below :-

- Compliance with all Statutory requirements laid down under Air (Prevention and Control of Pollution) Act, Water (Prevention and Control of Pollution) Act and Environment (Protection) Act.
- Obtaining running consent from the State Pollution Control Board and compliance with the stipulated conditions.
- Testing of water effluent samples regularly for pollutants, based on which consent for discharge of water to inland body is granted.
- Ambient air test is carried out regularly to ascertain limit of pollution gases before giving consent for air emission.

7. MANPOWER POSITION

The manpower of the Company as on 01.04.2006 stood at 3457 as against 3610 on 01.04.2005.



8. INDUSTRIAL RELATIONS

During the year, the industrial relations situation in general remained normal and peaceful. However, meetings were organised by different Trade Unions and Associations during the year to press for their demands mainly related to wage revision w.e.f. 01.01.1997, payment of other dues like LTA, Leave Encashment.

9. EMPLOYEE WELFARE AND COMMUNITY DEVELOPMENT

1. The company runs a full fledged 250 bedded Hospital with 12 number of Broad Specialties and is headed by an administrator of proven track record. The employees of the company and their dependent family members are given free medical treatment and in deserving cases, are also referred to outside Referral Hospitals. Retired employees and their spouses are also given free medical treatment to the extent available in the Hospital. The Hospital has at its credit the following achievements to wards Public Health and Community Health Programme during the year :-
 - a) Immunisation programme for protection against BCG, Polio, DPT, Measles, Tuberculosis, DT and Dog Bites covering about 11000 cases in all.
 - b) About 400 family planning operations were performed to employees/their spouses as well as to other non entitled persons.
 - c) Medical facilities of statutory nature are extended to the society at large to project image of the company.
2. The Company provides subsidized housing and canteen facilities to its employees. Houses are also given on Long Term Lease basis to employees and ex-employees in selected areas.

10. HUMAN RESOURCE DEVELOPMENT

The company continues to give great emphasis on Human Resource Development. Training and Development of all levels of employees was given priority by the company during the year to increase their efficiency and effectiveness. Employees were also sent for outstation training programmes in orders to require latest information and knowledge in the field of technical and professional area. During the year HEC Training Institute earned Rs. 14.12 lakhs approximately.

The Human Resource Department also organized Vocational Training for students of technical and professional institutions.

In addition to the above HRD has launched Human Resource Transformation Programme for the financial year 2006.2007.

10. STATUS OF SCHEDULED CASTES AND SCHEDULED TRIBES

The number of SC and ST employees on the roll of the company as on 01.04.2006 was 921 (SC-300 and ST-621) which constituted 26.64% (SC-8.68% and ST 17.96%) of the total manpower strength.

12. PROGRESSIVE USE OF HINDI

The following steps were taken by the company during the year towards progressive use of Hindi as official language :-

1. The typists and stenographers of English have been given training for typing and stenography in Hindi. All employees were given intensive training for workable knowledge of Hindi for their day to day official work.
2. 7 nos. of manuals and 323 nos. of formats are made available in bilingual form. Raj Bhasha Fortnight was organized and various competitions such as Essay Writings, Speech, Poetics, Noting, Drafting, Typing as well as for Raj Bhasha Shield and excellent work in Hindi were held. The winners were given attractive prizes. Two Hindi workshops were organized for the benefits of employees up to date their working knowledge in Hindi.
3. The Official Language Implementation Committee organized its quarterly meetings regularly during the year. Various checkpoints have been made to ensure successful implementation of Raj Bhasha Policy and attention of the Heads of Departments/Plants were attracted towards deficiencies found, if any. Directives were also issued to follow the rules rigidly.

13. DEVELOPMENT OF ANCILLARIES AND SSI UNITS

HEC primarily deals with Capital goods items for core sector Industries. For any large engineering industry, manufacturing of small and non critical components are often not economically viable and they can be got manufactured by smaller units in a more cost effective way. In addition to this PSUs have a social responsibility of developing an industrial environment and helping population around it for indirect employment generation.

Presently twelve numbers of units are functioning as Ancillary area. In addition to that, many Small Scale Units (SSI) in nearby industrial cities like Bokaro, Rourkela, Dhanbad and Howrah were more prompt and efficient to render their service to HEC.

HEC also took their assistance/services to meet the requirement of the company. There has been a substantial increase in business volume in the recent years. Since the work order position of the corporation improved in the recent years, it is expected that the business volume with Ancillary units will also raise in a faster pace in the coming years.



14. VIGILANCE ACTIVITIES

The Vigilance organization of HEC presently is headed by a full time CVO on deputation. Previously our CMD was looking after the work of CVO. On 25th Nov '05 the new CVO assumed charge.

During 2005-06 the main thrust of HEC Vigilance was on preventive vigilance. To streamline the process and system, stress has been given on simplifying the rules and procedures wherever possible, especially for purchases. An updated new Purchase Manual has been introduced to overcome cumbersome/old procedure of the purchase system.

Vigilance Awareness Week was observed with all Executives in order to create vigilance awareness and enhance their knowledge about Company's Rules and Policies.

To bring transparency and to enforce accountability in every field, vigilance department has been carrying out inspection of all sensitive departments in a regular manner. The main objective of the inspection is to implement rules and procedures and to achieve the over all objectives of the organization by streamlining the systems.

To bring transparency and to enforce accountability in every field, vigilance department has been carrying out inspection of all sensitive departments in a regular manner. The main objective of the inspection is to implement rules and procedures and to achieve the over all objectives of the organization by streamlining the systems.

Stress is given on optimizing the use of information technology wherever possible for the betterment of the company and also for the benefit of employees of the corporation.

During the financial year, specially in March 2006, a special drive was launched by the Vigilance Deptt. To scrutinize and streamline the Limited Tender Procedure adopted by the Company in procurement. Also, the system of vendor registration and vendor evaluation has been put under close scrutiny and instructions have been issued to follow the procedures meticulously. This has brought a lot of difference to the functioning of the MM division of the Company.

The system of submitting APR to the company had fallen into disuse. These returns are important tools of the integrity monitoring system of the company. As a result of the drive launched by Vigilance Deptt. For the first time in several years annual property returns have been submitted by hundred percent of the employees.

15. QUALITY CONTROL

Your company never compromises on quality of the products manufactured by the company. The company takes all measures to maintain the quality of its products and services to the utmost satisfaction its customers. The

standards of Quality of products and services are being maintained as per relevant Indian standards.

A rectification audit was conducted by IRQS and an ISO 9001-2000 was accredited to all the three Plants i.e. FFP, HMBP and HMTP and the certificate is valid up to November 2008.

16. ENERGY AUDIT

Energy Audit in a limited way was carried out by Petroleum Conservation Research Association (PCRA) with the objective to study the use of alternate fuel other than the currently-used Producer Gas for Heat treatment/ Reheating furnaces after Performance Analysis of six major furnaces at Foundry Forge Plant. It has been recommended to operate the furnaces with Producer Gas since it is the most economical fuel available in the market. However, PCRA also suggested certain improvement and modification of the Producer Gas Plant and for operating furnaces for better thermal efficiency and economy. Necessary action is being taken in this regard.

17. R&D, TECHNOLOGY ABSORPTION, ADAPTATION, AND INNOVATION, ENERGY CONSERVATION

The particulars required under section 217(1) of the Companies Act, 1956 read with the Companies (Disclosure of particulars in the report of Board of Directors) Rules 1988, regarding R&D, Technology Absorption, Adaptation and Innovation as well as Energy Conservation are furnished in Annexure - 'A'.

18. DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirement under section 217 (2) of the Companies Act, 1956, it is hereby confirmed :-

- (i) that in the preparation of the annual accounts for the financial year ended 31st March, 2006, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- (ii) that the Directors had selected such accounting policies and applied them consistently and made judgements and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company for the year under review;
- (iii) that the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (iv) that the Directors had prepared the Annual Accounts for the financial year ended March, 2006 on a going concern basis.

**19. FOREIGN EXCHANGE**

The foreign exchange outgo during the year was Rs. 15.44 crore.

20. INFORMATION UNDER SECTION 217(2A) OF THE COMPANIES ACT '1956

None of the employees of the Company was in receipt of remuneration in excess of limits prescribed under section 217 (2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975 during the financial year ending 31st March, 2006.

21. STATUTORY AUDITORS

The Comptroller & Auditor General of India (CAG) has appointed M/s Salarpuria Jajodia & Co. Chartered Accountants, Patna as the single Statutory Auditor of the company for the financial year 2005-2006. As authorized by the Shareholders in 46th Annual General Meeting, the Board of Directors has fixed the remuneration of the statutory Auditor for the year 2005-2006 at Rs. 1,20,000 (Rs. one lakh twenty thousands) only.

22. COMMENTS OF C&AG AND STATUTORY AUDITORS AND MANAGEMENT'S REPLIES THEREON

The comments of C&AG under Section 619 (4) of the Companies Act, 1956 on the Accounts of the Company for the year ended 31.03.2006 alongwith the Review of Accounts of your Company by C&AG and Statutory Auditors' observations alongwith Management's replies thereto are furnished in ANNEXURE-B.

23. BOARD OF DIRECTORS

Presently, there are two part time official directors on the Board of HEC, in addition to Director (Personnel) who is also holding additional charge of Chairman-cum-Managing Director. The posts of Director (Production), Director (Marketing) and Director (Finance) of the Company are lying vacant for the last 4-5 years. However,

PSEB has recently shown interest in filling up the vacant posts on the Board of HEC.

Board places on record its deep appreciation for the valuable services and contribution made by Sri U. P. Singh during his tenure as Director on the Board of Directors of HEC Ltd.

24. AUDIT COMMITTEE

The Audit Committee Meetings were held on 02.06.2005 and 29.07.2005. Since the Chairman of the Audit Committee Mr. U. P. Singh, Managing Director, Bokaro Steel Plant retired from the Board of Directors no further meetings of the Audit Committee could not be held. Meetings of the Audit Committee shall be held once the Committee is reconstituted.

25. ACKNOWLEDGEMENT

The Board places on record its sincere appreciation towards Company's valued customers for the support and confidence reposed by them in the organization and looks forward to the continuance of same in future.

The Board also gratefully acknowledges the support and guidance received from various Ministries of Government of India, particularly the Department of Heavy Industry and Govt. of Jharkhand in processing of Revival Plan of the Company. The Company wishes to place on record its appreciation of the continued cooperation received from technical collaborators and suppliers and the support provided by the Banks and financial institutions. The Directors express their thanks also to the Comptroller and Auditor General of India (CAG) and the Statutory Auditors. The Board wishes to record its deep gratitude to all members of HEC family whose enthusiasm, patience, dedication and cooperation has enabled the company to move forward and achieve new heights.

