

AUDITORS' REPORT

TO THE MEMBERS OF EASTERN SILK INDUSTRIES LTD.

1. We have audited the attached Balance Sheet of EASTERN SILK INDUSTRIESst LTD. as at 31 March, 2011 and also the Profit & Loss Account and the Cash Flow Statement for the year ended on that date, annexed thereto. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditors' Report) Order, 2003 as amended by the Companies (Auditor's Report Amendment) Order 2004 issued by the Central Government of India in terms of Sub-Section (4A) of Section 227 of the Companies Act, 1956 and on the basis of such checks as were considered appropriate and according to the information and explanations given to us, we enclose in the Annexure a statement on the matter specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to in paragraph 3 above, We report that –
 - I. we have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - II. 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;
 - III. the Balance Sheet, Profit & Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of account.
 - IV. in our opinion, the Balance Sheet, Profit & Loss Account and the Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in clause (3C) of Section 211 of the Companies Act, 1956, subject to our comment in Para-VII below.
 - V. on the basis of written representation received from the Directors and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31st March, 2011 from being appointed as a Director in terms of clause (g) of Sub-Section (I) of Section 274 of the Companies Act, 1956;
 - VI. *In our opinion the valuation of closing stock has been overstated by the Company by Rs. 92.46 crores as at 31st March 2011. This is due to the lower realisation of finished goods in the subsequent periods and a substantial stock being non/slow moving, the lower realisation in the value of stocks have not been fully captured in the accounts by the management. Only a sum of Rs.34.70 crores has been accounted for in the Profit & Loss Account towards lower realisable value of stock. Had the entire lower realisable value been accounted, the loss for the year ended 31st March, 2011 would have been Rs 150.40 crores and Reserves & Surplus would have been lower by Rs.92.46 crores.*
 - VII. *Without qualifying our opinion, attention is drawn to the following notes in Schedule 14 :*
 - a) *Note No.12 -Provision for Bad & Doubtful debts, on which we are unable to express any opinion on correctness and/or adequacy of the provision.*
 - b) *Note No. 9 - As at the Balance Sheet date the losses of the Company stands at Rs 57.94 crores as against the shareholders' fund of Rs 331.40 crores (including revaluation reserve of Rs 42.11 crores). As stated in the said note the management has a future plan for the revival of the Company and is confident and hopeful of improving financial health in the near future. Accordingly the financial statements for the year have been drawn up by the management as per the going concern assumption.*
 - VIII. in our opinion and to the best of our information and according to the explanations given to us, the said accounts, read together with Accounting Policies and the Notes thereon appearing in schedule – 14 give the information

required by the Companies Act, 1956 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

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- (a) in the case of the Balance Sheet of the state of affairs of the Company as at 31 March, 2011.
- (b) in the case of the Profit & Loss Account of the Loss for the year ended on that date; and
- (c) in the case of the Cash Flow Statement of the Cash Flows for the year ended on that date.

23A, Netaji Subhas Road,
Kolkata, the 2nd August, 2011

For B. K. SHROFF & CO.
Firm Registration No.: 302166E
Chartered Accountants
(L.K.Shroff)
PARTNER
Membership No. : 60742

ANNEXURE REFERRED TO IN PARAGRAPH 3 OF OUR REPORT OF EVEN DATE

- i)
 - a. The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.
 - b. The management has physically verified certain fixed assets during the year in accordance with a programme of verification, which in our opinion provides for physical verification of the fixed assets at reasonable intervals having regard to the size of the Company and nature of its assets. According to the information and explanations given to us no material discrepancies were noticed on such verification.
 - c. In our opinion and according to explanations given to us, Fixed Assets disposed off during the year were not substantial and as such the disposal has not affected the going concern concept of the Company.
- ii)
 - a. As explained to us, inventories have been physically verified by the management at regular intervals during the year.
 - b. In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
 - c. In our opinion and according to the information and explanations given to us, the Company has maintained proper records of its inventories and no material discrepancies were noticed on physical verification as compared to the book records.
- iii) As explained to us and according to the information furnished to us, the Company has neither granted nor taken any loans, secured or unsecured, to / from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956 and as such clause (iii) of the Order is not applicable.
- iv) In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and nature of its business for the purchase of inventory, fixed assets and also for the sale of goods. During the course of our audit, we have not observed any major weakness in internal controls.
- v) In respect of transactions entered in the register maintained under Sec. 301 of the Companies Act, 1956:

- a. To the best of our knowledge and belief and according to the information and explanations given to us, transactions that needed to be entered into the register pursuant to Section 301 of the Companies Act, 1956 have been so entered.
- b. In our opinion and according to the information and explanations given to us, the transactions in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Companies Act, 1956 and aggregating during the year to Rs.5 lakhs or more in respect of any party have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.
- vi) The Company has not accepted any deposits from the public and as such clause (vi) of the Order is not applicable.
- vii) In our opinion, the Company has an adequate internal audit system commensurate with the size and nature of its business and needs to be further strengthened.
- viii) We have broadly reviewed the books of account and records maintained by the Company relating to 'Textiles' pursuant to Sec. 209(1)(d) of the Companies Act, 1956 and are of the opinion that prima facie the prescribed accounts and records have been made and maintained. We have, however, not made a detailed examination of these records.
- ix) According to the information and explanations given to us in respect of the statutory dues:
- a. The Company is generally regular in depositing undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income Tax, Wealth Tax, Sales Tax, Customs Duty, Excise Duty, Cess and any other statutory dues with the appropriate authorities during the year. According to the information and explanations given to us, no undisputed amounts payable in respect of the aforesaid dues were outstanding as at 31st March, 2011 for a period of more than six months from the date they became payable *except 42.93 Lacs since paid.*

b. According to the information and explanations given to us, details of dues of Customs Duty/ Excise Duty/ Sales Tax which have not been deposited on account of any dispute are as follows :