For & on behalf of Board of Directors

Sd/-

(S. Biswas)

Actg. Chairman-cum-Managing Director



RESEARCH & DEVELOPMENT, TECHNOLOGY ABSORPTION, ADAPTATION, INNOVATION AND ENERGY CONSERVATION

1. RESEARCH & DEVELOPMENT ACTIVITIES

The company continued its efforts for the technology up gradation and development/ systems during the year.

a) Specific areas in which R&D activities were carried out by the company are detailed below :-

- i) Drop-weight test equipment has been successfully designed, fabricated and commissioned in our laboratory. A no. of drop weight samples had been tested in presence of BARC to their satisfaction. This is an up-gradation in testing facilities at FFP through indigenous development and a savings of approximately Rs. 4 to Rs. 5 lakh against purchase of such equipment by import.
- ii) 12 Nos. of 5 Cum Excavators manufactured and dispatched to MCL, BCCL and CCL of CIL starting from Sept. 05 to March 06. The purchase order were received in Sept. 04 from MCL, 25.05.05 from CCL and 31.10.05 from BCCL respectively.
- iii) 400/600 T EOT Crane Total weight 448 Tons and total value 748.89 lakhs with single piece girder wt. 67 Tons having length of 32 meter, width 1.25 meter and depth 3.1 meter manufactured and dispatched successfully for the first time in the country.
The transportation of the girders whose individual wt. was 67 Tons each length 33 meters was a challenging task to transport by road as rail approach to SHAR site is not available. However, this was resolved by arranging cabin less trail with especially extended bed.
- iv) 2 sets of Piston Mechanism which is a part of tap hole drilling machine of Blast Furnace were completed and dispatched to BSL.
- v) 6 Nos. of 16 Cu. M Slag Pot & 1 No. of 18 Cu. M Slag Pot dispatched to TISCO.
- vi) HSD for ISRO
Design and development of Horizontal Sliding doors for Solid stage Assembly Building for ISRO, Sriharikota has been done.
- vii) Hot Coke/Car for VSP, Vishakhapatnam

Hot Coke Car is designed for dry quenching installations provided with an individual lift for each quenching chamber. In the present design, modification has been done for longer life and better stability of machine.

b) Import Substitution Efforts

- i) Casting of Mill Housing for M/s Magadh Precision Ltd., Indore for 20 Hi Mill & 6 Hi Mill to be finally exported to China.
- ii) 22 Cu. M Slag Pots for Essar Steels Ltd., Surat approximate weight 37 MT., value Rs. 40 Lakhs each Pc.
- iii) Bed and Column cast rod castings for MTAR Hyderabad (ISRO items) 2 pcs each, successfully developed.
- iv) Forging, Machining & Assembly of Rudder stock for GRSE, Kolkata.
- v) Entry guide for BSL : This equipment is part of modernization of 2000 mm Hot Strip Mill for BSL. It is a complex unit driven by motor and gearbox. It automatically guides the movement of Plate. Its weight is nearly 10.5 T and manufactured first time in India. It is an import substitution equipment. The frame design is very rugged, which can take substantial shock load. Depending upon the width of Plate moving on the roller Label, the width of grinding unit of machine is adjusted to suit.
- vi) Cassette Assembly for VSP
One no. each two High stand dia 630 and dia 500 Mill, commonly known as "Cassette Assembly" are Import substitution. It is indigenously designed, manufactured, assembled and tested with screw down mechanism for Rolls through gearboxes and motor. It is complete in itself, fitted with hydraulic and grease lubrication with connection of water spraying over the Role during rolling.
The Mill was assembled on Steel Casting Frame which of ultrasonic quarterly maintaining the configuration required in the mill.
Cassette Assembly dia 630 and 530 have been completely assembled for the first time in India, tested and run successfully to the satisfaction of the Customer and dispatched in assembled condition.



- vii) Hot Blast value @ 1200 & Burner cut off value @ 1400

Design was developed for the fabricated body with integral rings and fabricated disc. Both the body and the disc are lined with castable refractory. The new design provides efficient cooling and perfect leak proofness with increased life and reliability as compared to the conventional design without refractory.

- viii) 10 Cu.m. Skip Car for NINL

Design, development of 10 Cu.M Skip Car for NINL was developed. Earlier it was imported from Italy.

- ix) Hoist Gear Boxes for BSL

Main Hoist Gear Boxes for Crane was developed with Ratchet Assembly. It has gear ratio 34. Weight of the gear box is 6.25 T. Earlier it was imported from USSR.

- x) CNC Single Column Vertical milling machine model : VMS40N for SDSC SHAR, Sriharikota.

- xi) CNC Single Column Vertical Turning & Boring M/c model : BV555/70NM for HAL Bangalore.

- xii) CNC Double Column Vertical Turning & Boring M/c model : BV40/50NM for VSSC Thiruvanthapuram.

- xiv) CNC Deep Hole Boring m/c, Model : BDH140N for MSF, Ishapore.

c) Technology Absorption, Adaptation and Innovation

The technologies of earlier collaborations were fully absorbed and adapted. However they were upgraded and now machines with latest features were conceived and developed to keep pace with the competitive world market. The following are few such examples :-

- (i) Heat treatment of Bulb-bars of various cross sections for with Indian Navy approx. 230 MT, value Rs. 149 lakhs (in co-ordination with M/s DMRL Hyderabad).
- (ii) Forgings of Cold Ingots for CRM rolls supplied from M/s VISL, Bhadravati & M/s ASP, Durgapur and finally rolls supplied to BSP, Bokaro & RSP, Rourkela.
- (iii) Self Propelled Transfer Car for 300 T Ladle/BSL

This is a self driven transfer car weighing 67 Tons, which accommodates a Ladle, capacity 300 T for molten metal for

movement from one bay to other. The design is unique and has been developed by RPD.

d) Energy Conservation

Major steps taken to conserve the energy during the year are as follows :

- Reduction in maximum Demand of Power by proper load planning.
- Reduction in maximum Demand of Power by proper load planning.
- Switching off Power transformers located in Plant on Sundays and holidays.
- The use of energy efficient high pressure sodium vapor lamps/Tub lights.
- Use of producer gas instead of LPG.
- Replacement of MG Sets by use of Static Transformers and Rectifiers.
- Reduction in fuel consumption by providing ceramic lining in Furnaces and by installing programmable controller in electric pit furnace.
- Switching off un loaded transformers to save power.
- Switching of unwanted lights, fans and idle machines.
- Reduction in heat cycle time for melting furnaces etc.
- Monitoring the opening of Burners in heating and heat treatment furnaces for optimum utilization of producer gas.
- Synchronization of the operation of compressor units for optimum utilization of compressor air.
- Provision of Transparent Sheets at roof tops of production shops so as to utilize sunlight for illumination.

As a result of the above steps, energy consumption per MT of physical production during the year has come down significantly as compared to previous year as shown below :

Type of energy	Units of consumption per MT of Production	
	2005-2006	2004-2005
Electricity KWH)	2852.91	5180
Coal (MT)	4.05	4.22
Diesel (Liters)	24.98	21



COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 619(4) OF THE COMPANIES ACT, 1956 ON THE ACCOUNTS OF HEAVY ENGINEERING CORPORATION LIMITED FOR THE YEAR ENDED 31 MARCH 2006.

COMMENTS

(RS. IN CRORES)

REPLIES

Profit & Loss Accounts

1. Net Loss - Rs. 8688.54 lakhs

45.37

A reference is invited to Paragraph 2 of the Statutory Auditors' Report dated 13.09.2006, where it has been stated that loss for the year would have been Rs. 641.64 crore as against the reported loss of Rs. 86.89 crore. The loss reported by the Statutory Auditors, is understated by Rs. 45.37 crore, due to non provision of penalty/damages on defaulted CPF/EPF dues from October, 1999 to March, 2005.

The reasons for difference between the reported loss and the loss as contemplated by Statutory Auditor have already been explained in our replies against the respective Audit Para Nos. 4, 5.1, 6.2, 6.3, 6.4, 6.5, 8.3, 9.1, 9.2, 9.3, and 9.4. Further due to non availability of assessment for the period from October, 99 to March, 2005 by PF authority, no provision for penal interest/damages has been made in accounts. The damages so assessed by the PF authority up to September, 1999 has been shown in Accounts as contingent liability since an appeal has already been filed before the Appellate Tribunal on the ground of being BIFR referred sick Company. The above matter has not been heard in the Appellate Tribunal as yet.

Sd/-

(RAKESH MOHAN)

Principal Director of Commercial Audit

Sd/-

(S. BISWAS)

Actg. Chairman-cum-Managing Director

Ranchi

Dt. 02.11.2006



AUDITORS' REPORT

REPLIES

To the members of Heavy Engineering Corporation Limited, Ranchi

We have audited the attached Balance Sheet of HEAVY ENGINEERING CORPORATION LIMITED as at 31st March, 2006, and also the Profit & Loss Account of the Company and Cash Flow statement for the year ended on that date. These financial statements are the responsibility of the management. Our responsibility is to express our opinion on these financial statements based on audit conducted by us.

Except as disclosed in the following paragraph, we conducted our Audit in accordance with Auditing standards generally accepted in India. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An Audit includes examining, on a test basis, evidence supporting the amounts and disclosure 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 statements presentation, we believe that our audit provides reasonable basis for our opinion.

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| <p>1. As required by the Companies (Auditor's Report) Order, 2003, as amended by Companies (Auditor's Report) (Amendment) Order, 2004 issued by the Government of India in terms of Section 227(4A) of the Companies Act, 1956, and on the basis of such checks of the books and records of the Company as we considered appropriate and according to the information and explanations given to us, we annex hereto a statement on the matter specified in paragraphs 4 & 5 of the said order, to the extent applicable to the Company.</p> | <p>1 No comments</p> |
| <p>2. Further to our comments in annexure referred to in paragraph. 1 above and subject to our observations contained in paragraphs to 3 to 11 to follow and consequent impact thereof on the profit, assets and liabilities for the items quantified in para no. 4, 5.1, 6.2, 6.3, 6.4, 6.5, 8.3, 9.1, 9.2, 9.3, and 9.4 and our inability to quantify the impact of Profit, assets and liabilities in the other paras in the absence of proper information/explanation and record at the end of the Company as stated in appropriate part of those paragraphs read</p> | <p>2 Reply has already been furnished against the relevant audit paras.</p> |



together with "Significant Accounting Policies" and other Notes in "Notes on Accounts" in Schedule-24, we report that :

Had the observations made in paras quantified as above been considered the "Loss for the year" would have been Rs. 64184.35 lakh (as against the reported Rs. 8688.54 Lakh), the figure of Profit & Loss account in the Balance Sheet would have been Rs. 156072.51 lakh (as against the reported Rs. 109285.24 Lakh), "Net Current Assets" would have been Rs. (-) 93573.86 lakh (as against the reported Rs. (-) 37549.45 Lakh), and Capital WIP would have been Rs. 225.28 lakh (as against the reported Rs. 898.60 lakh).

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| 2.1 | We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit. | 2.1 No Comments |
| 2.2 | 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. | 2.2 No Comments |
| 2.3 | The said Balance Sheet and Profit & Loss Account and Cash Flow Statement are in agreement with the books of account. | 2.3 No Comments |
| 2.4 | In our opinion, the Balance Sheet and Profit & Loss Account and Cash Flow Statement have been prepared by the Company in compliance with the Accounting Standards referred to in Sub-Section 3(c) of Section 211 of the Companies Act, 1956 except for the deviations noted in para 10 of this report and except as stated elsewhere and in Significant Accounting Policies and Schedule '24' (Notes on Accounts). | 2.4 No Comments |
| 2.5 | As explained to us, per Notification No. GSR 829(E) issued by Department of Company Affairs the provisions of Section 274(1)(g) of the Companies Act, 1956 are not applicable to a Government Company. | 2.5 No Comments |
| 2.6 | In our opinion and to the best of our information and according to the explanations given to us, the said accounts read with significant Accounting Policies and other Notes in Schedule 24 thereon, give the information required by the Companies Act, 1956 in the manner so required and give a | 2.6 No Comments |



true and fair view in conformity with the accounting principles generally accepted in India :

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| <p>(a) In the case of the Balance Sheet, of the State of affairs as on 31st March, 2006 and</p> <p>(b) In the case of Profit & Loss Account, of the Loss for the year ended on that date, and</p> <p>(c) In the case of Cash Flow Statement, of the cash flows for the year ended on that date.</p> | <p>(a) No Comments</p> <p>(b) No Comments</p> <p>(c) No Comments</p> |
| <p>3. As referred in para 1.0 of Accounting Policy, the Accounts have been prepared on the Going Concern assumption. In view of facts referred in Schedule '24' regarding order of BIFR dated 06.07.2004 for winding up the company and in view of the huge accumulated losses, the negative net worth of the company, the company's ability to continue as a going concern is dependent on availability of substantial finance, decision of High Court / AAIFR as well as future production performance and profitability, etc.</p> | <p>3. Board for Reconstruction of Public Sector Enterprises (BRPSE) recommended the revival proposal of the company. It was duly approved by Union Cabinet on 15.12.2005. The Govt. of India proposed for conversion of plan loan, waiver of Non plan loan and the interest due on plan & non plan loan stood as on 31.03.2005 and also infusion of funds as bridge loan of Rs. 102 crores which also had been paid to HEC before the end of the financial year 2005-06. Govt. of Jharkhand also furnished affidavits at the Hon'ble High Court for settlement of JSEB dues. Waiver of Sales tax, water charges and also providing funds in exchange of taking over the available surplus land of HEC and all the residential and non residential building which are already on rent with State Government. Moreover substantial cash is being generated by way of transferring the residential quarter on Long Term Lease. As such, no shortage of cash towards working capital Would be faced by HEC in near future even after liquidating the company's liability to employees. Statutory bodies and other outside parties and the company would be entirely capable of running as a "going concern" with adequate financial resources.</p> |
| <p>4. Capital Work-in-Progress includes items amounting to Rs. 673.32 lacs (Rs. 397.94 Lacs HMBP and Rs. 275.38 lacs FFP), the erection, commissioning and completion of which are pending for a period of three years or more and against which no provision has been made and as such the loss for the year is understated and capital work-in-Progress is overstated to that extent.</p> | <p>4. Due to non availability of funds for CAPEX works, these were not completed in earlier years. Now with the availability of funds for CAPEX from Govt. of India, the pending work is likely to be completed very soon.</p> |
| <p>5. INVENTORIES :</p> <p>5.1 Inventory includes Goods in transit amounting to Rs. 352.93 lacs the status of which remains unlinked pending which the impact on the loss for the year remains unascertained.</p> | <p>5.1 Goods in transit are linked with the respective payment allocation vouchers and are gradually depleted with the raising of the certified receipt vouchers. These are continuous in nature.</p> |



- 5.2 In HMBP certain errors in computation of conversion cost, shop overhead etc., falling part of Work in Progress and Finished good valuation in cost sheet data were detected, which needs correction in future after review (Impact not ascertained).
- 5.2 Noted for further improvement in future.
6. SUNDRY DEBTORS :
- 6.1 Confirmation of balances due from Sundry Debtors were not available for our verification.
- 6.1 This has been dealt with Note No. 6 schedule 24. (Notes on Accounts)
- 6.2 Sundry Debtors includes balances, which are long overdue and are appearing as sundry debtors for more than three years and which have not been confirmed by the parties from whom these are receivable. Such debtors amounting to Rs. 2645.56 lacs (Rs. 167.76 lacs of HMBP and Rs. 2478.80 of township) where no provision has been made in spite of dues pending for over three years. Consequently loss for the year is understated and sundry debtors are overstated to this extent.
- 6.2 The amount against Sundry Debtors in HMBP which are mostly against the running contract will be realised on completion of package/receipt of final acceptance certificate.
The Debtors in Township relates to the amount receivable from PHED towards supply of electricity for water Filtration Plants - This is to be adjusted against their dues from HEC towards supply of process as well as drinking water. This has already been considered in the revival package by Govt. of Jharkhand and settlement is expected shortly. Hence no provision has been considered at this stage.
- 6.3 Sundry Debtors includes Rs. 1458.03 lacs from a single party which is resultant of an Arbitration award awarded in favour of the company in February 1997. As the realisation of this entire amount of Rs. 1458.03 lacs is uncertain, since the award has not been implemented, is disputed and is long overdue, warranting a provision of the entire amount, pending which the loss for the year remains understated and the sundry debtors at the end of the year remain overstated.
- 6.3 As per the terms of the contract, the claim was awarded by Sole Arbitrator appointed by the Secretary, Deptt. of Public Enterprises. The award was confirmed by Additional Secretary, Deptt. of Law & Justice and Company Affairs, Govt. of India. As such the award is not disputed. Since these are good debtors with certainty of realisation of the amount awarded, no provision is considered necessary at this stage.
- 6.4 Township debtors include Rs. 529.34 lacs in respect of rent receivable, out of which 105.27 lacs has been provided for, out of the balance an amount of Rs. 290.40 lacs is doubtful, in absence of any conclusive evaluation the impact of resultant non-provisioning on the loss for the year remains unascertained.
- 6.4 Out of the total debtors of Rs. 529.34 lakhs only an amount of Rs. 130.43 lakhs pertains to debtors of more than 3 years against which a sum of Rs. 105.22 lakhs has been provided in accounts leaving a balance of Rs. 25.21 lakhs which relates to JSEB. This will be considered for adjustment against JSEB dues on us. Further the balance amount of Rs. 398.91 lakhs which are of less than 3 years are considered as good debts for which no provision is considered necessary at this stage.
- 6.5 Sundry Debtors includes Rs. 75.94 lacs (net of provision) outstanding from a Govt. PSU customer, which has been deducted by the customer against their old dues / claims. Pending reconciliation at this stage, we are unable to
- 6.5 Liability to M/s BHEL appears in Books of accounts to the extent of Rs. 116.31 lakhs for RSP/CCM Project. Against this amount recovered by BHEL to the extent of Rs. 67.65 lakhs up to 31.03.2006. As the reconciliation with BHEL has not been



- express our opinion in the realisability of the amount due and the amount of provision made.
7. LOANS AND ADVANCES :
- 7.1 Confirmation in respect of various parties included in "Loans & Advances" were not available for our verification and as such we are unable to comment on its correctness and impact on the profit and other accounts.
- 7.2 In certain cases, balances under Sundry Debtors, Sundry creditors including state cheques, other liabilities, Loans & advances, claims recoverable, Goods in transit, Material on loan, and provision thereon wherever existing have not been analysed / linked and adjusted. The extent to which such adjustments on analysis or linking of balances will affect the loss or other accounts could not be determined.
8. CURRENT LIABILITIES AND PROVISIONS :
- 8.1 In the absence of details, linking or reconciliation of various heads of accounts under Liabilities, we are unable to verify the correctness of the different amount in the Schedule and comment on its impact on the loss and other accounts. Confirmation of balances were also not available for our verification.
- 8.2 In absence of Expert legal opinion / latest position of cases / litigation against the company as referred in Note no. 2 of Schedule - 24, we are unable to express our opinion on additional liability, if any, which are required to be provided under AS-29 lying unprovided.
- 8.3 Leave Travel Allowance (LTA) has been kept in abeyance since 2001-02, disregarding this fact the company has provided for the Leave Travel Allowance dues amounting to Rs. 610.97 lacs for the period 2002-2006. As a result of this, Loss and provision for leave Travel Allowance for the period 2002-2006 have been overstated to that extent.
- 8.4 The last pay revision was done in 1997 for the period 1992-1997 for which a provision exists in the books of account amounting to Rs. 5568.36 lacs as on 31.03.2006 against which an adhoc payment of Rs. 683.30 lacs in earlier year has been made. We are unable to comment on the adequacy or otherwise of provision made in absence of actual bills and consequent impact on year end result, current liabilities, and
- completed as yet the amount so recovered has not been adjusted against the above liabilities.
- 7.1 This has been dealt in Note No. 6 of Schedule 2 (Notes of Accounts).
- 7.2 Noted for improvement. However this will have no effect on profitability.
- 8.1 Due to non reconciliation of very old dues from various parties as well as old liabilities to them, the complete linking of liabilities as well as assets has not been possible now but efforts have been made for liquidating the same as maximum as possible.
- 8.2 Based on the list of cases pending as on 31.03.2006 in the Court of Law furnished by the Expert of our Legal Department, the entire amount involved in the cases have been shown under the Head "Contingent liability."
- 8.3 Though the payment of LTA has been kept in abeyance due to stringent financial condition of the company, however as a matter of prudence, the minimum provision against LTA has been made in Accounts.
- 8.4 Adequate provision has been made in respect of Arrear on account of wage revision w.e.f. 1.1.1992 based on the calculation by System Deptt., Considering the actual salary datas of the employees. Provision for contribution to Provident Fund also is included in the above provision for wage revision arrears.



retirement benefits of employees. Further, the quantum of salary and Provident fund has also not been segregated.

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| 8.5 | Attention is invited to Note No. 5 of schedule-24 regarding non-provision of arrear salary payable to Employees in absence of wage agreement for the period 01.01.1997 to 31.03.2006 and its impact, if any, on the loss as well as Current liabilities. | 8.5 | This has been dealt with Note No. 5 of Schedule 24 (Notes on Accounts). |
| 8.6 | The Company has not provided for interest payable on defaulted deposits since 1999 recovered from salaries of the employees and payable to the Employees Co-operative. The impact on the loss remains unascertained. (Refer note no. 10 of schedule 24). | 8.6 | This has been dealt with Note No. 10 of Schedule 24. |
| 8.7 | The Company has in earlier years defaulted in making timely deposits to the Provident Fund Authorities of amounts recovered from the salaries of the employees as well as the Company's own contributions. No provision for penal interest / Damages payable to the Provident Fund Authorities has been made for defaults in payment occurring from September 1999 onwards and the impact on loss remains unascertained. | 8.7 | Damages for delay remittances of CPF/EPF have been assessed by PF authority upto September, 1999 and the same has been appealed before the Appellate Tribunal and as such this has been shown in accounts as contingent liability. The above matter has not been heard in Appellate Tribunal as yet. Due to non availability of assessment for the period from October, 1999 to March, 2006 by PF authority, no provision has been considered in accounts. |
| 8.8 | Outstanding balance of Leave Travel Allowance (LTA) Rs. 610.97 lacs as at 31st March 2006 includes balances in respect of instances where no application has been made by the employees to the management for LTA, and it also includes instances of provision for the employees who have either retired or have taken voluntary retirement. In absence of adequate information the impact of excess provisioning cannot be commented upon. | 8.8 | Already replied against para 8.3. Further LTA applications are kept in the respective departments and as full details are not available with Finance, it is difficult to ascertain the actual liability. However steps have been taken to assess the actual liabilities. |
| 9. | PROFIT & LOSS ACCOUNT : | | |
| 9.1 | Bills of Bihar State Electricity Board and Jharkhand State Electricity Board for Delayed Payment Surcharge (DPS) amounting to Rs. 40181.15 lacs (previous year 44625.45 lacs) have not been accounted and provided for. As an impact of this, loss for the year and current Liabilities are understated to this extent. (Refer Note no. 2(d) in Schedule-24). | 9.1 | Despite agreeing to charge consumption of power in Township at domestic rate, it was charged at industrial rate causing DPS as disputed liability. Moreover waiver of DPS is under consideration of Govt. of Jharkhand along with reliefs to be extended by them in the Revival Package of HEC. In view of this DPS has been shown as contingent liability. |
| 9.2 | Water charges bills of public Health Engineering Department amounting to Rs. 883.91 lacs (Previous year Rs. 836.49 lacs) have not been accounted and provided for. As an impact of this, loss for the year and current Liabilities are understated to this extent. (Refer Note No. 2(e) in Schedule-24). | 9.2 | Water charges has been accounted for on the basis of actual consumption and considering increase of water charges effective from the date of receipt of order, excess claim over actual consumption and increase of rate for retrospective period has been protested and shown under contingent liability. Moreover this is in the process of reconciliation with PHED for withdrawal of this excess claim. |



- 9.3 Damages of Rs. 9501.54 lacs levied by Regional Provident Fund Commissioner U/S 14B of the Employees Provident Fund and Miscellaneous Provisions Act, 1952 for delayed remittances during the period March 1976 to September, 1999 have not been accounted and Provided. As an impact of this, loss for the year and current Liabilities are understated to this extent. (Refer Note no. 2(f) in Schedule-24).
- 9.4 Interest on overdue amounts to Small Scale Industries Undertaking amounting to Rs. 44 lacs (Rs. 14.10 lacs HMBP, Rs. 0.03 lacs FFP, and Rs. 9.87 lacs HMTP) has not been provided. Consequently loss for the year and current Liabilities are understated to this extent. (Refer Note no. 7 in Schedule-24).
10. DEVIATION FROM ACCOUNTING STANDARDS :
- 10.1 The element of Profit / Loss if any, on items of inter plant transfers held in closing stock has not been ascertained or eliminated. This is not in accordance with AS-2.
- 10.2 Valuation of inventories of finished and semi finished goods is not fully in conformity with the requirements of AS-2 in as much it is not based on proper cost booked and estimated net realisable value and there is no scientific method for assessing costs yet to be incurred for incomplete portion of the inventory. (impact not ascertained) (Refer Note No. 14(a) in Schedule-24).
- 10.3 Lease premium Rs. 13.06 lacs received against leased out quarters during the year has been transferred to Capital Reserve, which should have been amortised over the period of lease as per AS-19. (Refer Note No. 3 in Schedule-24).
- 10.4 Accounting for Deferred Tax Assets / Liabilities were not done as referred in para no. 9 of Notes on Accounts, which is contrary to AS-22.
11. GENERAL :
- 11.1 Debit / Credit balances against various parties in Sundry Creditors / Loans & Advances have been deducted from gross aggregate of Sundry Creditors / loans & Advances instead of adding the debit / credit aggregate of respective accounts with Loans & Advances / Current Liabilities. The quantum of understatement of Sundry Creditors / Loans and Advances and corresponding Loans and Advances / Current liabilities remain unascertainable for non-availability of detailed information from the Company. This requires rectification.
- 9.3 Please refer to reply against 8.7.
(No provision has been made against the damages of Rs. 9501.54 lacs levied by PF authority against which company has filed an appeal before Appellate Tribunal. As such the same has been shown as "contingent liability".
- 9.4 This has been dealt with Note No. 7 (Notes on Accounts) of Schedule-24.
- 10.1 No element of profit has been considered in the transfer price of inter plant transfer due to supply of materials or for machining towards services to sister plant. Hence elimination of profit element in the closing stock does not arise. As such no deviation from AS-2 on this point seems to exist.
- 10.2 Disclosed in Notes on Accounts vide note no 14(a) in Schedule 24.
- 10.3 Disclosed in Notes on Accounts vide note no. 3 of Schedule 24.
- 10.4 Disclosed in Note on accounts vide note no. 9 in schedule 24.
- 11.1 Noted for further improvement.

For **SALARPURIA JAJODIA & CO.**
Chartered Accountants

Sd/- LALAN KUMAR (Partner)

Sd/-
(S. K. Chakraborty)
Chief of Finance

Place : Ranchi
Date : 13.09.2006



AUDITORS REPORT TO THE MEMBERS
(AS REFERRED IN PARAGRAPH-1 OF OUR REPORT OF EVEN DATE)

AUDITORS' REPORT**REPLIES**

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| 1. In respect of its fixed assets : | |
| a. The Company has generally maintained proper records show particulars of fixed assets including quantitative details and situation of assets on the basis of available information. | Noted |
| b. The fixed assets of the company have not been physically verified in all units by the management during the year. In the absence of Physical verification the material discrepancies, if any, cannot be commented upon. | Fixed assets have been physically verified by HMTP. Due to dearth of manpower, physical verification of Fixed assets in other plants could not be done during the year. |
| c. In our opinion and according to the information and explanations available to us, the company has not disposed off substantial part of fixed assets during the year, which would affect the going concern status of the Company. | No comments |
| 2. In respect of its inventories : | |
| a. Stock of raw materials and stores and spares have been physically verified by the management except HMTP, where physical verification of all items were not carried out during the year. The procedure of physical verification of raw materials and stores and spares appears to be reasonable and adequate except in HMBP in relation to the size of the Company and nature of its business. | Physical verification of raw materials, stores and spares have been done in all plants. |
| b. In our opinion, present system of SPL accounting i.e. accounting of items of different value having different specifications in same material code needs through review. Further separate records were not maintained for indigenous and imported stores and spares in some units. | Noted
Further separate accounting records such as issue voucher as well as certified receipt voucher have been maintained for identifying the indigenous and imported items. |
| c. In our opinion and according to the information and explanations given to us and based on our examination of the records of inventory we have to state that company has not maintained proper records of its inventory. As explained to us, there were discrepancies noticed on physical verification of inventory as compared to the book records and it has been adjusted during the year. | Steps have been already been initiated for improvement. |
| 3. a. The Company has not granted any loans secured or unsecured to any companies, firms or other parties covered in the Register maintained under Section 301 of the Companies Act, 1956. Accordingly clause 4(iii)(b) to (d) of the order are not applicable. | No comments |



- b. The company has not taken any loan secured or unsecured from any companies, firms or other parties covered in the Register maintained under Section 301 of the Companies Act, 1956. Accordingly clause 4(iii)(f) to (g) of the order are not applicable. No comments
4. On the basis of checks carried out during the course of audit and as per explanations given to us we are of the opinion that the internal control system are generally adequate but need to be strengthened to commensurate with the size of the Company and the nature of its business, relating to purchase of inventory and fixed assets and for sale of goods and services. Some of the major areas where internal control system in operation needs to be strengthened and strictly adhered to are as follows : Noted
- a) Accountal of Goods in Transit.
 - b) Inspection of Materials by Stores and Intimation of acceptance to Accounts.
 - c) Outstanding balances in Capital Work in Progress.
 - d) Regularization of invoices related to unbilled debtors.
 - e) Inclusion of undispached goods in Sales.
 - f) Stores Pricing, codification and grouping.
5. In respect of transactions covered under Section 301 of the Companies Act, 1956 :
- (a) According to the information and explanation given to us, in our opinion the Company has entered particulars of contracts or arrangements referred to in Section 301 of the Act in the register maintained under that Section. No comments
 - (b) According to the information and explanation given to us, in our opinion transactions made in pursuance of such contracts or arrangements have been made at prices, which are reasonable having regard to the prevailing market prices at the relevant time. No comments
6. The Company has not accepted deposits from the public within the meaning of Section 58A and 58AA or any other relevant provisions of the Companies Act, 1956 and the rules framed there under. No comments
7. The Company started Internal Audit System during the year by officers of Finance department, and no separate internal audit wing was established. Reports of Internal Auditors pertaining to the whole financial year under audit were not available in units. The internal audit, in our opinion, leaves scope for improvement in widening scope and coverage of audit specially transaction audit to make it commensurate with the size and operations of the company, regular follow up actions and disposal of internal audit comments by the management. Noted

8. As explained to us by the management the Central Government has not prescribed the maintenance of cost records under Section 209 (1) (d) of the Companies Act, 1956, for any of the products of the Company.
9. a. According to the information and explanations given by the Company, undisputed statutory dues including Provident Fund, Income Tax, Sales Tax, Wealth Tax, Service Tax, Customs Duty, Excise Duty, Cess and other statutory dues are generally deposited regularly and no undisputed dues were outstanding as at 31st March, 2006 for a period of more than six months from the date of becoming payable except the cases which are stated below.

No comments

Due to stringent financial condition these statutory liabilities could not be discharged in time.

Name of the Statute	Nature of Dues	Amount Rs.	Period to which the Amount relates
Bihar Finance Act, 1981	Jharkhand Sales Tax	17579692 5507203	Feb-03 to Sep-04 Octo., 04 to Sept. 05
	Central Sales Tax	37600945 38596014	Jan-03 to Sep-04 Octo., 04 to Sept. 05
Bihar Electricity Duty Act, 1948	Electricity Duty	1603316	Octo., 01 to Mar. 02
		3023786	April, 02 to Mar. 03
		3166112	April, 03 Mar. 04
		3506787	April 04 to Mar. 05
		924412	April 05 to Sept. 05

As informed to us Investor Education and Protection Fund and Employees' State Insurance Act are not applicable to the Company.

- b. According to the information and explanations given by the Company, there is no disputed dues of Income Tax, Sales Tax, Wealth Tax, service Tax, Custom Duty, Excise, Cess that have not been deposited on account of matters pending before appropriate authorities except the cases which are stated as below.

Disclosed in Notes on Accounts.

Sr. No.	Statutes	Commissioner Appeals (Rs.)	Tribunal (Rs.)	High Court (Rs.)	Total (Rs.)
1.	Jharkhand Sales Tax	3808000	7830000	-	11638000
2.	Central Sales Tax	656000	9654000	-	10310000
3.	Provident Fund	-	950153513	-	950153513
4.	Excise	-	70192587	-	70192587

10. The accumulated loss of the Company as on 31st March 2006 exceed 50% of its net worth. The

No comments



company has incurred cash losses during the current financial year covered by our audit and also in the immediately preceding financial year.

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| 11. Based on our audit procedures and according to the information and explanations given to us, we are of the opinion that the Company has not defaulted in repayment of dues to financial institutions, banks or debenture holders. | No comments |
| 12. According to the information and explanations given to us, the Company has not granted any loan or advances on basis of security by way of pledge of Shares, Debentures and other Securities. | No comments |
| 13. In our opinion, the Company is not a chit fund or a Nidhi/Mutual benefit fund/society. Therefore, clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 is not applicable to the Company. | No comments |
| 14. The Company has not done any transactions for trading in Shares, securities, debentures and other investments during the financial year under audit. | No comments |
| 15. The Company has not given guarantees for loans taken by others from banks or financial institutions, the terms and conditions, whereof, in our opinion, are prima facie prejudicial to the interest of the Company. | No comments |
| 16. According to the information and explanation given to us and on an overall examination of the Balance Sheet of the Company, we are of the opinion that the term loans were applied for the purpose for which the loans were obtained. | No comments |
| 17. According to the information and explanation given to us and on an overall examination of the Balance Sheet of the Company, We report that no funds raised on short-term basis have been used for long-term investment by the Company. | No comments |
| 18. During the year the Company has not made any preferential allotment of shares. | No comments |
| 19. The Clauses 4(xix) & (xx) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company. | No comments |
| 20. In our opinion and according to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the year, that causes the financial statements to be materially misstated. | No comments |

FOR SALARPURIA JAJODIA & CO.

Chartered Accountants

Sd/-

(LALAN KUMAR)

Partner

Place : Ranchi

Date : 13.09.2006

Sd/-

(S. K. Chakraborty)

Chief of Finance

HEAVY ENGINEERING CORPORATION LIMITED

Balance Sheet as at 31st March 2006

(Rs In Lakhs)

	Schedule	31st March 2006	31st March 2005
SOURCES OF FUNDS			
SHAREHOLDERS' FUND			
SHARE CAPITAL	1	45323.85	43214.85
RESERVES & SURPLUS	2	5181.58	5168.52
LOAN FUNDS			
Secured Loans	3	17626.04	15557.95
Unsecured Loans	4	9785.50	109313.74
	Total	77916.97	173255.06
APPLICATION OF FUNDS			
FIXED ASSETS			
Gross Block		31783.32	31696.86
Less : Depreciation to date		26501.10	26277.29
Net Block	5	5282.22	5419.57
Capital Work-In-Progress	6	898.60	1045.19
INVESTMENT	7	0.36	0.36
CURRENT ASSETS, LOANS & ADVANCES			
Inventories	8	9258.36	10144.86
Sundry Debtors	9	8712.41	10619.50
Cash & Bank Balances	10	11495.04	2183.35
Loans & Advances	11	1677.48	1370.76
		31143.29	24318.47
Less : Current Liabilities and Provisions			
Liabilities	12	55946.99	55811.74
Provisions	13	12745.75	12414.45
		68692.74	68226.19
NET CURRENT ASSETS		(37549.45)	(43907.72)
PROFIT & LOSS ACCOUNT			
Balance as per annexed Account		109285.24	210697.66
	Total	77916.97	173255.06
Notes on Accounts	24		

Schedules 1 to 24 & Significant Accounting Policies form an integral part of the Accounts.

Sd/-
A. K. Kanth
Co. Secretary

Sd/-
S. K. Chakraborty
Chief of Finance

Sd/-
M. K. Singh
Director (HECL, DHI, GOI)

Sd/-
S. Biswas
Actg. Chairman-cum-Managing Director

In terms of our report of even date.

For Salarpuria Jajodia & Co.
Chartered Accountants

Sd/-
(Lalan Kumar)
Partner

Place : Ranchi
Date : 13.09.2006



HEAVY ENGINEERING CORPORATION LIMITED

Profit & Loss Account for the year ended 31st March, 2006

(Rs In Lakhs)

	Schedule	31st March 2006	31st March 2005
EARNINGS			
Turnover (Gross)		17817.80	15907.96
Less Excise Duty		2102.84	2032.40
Turnover (Net)		15714.96	13875.56
Job done for Internal use		436.24	369.05
Accretion / (Decretion) to Semifinished and finished goods	14	411.70	(598.45)
Other Income	15	5392.95	719.97
Loss for the year carried down		8638.83	22136.86
	Total	30594.68	36502.99
OUTGOINGS			
Consumption of raw materials & components	8659.66		7443.60
Less Interplant Transfer	2,986.79	5672.87	2481.87
Consumption of Stores & Spares		3010.98	2052.91
Research & Development Expenditure	16	7.37	6.13
Employees' Remunerations & Benefits	17	5419.39	5615.44
Other expenses of Manufacturing, Administration, Selling & Distribution	18	5911.19	5502.59
Less Interplant Transfer		650.04	719.40
Interest	19	1858.80	15597.57
Depreciation	5	316.73	350.22
Provisions	20	4260.41	2130.62
Township and Social Welfare	21	(228.18)	1005.18
Miscellaneous Losses written off		5015.16	0.00
		30594.68	36502.99
Loss for the year brought down		8638.83	22136.86
Prior Period Adjustment (Net)	22	26.62	6321.23
		8665.45	28458.09
Expenditure under V.R.S.		23.09	43.89
Loss		8688.54	28501.98
Balance being loss brought forward from previous year		210697.66	182195.68
Restructuring	23	(110100.96)	0.00
Balance being loss carried to Balance Sheet	Total	109285.24	210697.66
Notes to Accounts	24		

Schedules 1 to 24 & Significant Accounting Policies form an integral part of the Accounts.

Sd/-
A. K. Kanth
Co. Secretary

Sd/-
S. K. Chakraborty
Chief of Finance

Sd/-
M. K. Singh
Director (HECL, DHI, GOI)

Sd/-
S. Biswas
Actg. Chairman-cum-Managing Director

In terms of our report of even date.

For Salarpuria Jajodia & Co.
Chartered Accountants

Sd/-
(Lalan Kumar)
Partner

Place : Ranchi
Date : 13.09.2006



HEAVY ENGINEERING CORPORATION LIMITED

Schedule - 1

(Rs In Lakhs)

	31st March 2006	31st March 2005
SHARE CAPITAL		
Authorised Capital	50,000.00	50,000.00
5000000 Equity Shares of Rs. 1000/- each		
Issued & Subscribed & Paidup		
43,21,485 (Previous year 43,17,335) Equity Shares of Rs. 1000/- each fully paid up, of which	43214.85	43173.35
5496 (Previous year 5496) Shares allotted for consideration other than cash		
	43214.85	43173.35
Advance against Share Capital (Pending allotment of Share)	2109.00	41.50
Total	45323.85	43214.85

Schedule - 2

RESERVES & SURPLUS

Capital Reserve				
Opening Balance	5168.52		4847.46	
Addition during the year	13.06		322.59	
	5181.58		5170.05	
Deductions during the year	0.00	5181.58	1.53	5168.52

Schedule - 3

SECURED LOANS

Working Capital Loan				
From Bank	17342.40		15350.61	
Add : Interest accrued & due	283.64	17626.04	207.34	15557.95
(Secured by Hypothecation of Raw Materials, Finished Goods, Work-in-Progress, stores and Spare parts and Book Debts)				
Total		17626.04		15557.95

Schedule - 4

UNSECURED LOANS

* From Govt. of India				
Plan Loan	582.50		1527.50	
Non Plan Loan	9203.00		78640.06	
		9785.50		80167.56
* Add : Interest accrued and due				
On Plan Loan	0.00		1786.10	
On Non Plan Loan	0.00		27360.08	
		0.00		29146.18
Short Term Loan from Bank	0.00		0.00	
Add : Interest accrued & due	0.00	0.00	0.00	0.00
Total		9785.50		109313.74

Rs. 3364.35 lakhs payable within next one year, previous year Rs. 95175.60 lakhs.

**Schedule - 5**

(Rs. in lakh)

FIXED ASSETS

Type of Assets	Gross Block at Cost				Depreciation				Net Block	
	Cost as at 31.3.05	Addition / Adjustment	Deduction / Adjustment	Cost as at 31.3.06	Upto 31.3.05	for the year upto 31.03.06	Deduction Adjustment	upto 31.3.06	As at 31.3.06	As at 31.3.05
1	2	3	4	5	6	7	8	9	10	11
Land	233.35	0.00	0.00	233.35	0.00	0.00	0.00	0.00	233.35	233.35
Dvelopment of Land	113.78	0.00	0.00	113.78	0.00	0.00	0.00	0.00	113.78	113.78
Plant & Machinery	21174.75	211.64	0.00	21386.39	18462.71	251.60	0.00	18714.31	2672.08	2712.04
Plant & Buildings	4589.12	0.00	0.00	4589.12	4141.22	37.19	0.00	4178.41	410.71	447.90
Residential Buildings	1586.62	0.00	0.00	1586.62	775.41	25.19	0.00	800.60	786.02	811.21
Non-Residential Buildings	1098.23	5.46	0.00	1103.69	414.94	18.49	0.00	433.43	670.26	683.29
Roads & Bridges	272.39	0.00	0.00	272.39	88.27	4.44	0.00	92.71	179.68	184.12
Railway Lines & Sidings	285.67	0.00	0.00	285.67	271.04	0.18	0.00	271.22	14.45	14.63
Water Works & Sewerage	589.23	0.00	0.00	589.23	530.67	1.48	0.00	532.15	57.08	58.56
Electrical Installations	539.00	0.00	12.05	526.95	498.20	1.40	11.45	488.15	38.80	40.80
Vehicles & Locomotives	312.61	0.00	59.10	253.51	290.70	1.26	56.16	235.80	17.71	21.91
Construction & Other Equip.	312.98	4.00	0.00	316.98	280.56	3.05	0.00	283.61	33.37	32.42
Furniture, Fixtures & Other Office Equipments	589.13	5.91	69.40	525.64	523.57	13.07	65.93	470.71	54.93	65.56
Total	31696.86	227.01	140.55	31783.32	26277.29	357.35	133.54	26501.10	5282.22	5419.57
Previous year's figures	31319.35	377.56	0.05	31696.86	25863.76	413.57	0.04	26277.29	5419.57	

Note :

- Residential Buildings include 4652 Nos. (Previous Year 4652 Nos.) Leased out Quarters, at cost of Rs. 444.90 lakhs (Previous Year Rs. 444.90 Lakhs), depreciated value Rs. 206.51 L (Previous Year Rs. 204.79 Lakhs).
- Deed of conveyance of land for 7199.53 acres includes 2313 acres of land obtained free of cost from the State Govt. and also includes 316.19 acres directly transferred by Bihar Govt. to other Govt. agencies.
- Land includes 331.29 acres leasedout land at cost of Rs. 16.91 Lakhs.

Schedule - 6

31st March 2006

31st March 2005

CAPITAL WORK-IN-PROGRESS AT COST

Plant & Machinery	1400.14	1243.46
Less : Provisions	501.54	198.27
Total	898.60	1045.19

Notes : 1. Items under Capital Work-In-Progress above Rs. 10 Lakhs having no/slow Progress amounts to Rs. 1109.30 L (Previous year Rs. 1119.30 L)

Schedule - 7**INVESTMENTS** (Other than trade investment), Unquoted

918 (Pr. Yr. 918) Equity Share of Rs. 38.95 each of Engineering (Projects) India Limited *	0.36	0.36
Total	0.36	0.36

* The paid up value of equity share of Engineering (Projects) India Limited has been reduced from Rs. 1000/- to Rs. 38.95/- due to restructuring as confirmed by Central Government vide order no. 40/1/2003-CL-III Dated 17.11.2003.



Schedule - 8

(Rs. in Lakhs)

	31st March 2006		31st March 2005	
INVENTORIES				
(As certified by the Management)				
Raw Materials & Components	3985.86		4795.98	
Less Provision / Stock Adjustment	1546.35	2439.51	1683.40	3112.58
Stores, Spares & Components including construction materials	677.58		709.84	
Less Provision / Stock Adjustment	272.35	405.23	97.29	612.55
Goods-in-Transit/Under Inspection	844.96		523.71	
Less Provision	334.46	510.50	269.51	254.20
Loose tools, Drawing instruments etc.	445.36		457.74	
Less Provision	0.00	445.36	0.00	457.74
Stock of finished products	471.42		1416.62	
Less Provision	271.99	199.43	17.51	1399.11
Work-In-Progress	5586.09		4438.70	
Less Provision	402.10	5183.99	130.02	4308.68
Work-In-Progress (Turnkey Project)	70.81		0.00	
Less Provision	0.00	70.81	0.00	0.00
Discarded Assets	7.01		0.00	
Less Provision	3.48	3.53	0.00	0.00
Total Inventory	12089.09		12342.59	
Less Provision / Stock Adjustment	2830.73	9258.36	2197.73	10144.86

- Note :**
1. Finished Stock & WIP includes items worth Rs. 103.28 L (Previous Year Rs. 98.40 L) against closed, cancelled & old workorders which has been valued at scrap rates.
 2. Non-Moving Raw Materials and Store & Spares for more than 3 yrs are Rs. 1083.64 L (Previous Year Rs. 1909.86 L). The existing Provision is considered adequate.
 3. Goods In Transit includes CV Duty Rs. 23.52 Lakhs, (Previous Year Rs. 26.87 Lakhs).
 4. Material lying with third parties amounting to Rs. 149.10 L for which provision exists Rs. 138.32 L.
 5. Finished goods includes Rs. 103.54 Lakhs lying at Depot.
 6. Raw Materials & Components including scrap at shop floor Rs. 220.13 L (Previous year Rs. 44.95 L).

Schedule - 9

SUNDRY DEBTORS-UNSECURED

	Over Six Months	Other Debts	Total Debts		Over Six Months	Other Debts	Total Debts
(A) Public Sector & Govt. Deptt.							
Considered Good	5220.94	3068.87	8289.81		6588.53	3764.31	10352.84
Considered Doubtful	3353.74	40.67	3394.41		5611.57	29.43	5641.00
	<u>8574.68</u>	<u>3109.54</u>	<u>11684.22</u>	<u>11684.22</u>	<u>12200.10</u>	<u>3793.74</u>	<u>15993.84</u>
							<u>15993.84</u>
(B) Others							
Considered Good	245.96	176.64	422.60		207.54	59.12	266.66
Considered Doubtful	171.21	0.31	171.52		941.55	12.03	953.58
	<u>417.17</u>	<u>176.95</u>	<u>594.12</u>	<u>594.12</u>	<u>1149.09</u>	<u>71.15</u>	<u>1220.24</u>
			Total	12278.34			<u>1220.24</u>
							<u>1220.24</u>
			Total	12278.34			<u>17214.08</u>
Less : Provision for Doubtful Debts			3292.09				3309.32
Provision for Liquidated Damages			273.84				3285.26
			<u>3565.93</u>	<u>3565.93</u>			<u>6594.58</u>
			Total	8712.41			<u>6594.58</u>
							<u>10619.50</u>

Note : Sundry Debtors include unbilled despatches Rs. 1443.54 L (Previous year Rs. 657.15 L) after adjustment of contra advance of Rs. 0.00 L (Previous year Rs. 1.75 L) Sundry Debtors also include not due Rs. 1834.59 L (Previous year Rs. 2292.37 L).



Schedule - 10

(Rs. in Lakhs)

	31st March 2006	31st March 2005
CASH AND BANK BALANCES		
Cash, Cheques and draft in hand (including stamps/Mutilated notes Rs. 0.07 lakhs) Prv. Year Rs. 0.01 lakhs)	24.71	145.11
Cheques - in - Transit	9757.26	389.84
Balance with Schedule Bank Current Account (Includes Rs. 147.35 lakhs, (Previous year Rs. 762.58 lakhs) kept aside for specific/identified expenses)	1713.07	1648.40
Total	<u>11495.04</u>	<u>2183.35</u>

Schedule - 11

LOANS AND ADVANCES

Advances and other amounts recoverable in cash or in kind or for value to be received (including cost of materials supplied to the contractors, outside parties and / or pending adjustment)

Unsecured

Considered Good	1396.33		1139.81	
Considered Doubtful	633.85		<u>586.82</u>	
	2030.18		1726.63	
Less : Provn. for bad & doubtful Advances	633.85	1396.33	<u>586.82</u>	1139.81
Balance with emp. Co-operative	8.77		8.77	
Less : Provision	<u>8.67</u>	0.10	<u>8.67</u>	0.10
Deposits with private parties for services and works				
Considered Good		2.41		3.05
Deposits with Government Authorities		124.24		113.01
Prepaid Expenses		5.87		3.85
Claims Receivable		137.45		99.75
Income Tax deducted at source		10.37		10.47
Security Deposit of Staff and Contractors as per contra in Schedule-12		0.71		0.72
Total		<u>1677.48</u>		<u>1370.76</u>

Amount due from Directors Rs. 0.00 L, Maximum amount due at any point of time during the year from Directors 0.25 L

Schedule - 12

LIABILITIES

SUNDRY CREDITORS

Dues to SSI	104.97		77.46	
VRS Liabilities	65.85		359.40	
Others	47681.63	47852.45	<u>46106.97</u>	46543.83

OTHER LIABILITIES

Advance from Customers	3956.33		3400.25	
Security & Other deposits from contractors etc.	2175.80		1457.01	
Security & Other deposits as per contra in schedule-11	0.71		0.72	
Book Overdraft with Scheduled Bank	129.98		387.17	
Miscellaneous	<u>1818.54</u>	8081.36	<u>1708.04</u>	6953.19
Interest Accrued but not due		13.18		<u>2314.72</u>
Total		<u>55946.99</u>		<u>55811.74</u>



Schedule - 13

(Rs. in Lakhs)

	31st March 2006	31st March 2005
PROVISIONS		
Provision for Gratuity	4808.23	4563.81
Provision for Leave Encashment	2252.45	2159.67
Provision for Revision of Pay Scale for employees	5527.21	5568.36
Provision for Impaired Assets	2.09	0.00
Provision for After Sales Services	154.41	122.61
Provision for Misc. Loss	1.36	0.00
Total	12745.75	12414.45

Schedule - 14

ACCRETION / (DECRETION) TO VALUE OF W.I.P. & FINISHED STOCK

Work-In-Progress				
Opening Stock	4438.70		5150.39	
Closing Stock	5656.90	1,218.20	4438.70	(711.69)
Finished Stock				
Opening Stock	1416.62		1303.38	
Transferred to Raw Materials	138.70			
Closing Stock	471.42	(806.50)	1416.62	113.24
Total		411.70		(598.45)

Schedule - 15

OTHER INCOME

Interest	5.17	3.70
Rent	0.68	1.18
Miscellaneous Income	268.22	343.32
Profit on Sale of Stores	148.90	187.76
Excess provision written back	4960.58	172.35
Income from HTI	9.40	11.66
Total	5392.95	719.97

Schedule - 16

RESEARCH & DEVELOPMENT EXPENSES

Material Stores & Spares Consumed	0.60	0.09
Salary & Allowances	5.77	5.04
Depreciation	1.00	1.00
Total	7.37	6.13



Schedule - 17

(Rs. in Lakhs)

	31st March 2006	31st March 2005
EMPLOYEE'S REMUNERATIONS & BENEFITS		
Salaries, Wages & Bonus	4733.09	4673.16
Corporation Contribution to Provident Fund & Employee's Pension Fund	408.98	401.53
Workmen and Staff Welfare Expenses	342.78	321.51
(includes LTA provision Rs. 133.46 L, (Prev. Years Rs. 144.48 L) made on estimated basis)		
Gratuity	520.20	824.02
Total	6005.05	6220.22
Less : i) Transferred to Township & Social Overhead Expenses	579.89	599.74
ii) Transferred to R&D Expenses	5.77	5.04
Total	5419.39	5615.44

REMUNERATION TO DIRECTORS

(including Chairman cum Managing Director)

Salary	2.56	3.87
Provident Fund Contribution	0.26	0.39
Gratuity	0.13	0.26
Total	2.95	4.52

Note : Full time Directors have been allowed the use of Company's Car including private journeys upto a ceiling of 750 Kms. per month on payment of Rs. 325/- per month in accordance with the latest amendment issued vide Govt. of India, Ministry of Industry, dated 23rd Sept. 1999.

Schedule - 18

OTHER EXPENSES OF MANUFACTURING, ADMINISTRATION, SELLING & DISTRIBUTION

Power & Fuel	2595.51	2391.42
Rent (incl. Rates & taxes Rs. 1.44 lakhs, pre. year Rs. 1.46 lakh)	7.03	7.34
Excise Duty	108.81	73.99
Insurance	10.51	11.79
General Expenses (including Rs. 649.23 lakhs, pre. year Rs. 613.99 lakhs on exp. on CISF)	1041.58	930.16
Motor Vehicle Running Expenses	26.51	24.57
Sales Promotion	126.01	103.89
Repairs & Maintenance		
Plant & Machinery	422.56	385.12
Buildings	29.74	34.18
Others	97.25	81.60
Auditor's Remuneration		
Audit Fees	1.35	1.32
Tax Audit Fees	0.22	0.18
Amortisation of Tools	364.70	301.01
Training Expenses	0.52	0.29
Other Charges for Production		
Machining Charges	528.49	689.43
Others *	550.40	466.30
Total	5911.19	5502.59

Note : Repairs & Maintenance includes Stores & Spares Rs. 383.97 Lakhs (Pre. year Rs. 338.23 Lakhs)

* Includes Bonus of Rs. 35.28 Lakhs Pre. Year Rs. 23.25 Lakhs payable under Works Contract.



Schedule - 19

(Rs. in Lakhs)

	31st March 2006	31st March 2005
INTEREST		
Interest on Govt. Loan	13.18	13179.41
Interest on Others	1845.62	2418.16
Total	1858.80	15597.57

Schedule - 20

PROVISIONS		
Provision for Bad & Doubtful Debts and Advances	2202.61	446.55
Provision for Liquidated Damages	251.41	1572.16
Provision for Impaired assets	2.09	0.00
Miscellaneous Provisions	1804.30	111.91
Total	4260.41	2130.62

Schedule - 21

TOWNSHIP AND SOCIAL EXPENSES

Expenses

Payment to and Provision for Employees	579.89		599.74
Genl. expenses (including environmental exp. Rs. 2.00 lakhs & pre. year Rs. 2.00 lakhs)	9.49		8.26
Water & Electricity Charges	119.39		984.62
Municipal Taxes / Charges	8.00		8.00
Motor Vehicle Running Expenses	3.16		2.90
Repairs & Maintenance (including Stores Rs. 4.28 lakhs, pre. year Rs. 2.99 lakhs)			
Buildings	2.24	1.47	
Others	13.66	13.63	15.10
Depreciation	39.13		39.02
Provision	11.69		47.63
Total	786.65		1705.27
Income from Township			
Rent, Water and Electricity Charges	787.41		656.07
Interest	0.01		0.98
Miscellaneous Income	227.41		43.04
Total	1014.83		700.09
Debit to Profit & Loss Account	(228.18)		1005.18

Schedule - 22

PRIOR PERIOD ADJUSTMENT

Income

Sales (including services)	39.69	(271.25)
Previous yr. exp. written back	2.59	9.85
Other Miscellaneous Income	363.91	12.03
Total	406.19	(249.37)
Less : Expenses		
Raw Materials Consumed	133.17	513.39
Stores & Spare Parts Consumed	16.70	0.00
Provision against RM Written back	0.00	(481.16)
Payment to & Provision for Employees	52.56	0.08
Govt. Interest	0.00	4,220.51
Township Load	283.39	1,796.24
Depreciation	0.44	20.66
Miscellaneous Expenses (Net)	(53.45)	2.14
Total	432.81	6,071.86
Net	26.62	(6,321.23)

Schedule - 23

Restructuring

(i) Waiver of Non Plan Loan	(78,640.06)	0.00
(ii) Waiver of Govt. Interest	(31,460.90)	0.00
Total	(110100.96)	0.00



CASH FLOW STATEMENT ANNEXED TO THE BALANCE SHEET
FOR THE PERIOD APRIL 2005 - MARCH 2006

	(Rs. in lakhs)	
	2005-06	2004-05
A. CASH FLOW FROM OPERATING ACTIVITIES :		
Net Profit before Tax	101,412.44	(28,501.98)
Adjustments for :		
Depreciation	357.35	413.53
Interest Expenses	1,858.80	15749.33
Impact of Restructuring	(110,100.96)	
Interest Income	—	—
Provisions	331.30	809.68
<i>Operating Profit before Working Capital Changes</i>	(107,553.51)	16,972.54
	(6141.07)	(11529.44)
Adjustments for :		
Trade and Other Receivables (Net of Provision)	1,907.09	1,749.97
Inventories (Net of Provision)	886.48	177.12
Trade Payables	135.25	(2,503.68)
Loans & Advances	(306.72)	2,622.10
<i>Cash Generated from Operations</i>	(147.05)	(723.64)
	(3,518.97)	(12,253.08)
Taxes Paid	—	—
<i>Net Cash from Operating Activities</i>	(3,518.97)	(12,253.08)
B. CASH FLOW FROM INVESTING ACTIVITIES :		
Purchase of Fixed Assets	(227.01)	(56.28)
Sale/Adjustment of Fixed Assets	7.01	—
Adjustment in Capital Work-in-Progress	146.59	—
Purchase of Investments	—	—
<i>Net Cash from Investing Activities</i>	(73.41)	(56.28)
C. CASH FLOW FROM FINANCING ACTIVITIES :		
Increase / (Reduction) in Share capital	2,109.00	41.50
Proceeds from Long-Term Borrowings	—	12,877.89
Interest payment	(1,858.80)	
Waival / Restructuring of Unsecured Loan	(99,528.24)	—
Impact of Restructuring	110,100.96	
Short Term Loans	2,068.09	(852.00)
Liability for leased assets	13.06	321.06
Net cash used in financing activities	12,904.07	12,388.45
Net increase / (decrease) in cash and cash equivalents	9,311.69	79.09
Opening Balance of Cash and Cash Equivalents	2,183.35	2,104.26
Closing Balance of Cash and Cash Equivalents	11,495.04	2,183.35
	9,311.69	79.09



Schedule - '24'

NOTES ON ACCOUNTS

The accounts of the Company have been prepared on a "going concern basis" which is dependent on the availability of finance and its future profitability. The Company continues to be a Sick Industrial Company within the meaning of Section 3(1)(0) of Sick Industrial Companies (Special Provisions) Act, 1985 with its negative net worth. The Company was referred to the Board for Industrial and Financial Reconstruction (BIFR) on 24th February, 1992. The BIFR on 26.08.96 sanctioned the Rehabilitation Scheme and Government of India approved the same on 07.02.97 with cut off date as on 31.03.95.

BIFR declared this scheme as failed and had directed the company to submit a revised revival proposal which was submitted to the Operating Agency on 11.07.2003. On 06.07.2004 BIFR issued an order for winding up of the company.

Subsequent to the issue of winding up order by the BIFR on 06.07.2004, the Company filed an appeal before Appellate Authority for Industrial and Financial Reconstruction (AAIFR) on 02.08.2004 for quashing / staying the winding up order. The Department of Heavy Industry also filed an appeal for revival of the company before AAIFR on 20.08.2004.

As no bench of AAIFR was functioning, the company filed a writ Petition No. 4513/04 on 18.08.04 before the Hon'ble High Court of Jharkhand for quashing / staying the winding up order.

Several hearing have been held by the Hon'ble High Court of Jharkhand between 09.09.2004 to 27.04.2005. Department of Heavy Industry and Government of Jharkhand have filed affidavits at the Hon'ble High Court showing their earnest desire to revive HEC.

Meanwhile the Revival proposal of the Company submitted to Board for Reconstruction of Public Sector Enterprises (BRPSE) was considered on 07.10.2005 and the proposal was duly recommended by BRPSE and was approved by Union Cabinet on 15.12.2005 which are as follows :

- (i) Conversion of Plan Loan of Rs. 15.27 Crores in to equity.
- (ii) Waiver of Non-Plan loan and Interest thereon amounting to Rs. 1101.02 Crores.
- (iii) Providing Government guarantee for working capital from Bank.
- (iv) Infusion of funds of Rs. 102.00 Crores as non plan bridge loan repayable within a period of 3 (three) years.
- (v) Settlement of JSEB dues of Rs. 500.00 Crores and CISF dues of Rs. 73.00 Crores by transferring commensurate amount of land.
- (vi) Company to mobilize Rs. 330.00 Crores by transferring non-residential and residential buildings to Government of Jharkhand which are already on rent with State Government and settlement of residences, commercial and institutional area on long term lease. The amount so generated would be utilized for meeting Capex expenditure, liquidating the liabilities of State Bank of India, Employee dues and Sales Tax.

On 09.03.2006 Hon'ble High Court of Jharkhand suggested proposal and directed all parties to state whether they are agreeable to these. On 23.03.2006 Hon'ble High Court permitted the Company for mobilization of Rs. 330 crores. On 27.04.2006. Hon'ble Court further permitted the Company for settlement of CISF dues by transferring commensurate amount of land.

Mean while Govt. of India has provided funds of Rs. 102 Crores in the form of Non-Plan Loan of Rs. 92.03 Crores. Plan Loan of Rs. 4.985 Crores and the balance amount of Rs. 4.985 Crores as Equity.

On 13.07.2006. The High Court of Jharkhand also approved the Central Government proposal for conversion of Plan loan into Equity and waiver of Non-Plan Loan and interest on Plan Loan and Non-Plan Loan as stood on 31.03.2005 and accordingly this has been considered in the Annual accounts 2005-2006.



1. Estimated amount of contracts, remaining to be executed on capital account and not provided for is Rs. 29.62 Lakhs (Previous year Rs. 7.68 Lakhs).
2. **Contingent Liabilities :**
 - a. Claims against the corporation not acknowledged as debts Rs. 6688.37 Lakhs (Previous year Rs. 6917.71 Lakhs).
 - b. Unexpired Letter of Credit Rs. 509.09 Lakhs (Previous year Rs. 694.17 Lakhs).
 - c. Unexpired bank Guarantee Rs. 1563.23 Lakhs (Previous year Rs. 1642.58 Lakhs).
 - d. Delayed payment surcharge on Energy Charges Rs. 40181.15 Lakhs (Previous year Rs. 44625.45 Lakhs).
 - e. Water Charges Rs. 883.91 Lakhs (Previous year Rs. 836.49 Lakhs).
 - f. Damages of PF dues Rs. 9501.54 Lakhs (Previous year Rs. 9501.54 Lakhs).
 - g. Others including Legal Cases Rs. 1402.35 Lakhs (Previous year Rs. 1277.27 Lakhs).
3. One time premium of Rs. 13.06 lakhs (previous year Rs. 322.59 lakhs) received during the year against leasing out of quarters on long term basis has been accounted for under Capital Reserve irrespective of date of agreement.
4. (a) Turnover includes services Rs. 255.66 Lakhs (Pr. Yr. Rs. 223.07 Lakhs.)
(b) Turnover include unbilled sales amounting to Rs. 1377.60 lakhs including escalation (previous year Rs. 393.81 lakhs).
(c) Turnover include Rs. 80.69 Lakhs in respect of turnkey contract executed by HMBP (previous year Rs. 54.37 lakhs) valued at provisional rate on the basis of payment terms of the contract to the extent goods completed, inspected, despatched / on delivery to the carrier and billed.
(d) Interplant transfer of Rs. 3636.83 Lakhs (previous year Rs. 3201.27 Lakhs.) including services of Rs. 438.37 Lakhs (previous year Rs. 719.40 Lakhs) have been excluded from total Turnover of the Company.
5. In the absence of a wages agreement, no provision for pay revision due from 01.01.97 has been considered.
6. Confirmation of balances of various Accounts like Sundry Debtors, Loans & Advances, Deposits, Sundry Creditors etc. could not be obtained from the respective parties.
7. Interest amounting to Rs. 24.00 Lakhs on over due amount of Rs. 104.90 Lakhs to SSI Units has not been provided.
Name of the Small Scale Industrial Undertakings to whom an amount exceeding of Rs. 1.00 lakhs was outstanding for more than 45 days are as at Annexure-1.
8. Against the provision for 1992 wage revision arrears amounting to Rs. 5568.36 lakhs an amount of Rs. 683.30 Lakhs has been paid as adhoc advance in earlier years.
9. As a measure of prudence, the deferred tax assets (Net) in terms of AS-22 issued by the Institute of Chartered Accountants of India (ICAI) have not been recognised in the absence of their being virtual certainty supported by convincing evidence that sufficient future taxable income would be available against which such deferred tax assets could be realised.
10. Interest for delay in depositing Statutory dues and other remittances is provided wherever applicable and ascertained.
11. Segment information in accordance with Accounting Standard-17 (AS-17) issued by ICAI are furnished at Annexure-2.
12. Disclosure as required by Accounting Standard - 18 (AS-18) "Related Party Disclosures" issued by ICAI is as follows :- (Rs. in lakhs).



(Rs. in lakhs)

Names of the Related Parties**Details of Transaction**

Key Management Personnel	Period	Remunerations	Terminal Benefits
1. Sri S. Biswas, D(P) Acting CMD	4/2005-3/2006	2.82	0.35
	Total	2.82	0.35

In addition to the above he has been provided housing, car at concessional rate.

13. In certain areas like Transport, Hospital consumable like Petrol, Diesel, Medicines and Stationary are treated as consumed during the year.
14. As required under section 211(3A), (3B) and (3C) of the companies act, 1956 the following disclosure is made.
Deviation from Accounting Standards as mentioned in sub section (3C) with reasons and impact are mentioned below :-
 - (a) Valuation of inventories of finished and semi finished goods could not be done in some cases in conformity with the requirement of AS-2 as the amount is not ascertainable.
15. The previous years figures have been regrouped, recast, reclassified and rearranged to make them comparable as far as practicable with those of current year.
16. The schedule 1 to 24 and the Significant Accounting Policy form an integral part of these accounts.

**ANNEXURE - 1****ANNEXURE TO NOTE NO. 07 OF SCHEDULE '24'**

Name of the Small Scale Industrial Undertakings to whom an amount exceeding of Rs. 1.00 lakhs was outstanding for more than 45 days.

- | | |
|----------------------------------|--------------------------------------|
| 1. Bholia Industries | 10. Eastern Alloys Pvt. Ltd. |
| 2. Amit Steel Industries | 11. Techno Tools |
| 3. New Standard Engg. Works | 12. R. N. Singh & Co. |
| 4. Ashok Industry Corporation | 13. Rajesh Engg. & Casting |
| 5. Chhotanagpur Industrial Gases | 14. Ideal Engineering Works |
| 6. Engineers & Engineers | 15. Indian Steel Fabricators, Ranchi |
| 7. Himmat Steel Foundry | 16. Lee Industries |
| 8. Hatia Engineering Complex | 17. R. Traders |
| 9. Indian Steel Fabricators | |



ANNEXURE 2

ANNEXURE TO NOTE NO. 11 OF SCHEDULE - "24"

Information about different business units (Segments)

(Rs. in lakhs)

	Foundry Forge Plant	Heavy Machine Build. Plant	Heavy Machine Tools Plant	Total
REVENUE				
External Sales	5214.01	11033.94	1569.85	17817.80
Inter-plant/Job done for own use	3555.51	226.62	290.94	4073.07
Total Revenue	8769.52	11260.56	1860.79	21890.87
RESULT				
Net Profit (Before Intt.)	(3659.11)	(2340.34)	(780.58)	(6780.03)
Interest	706.22	1022.48	130.10	1858.80
Profit from ordinary activities	(4365.33)	(3362.82)	(910.68)	(8638.83)
Prior period Income	(95.46)	117.75	(48.91)	(26.62)
V.R.S. Exp.	3.33	15.55	4.21	23.09
Net Profit	(4464.12)	(3260.62)	(963.80)	(8688.54)
OTHER INFORMATION				
Segment Assets	6568.26	10741.16	3517.99	20827.41
Addition during year	206.66	-0.27	4.38	210.77
Unallocated Assets				16286.29
Total Assets				37324.47
Segment Liabilities	38599.55	11552.76	2526.92	52679.23
Unallocated Liabilities				16013.51
Total Liabilities				68692.74
Capital Expenditure	47.96	(3.06)	2.69	47.59
Unallocated Capital Expenditure				(107.72)
Total Capital Expenditure				(60.13)
Depreciation	204.14	67.76	32.87	304.77
Unallocated Depreciation				52.58
Total Depreciation				357.35



Additional Information Pursuant to the Provision of Part - II of Schedule - VI to the Companies Act, 1956.

A. Employees who were in receipt of or were entitled to receive emoluments (including benefits) of Rs. 24,00,000.00 or more for the year (and Rs. 2,00,000 or more per month when employed for a part of the year for current year).

(Rs In Lakhs)

Current Year
NIL

Previous Year
NIL

B. CAPACITY AND PRODUCTION

	Licensed Capacity		Installed Capacity		Actual Production	
	2005-06	2004-05	2005-06	2004-05	2005-06	2004-05
	III/II Stage in M. T.	III/II Stage in M. T.	M. T.	M. T.	M. T.	M. T.
Goods Manufactured						
F. F. P.						
G. I. castings	33,345	33,345	33,345	33,345	1,196	1,774
Steel Castings	40,182	40,182	40,182	40,182	3,632	3,856
Forging and Forged Rolls	41,463	41,463	41,463	41,463	5,941	4,880
N. F. Castings	700	700	700	700	83	79
G. I. Moulds	1,110	1,110	1,110	1,110	145	233
Steel Ingots, Core and Synthetic Iron	40,000	40,000	40,000	40,000	5,841	5,161
Rolls (G. I. & Steel)	17,740	17,740	17,740	17,740	-	-
	174,540	174,540	174,540	174,540	16,838	15,983

Notes : Production Figures are inclusive of production for internal use and is indicated on the production of individual shop against each license. Some of the finished products are used as inputs in other Shops.

Production figures are as certified by the Management.

H. M. B. P.

Metallurgical Machinery & Equipment	80,000	80,000	80,000	80,000	4,159	5,447
Structurals	25,000	25,000	25,000	25,000	-	-
	105,000	105,000	105,000	105,000	4,159	5,447

Notes : 1. Production figures are as certified by the management.

2. Total Production figures derived by deduction of opening stock from total sales and closing stock.

3. Actual Production includes despatches from off-loading parties and other suppliers.

4. Production figures are inclusive of production for internal use.

Turn Key Project : No of Contract - 1 No.

Rs. In Lakhs
80.69 262.44

H. M. T. P.

Machine Tools, Accessories/

Spares & Other products	10,000	10,000	10,000	10,000	579.44	1,093.21
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Including Machinery 04 No. (Previous year 1 No.)

including special accessories

and jobbing 275 Nos. (Previous year 291 Nos.)

Notes : 1. Production figures are exclusive of Inter Plant Transfer but includes 0 No. of CNC Machine manufactured for Sister Plant (Previous Year 0 No.)

2. Production figures are as certified by the Management.

(RS. IN LAKHS)

C. TURNOVER

	Quantity M. T.		Sales less Return Value	
	2005-06	2004-05	2005-06	2004-05
F. F. P.				
Iron Castings	-	-	-	-
G. I. Castings	828.82	865.18	367.24	236.77
Steel Castings	1,398.79	1,478.99	945.34	992.73
Forging & Forged Rolls	1,894.96	906.97	3,120.08	1,839.12
Export Sales	-	-	-	-
Rolls	-	-	-	-
Coal Tar	-	-	-	189.86
Excise Duty recovered	-	-	231.29	406.03
Services	-	-	550.06	38.79
	4,122.57	3,251.14	5,214.01	3,703.30

Note : Sales exclude inter unit transfer and items for internal use.

H. M. B. P.

Metallurgical Machinery & Equipment	4,756.20	5,417.60	9,443.76	9,711.56
Structural	-	-	-	-
Turnkey Project	2 Nos.	2 Nos.	80.69	317.02
	4,756.20	5,417.60	9,524.45	10,028.58

Note : Sales includes - Machining charges Rs. 0.00 lakhs (Previous year Rs. 0.00 lakhs), which is a part of services.

Sales Excludes :-

- i) Rs. 1397.88 lakhs (pre. year Rs. 1569.13 lakhs) on account of Excise Duty.
- ii) Rs. 111.61 lakhs (pre. year Rs. 107.01 lakhs) on account of services rendered.
- iii) Inter Plant Transfer of 355.677 MT valued at Rs. 211.67 lakhs (pre. year 1367.60 MT Valued at Rs. 331.21 lakhs) out of which structural 0.0 MT valued at Rs. 0.0 lakhs (pre. year 0.00 MT valued Rs. 0.00 lakhs).
- iv) Rs. 14.95 lakhs on account of job done for own use (pre. year Rs. 56.59 lakhs).

	Quantity M. T.		Sales less Return Value	
	2005-06	2004-05	2005-06	2004-05
H. M. T. P.				
Machine Tools 4 Nos. (pre. year 1 Nos.)	290.00	10.00	1,167.15	25.00
Special Accessories & Jobbing (275 Nos.) (pre. year 291 Nos.)	133.97	263.08	206.25	340.44
	423.97	273.08	1,373.40	365.44

Notes : 1. Income from services amounting to Rs. 41.55 lakhs has been excluded from the above turnover (previous year Rs. 77.28 lakhs).

2. Excise Duty recovered amounting to Rs. 154.90 lakhs has not been shown in the above turnover (previous year Rs. 57.23 Lakhs).

**D. STOCK OF FINISHED GOODS**

Goods manufactured	Opening Stock (01.04.2005)		Closing Stock (31.03.2006)	
	Quantity (MT)	Value (Rs. in lakhs)	Quantity (MT)	Value (Rs. in lakhs)
F. F. P.				
G. I. Castings	107.24	5.20	-	-
	(107.24)	(5.20)	(107.24)	(5.20)
Steel Casting	84.35	5.24	84.35	5.24
	(107.05)	(3.91)	(84.35)	(5.24)
Steel Forging & Forged Rolls	26.76	36.49	1.92	0.12
	(13.20)	(0.48)	(26.76)	(36.49)
Patterns	-	-	-	0.12
	-	-	-	-
Bye-Product-Coal Tar	203.62	14.37	174.52	15.10
	(173.36)	(12.23)	(203.62)	(14.37)
Provision for Excise Duty	-	6.55	-	-
	-	-	-	(6.55)
	421.97	67.85	260.79	20.58
	(400.85)	(21.82)	(421.97)	(67.85)

Notes : 1. Figures in brackets are for the previous year.

H. M. B. P.

Metallurgical Machinery & Equipments	1,023.27	1,147.53	426.04	367.14
	(993.84)	(1,134.44)	(1,023.27)	(1,147.53)
Structural	-	-	-	-
	1,023.27	1,147.53	426.04	367.14
	(993.84)	(1,134.44)	(1,023.27)	(1,147.53)

Notes : 1. Figure in the brackets are for the previous year.

2. Value of Closing Stock does not include Rs. 65.65 lakhs (pre. year Rs. 183.73 lakhs) on account of Excise Duty.

H. M. T. P.	Quantity	(MT)	Value	Quantity	(MT)	Value
			(Rs. in lakhs)			(Rs. in lakhs)
Machine Tools	0 No.	0.00	0.00	0 No.	0.00	0.00
	(0 No.)	(0.00)	(0.00)	(0 No.)	(0.00)	(0.00)
Special Accessories &	1 No.	16.50	17.51	9 No.	17.90	18.04
Spares & Jobbing work	(1 No.)	(16.50)	(17.51)	(1 No.)	(16.50)	17.51
	1 No.	16,50	17.51	9 No.	17.90	18.04
	(1 No.)	(16.50)	(17.51)	(1 No.)	(16.50)	(17.51)

Note :Figures in brackets are for previous year.

E. RAW MATERIAL CONSUMPTION

(Including bought out items and direct despatches)

(Rs. in Lakhs)

Items		2005-06		2004-05	
		Quantity	Value	Quantity	Value
F. F. P.					
Alloy Steel	MT	576	281.95	225	123.68
Ferrous & Ferro Alloy	MT	6,754	1,197.78	7,846	1,264.89
Non-Ferrous Alloy	MT	143	215.52	216	172.63
Crank Shaft		95	352.27	33	309.68
Timber	CM	37	71.09	25	43.54
	SQ.FT	6,465		4,356	
	NO				
			2,118.61		1,914.42
H. M. B. P.					
Grey Iron Castings	MT	125	72.28	534	266.76
Steel Castings	MT	1,549	1,440.07	1,166	937.28
Steel Forging	MT	863	1,161.64	652	928.26
Non Ferrous Castings	MT	24	105.50	22	81.67
Steel Plates, Profiles &	MT	2,569	959.32	1,756	585.67
Other Materials	MT	—	—	—	—
Component/Accessories &	NOS	402	830.78	86	1,335.77
Completed Items including	MT				
direct Despatches & imported					
Fabricated Items	NOS	227,570	124.16	201,562	336.39
Machinery Parts	MTRS	8,709		16,419	
Spares	KG	2,498		3,255	
Bolts, Nuts, Tools etc.	SQR MT	92		197	
Electricals	MTRS	27,015	574.49	61,890	316.07
	NOS	-		-	
	KG	769		732	
	SET	88,015		-	
Bearings	NOS	1,709	86.90	1,759	130.69
MISCELLANEOUS (GR-99)	LITRE	638	219.03	229	77.21
			5,574.17		4,995.77
H. M. T. P.					
Castings (Indigenous)		11373 Nos.	501.97	1005 Nos.	218.02
Components (Imported)		385 Nos.	138.37	621 Nos.	81.01
Misc. Items (Indigenous)		367039 Nos.	326.54	232789 Nos.	234.38
			966.88		533.41

Value of consumption of Raw Materials, Components, Stores & Spare Parts (Including purchase of finished goods) and percentage thereof.

(Rs. in Lakhs)

	<u>2005-06</u>		<u>2004-05</u>	
	Value	%	Value	%
(a) Raw Materials				
(i) Imported*	1,199.23	13.85	1599.24	21.48
(ii) Indigenous	7,460.43	86.15	5844.36	78.52
	<u>8,659.66</u>	<u>100.00</u>	<u>7,443.60</u>	<u>100.00</u>
(b) Stores & Spares (including stores and spares used for repairs & Maintenance)				
(i) Imported	170.48	5.02	78.98	3.70
(ii) Indigenous	3,225.07	94.98	2,054.36	96.30
	<u>3,395.55</u>	<u>100.00</u>	<u>2,133.34</u>	<u>100.00</u>

Note : * Exclusive of imports through canalised agencies

F. VALUE OF IMPORTS ON CIF BASIS

Raw materials, Spare Parts

Components	1,538.30	1,566.86
Capital Goods	-	-
Total	<u>1,538.30</u>	<u>1,566.86</u>

In case of HMBP, CIF value of Raw Material, Spare Parts include cost of material and 5.5% of cost material for insurance and freight.

G. EXPENDITURE IN FOREIGN CURRENCY

Salaries & Allowances to Foreign Experts (including TA, DA etc)	-	-
Expenses on Trainees	-	-
Technical know-how fee	-	-
Liaison Office Maintenance expenses at U.S.S.R. & Others	-	-
Fees & Air Fair to Foreign Experts	-	-
Travelling Allowances to Directors & Officers Abroad	-	-
Payment for Tech. Supr.	-	-
Interest for Deferred Credit	-	-
Royalty	-	-
Others (Payment made on behalf of a customer)	6.52	111.13
	<u>6.52</u>	<u>111.13</u>

H. EARNINGS IN FOREIGN EXCHANGE

Export of Goods calculated on F.O.B. Basis	-	-
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SIGNIFICANT ACCOUNTING POLICIES

1. The Financial statements have been prepared as of a going concern on historical cost convention and on accrual method of accounting in accordance with the generally accepted accounting principles.
2. **FIXED ASSETS**
 - (i) Fixed assets (Other than Land acquired from State Government) are carried at the cost of acquisition or construction less accumulated depreciation.
 - (ii) Land acquired free of cost from the State Government is taken at nominal value of Re. 1/- per acre.
 - (iii) Government grants related to specific Fixed assets are adjusted against its gross value.
3. **INVENTORY VALUATION**
 - (i) Inventory is valued at actual/estimated cost or net realisable value, whichever is lower.
 - (ii) Finished goods and work-in-progress are valued at actual/estimated factory cost or net realisable value whichever is lower.
 - (iii) Raw material, components, loose tools, stores & spares are valued at weighted average cost.
 - (iv) Items that are not ordinarily interchangeable and goods or services produced & segregated for specific projects are valued in the basis of specific identification of individual cost.
 - (v) Rejection and scrap are valued at its closing book rate where it is used as raw material.
 - (vi) Coal Tar a by product is valued at market price.
 - (vii) Material in transit on proof of dispatch awaiting inspection is valued at cost incurred.
 - (viii) The percentage of completion i.e. the stage of completion of work-in-progress is taken as certified by Shop management on technical assessment.
 - (ix) Loose tools, Drawing instruments, etc. issued to shops are carried to inventory after writing off in 4 years in case of ordinary tools, in 10 years in case of special tools, in 2 years in case of Moulds and on estimated life in case of other items. Patterns are charged out in the year of issue itself. Only quantitative records are maintained in respect of these items in shops floor, wherever practicable.
4. **REVENUE RECOGNITION**
 - (i) Sales are recorded when significant risks and rewards of ownership are transferred to the customers. Part supplies against long term contracts for which bills have been raised are accounted for at contract price or provisional price. In case of despatches for which challans and gate passes have been issued but bills are not raised, sales are accounted for at contract or provisional prices as unbilled sales.
 - (ii) Escalation on contracts are accounted for as per the terms of relevant contract to the extent ascertained with reasonable certainty though these are subject to confirmation / acceptance by customers. Variation is accounted for when there is provision in contract or evidence of acceptance by the customer.
 - (iii) Sales are accounted for inclusive of excise duty but exclusive of sales tax.
5. **LONG TERM TURNKEY CONTRACTS**
 - (i) Revenue recognition :-

The sale is recognised to the extent billed including escalation as per terms of payment for the respective contract against work done as per technical evaluation for different items of work based on the "percentage of completion method" at the stage when progress of the contract is completed 30% or more of the contract value.
 - (ii) Valuation of Work-in-Progress :-

Expenditure incurred from year to year limited to the certified value of work done against the contract value including escalation less amount credited to sales against the respective contract, is accounted for as WIP.
 - (iii) The necessary provision for losses, if any, on work to be done is made.
6. **PROVISION FOR WARRANTY**

A provision of 0.5% on sales is made for liabilities under contractual obligations / warranties. Expenses on warranties / contractual obligations are accounted for against natural heads in the year of incurrence.
7. **RETIREMENT BENEFITS**

Gratuity and Leave encashment are provided for on the basis of actuarial valuation made, based on the data of the Balance sheet date.



8. DEPRECIATION

Depreciation on fixed assets is charged on straight line method as per the rates prescribed in the Schedule XIV of the Companies Act and in respect of additions to / deductions from the fixed assets during the year, depreciation is charged on prorata monthly basis. Wherever breakup of foundation cost for plant and machinery and plant building is not available, depreciation is charged at the rate applicable to plant building.

9. SUNDRY DEBTORS

This includes items billed at provisional rates pending finalisation of prices and receipt of formal orders from customers and also value of despatches which are unbilled after adjustment on pro-rata basis of advances / progress payments received against the relevant contract.

10. GRANTS-IN-AID

Government grants received against Voluntary Retirement Scheme are set off against related expenses. Unspent balances of Grants-in-Aid are carried forward to subsequent years under Head "Liabilities". Grants received against other revenue are recognised as other income over the years to which it relates.

11. INVESTMENTS

Investment held/ intended to be held over one year (i.e. being long term) are valued at cost less provision for diminution in value other than temporary, while current quoted investments are valued at lower of cost or market value.

12. RESEARCH & DEVELOPMENT

Major expenditure relating to Research & Development is charged to profit & Loss account in the year of incurrence. However, expenditure on Fixed assets relating to Research & Development is treated in the same way as other fixed assets. Depreciation on such fixed assets is shown along with other Research & Development Expenditure.

13. FOREIGN CURRENCY TRANSACTIONS

Monetary assets and liabilities relating to foreign currency transactions including deferred credit payments remaining outstanding at the Balance Sheet date are converted at year end rates. The

differences in conversion of assets and liabilities and realised gains and losses on foreign exchange transactions during the year are accounted for in the Profit & Loss Account, except those relating to acquisition of fixed assets which are adjusted in the cost of fixed assets.

14. DEFERRED REVENUE EXPENDITURE

The lump sum payments towards foreign collaboration in the form of technical know-how, documentation and reports for any product is treated as Deferred Revenue Expenditure, which is written off in five years.

15. CLAIMS BY / AGAINST THE COMPANY

- (i) Liquidated damages payable as per contracts are accounted for on ascertainment and cases of specific damages and claims disputed by the company are provided for on reasonable estimate by the Company.
- (ii) Liquidated damages recovered are recognized as income after expiry of three years of recovery.
- (iii) Export incentives, Railway and Insurance claim, sale of sundry disposable materials & certain scraps, refund of excise & custom duty and income from other similar items are accounted for on ascertainment of the amount and certainty of their realisation / claim.

16. INTER PLANT COST ALLOCATION

- (i) The following expenses are allocated in different Plants on the basis stated hereunder :
 - (a) HQRS expenses (Net) - Budgeted production of each Plant.
 - (b) Township expenses (Net) - No. of quarters allotted to each Plant.
 - (c) Interest - Actual cash utilisation by each plant in the preceding year.
 - (d) CISF expenses - No. of CISF personnel deployed in each Plant.

17. INVENTORY

Non-moving items of stores are analysed from time to time. Materials found surplus on physical verification are either disposed off or reviewed to find out alternative uses for the same. Loss, if any, is accounted for when it is ascertained.