Name of the Statute	Name of the Dues	Amount (Rs. in lacs)	Period to which the amount relate	Forum where dispute is pending
Central Excise Act	Excise Duty and Penalty	26.72	2002-03	Deputy Commissioner, Central Excise
Employees State Insurance Act	Employees State Insurance	6.03	1995-96 & 2002-03	Asst. Director, ESIC
Custom Duty Act	Custom Duty	109.77	2001-02	Hon'ble High Court of Karnataka
Customs Duty Act	Custom Duty	148.50	2005-06	Commissioner of Custom (Port), Kolkata
Customs Duty Act	Custom Duty	78.92	2003-04	CESTAT, Bangalore
Customs Duty Act	Custom Duty	28.70	2003-04	Commissioner of Custom
Customs Duty Act	Custom Duty	44.07	2002-03	Commissioner of Custom
Income Tax Act	Income Tax	2.31	2004-05	I.T.A.T (Kolkata)

- x) The Company has no accumulated losses at the end of financial year but has incurred cash losses during the financial year covered by our audit .The company has not incurred cash losses in the previous financial year.
- xi) In our opinion and according to the information & explanations given to us, the Company has not defaulted in repayment of term loan installment & Interest to Banks. *However in the repayment of term loan installments amounting to Rs.150.00 Lacs due in Apr'10, July'10, Oct'10 & Jan'11 respectively due to State Bank of India were paid in July'10, Sep'10, Jan'11 & Feb'11 respective and repayment of interest is as follows :*

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<i>Bank</i>	<i>Period</i>	<i>(Rs. In Lacs)</i>	<i>Amount Payment Date</i>
<i>State Bank of India</i>	<i>May'10</i>	<i>22.14</i>	<i>02.07.10</i>
	<i>June'10</i>	<i>21.61</i>	<i>01.07.10</i>
	<i>July'10</i>	<i>21.52</i>	<i>01.11.10</i>
	<i>Aug'10</i>	<i>26.29</i>	<i>01.11.10</i>
	<i>Sep'10</i>	<i>30.79</i>	<i>22.12.10</i>
	<i>Oct'10</i>	<i>27.93</i>	<i>22.12.10</i>
	<i>Nov'10</i>	<i>27.95</i>	<i>04.02.11</i>
	<i>Dec'10</i>	<i>28.98</i>	<i>04.02.11</i>
	<i>Jan'11</i>	<i>28.33</i>	<i>04.02.11</i>
	<i>Feb'11</i>	<i>23.77</i>	<i>12.05.11</i>
	<i>Mar'11</i>	<i>26.23</i>	<i>12.05. & 30.06.11</i>
<i>Exim Bank</i>	<i>20th Feb'11 To 19th Mar'11</i>	<i>27.47</i>	<i>20.06.11</i>

- xii) In our opinion and according to the information and explanation given to us, no loans and advances have been granted by the Company on the basis of security by way of pledge of shares, debentures and other securities.
- xiii) The Company is not a Chit Fund or a Nidhi / Mutual Benefit Fund/Society and as such reporting under clause (xiii) of the Order is not applicable to the Company.
- xiv) Based on our examination of the records and according to the information and explanations given to us, Company is not dealing or trading in shares, securities, debentures and other investments. We also report that the Company has held the shares, securities, debentures and other investments in its own name.
- xv) According to the information and explanations given to us, the Company has given a corporate guarantee to a bank for an Associate Company for Rs. 650.00 Lacs for availing loan from bank by the said Company, the terms of conditions of which are not prima facie prejudicial to the interest of the Company.
- xvi) To the best of our knowledge and belief and according to the information and explanations given to us, term loans availed by the company were, prima facie, applied by the company during the year for the purposes for which the loans were obtained.
- xvii) According to the information and explanations given to us and on an overall examination of the Balance Sheet of the Company, we are of the opinion that prima facie funds raised on short-term basis have been not used for long-term investments.
- xviii). The Company has not made preferential allotment of shares during the year to parties and companies covered in the Register maintained under Section 301 of the Companies Act, 1956.
- xix). The Company has not issued any debentures during the year.
- xx). The Company has not raised any money by public issue during the year.
- xxi). To the best of our knowledge and belief and according to the information and explanations given to us, no fraud on or by the company was noticed or reported during the course of our audit.

23A, Netaji Subhas Road,
Kolkata, the 2nd August, 2011

For B. K. SHROFF & CO.
Firm Registration No.: 302166E
Chartered Accountants
(L.K.Shroff)
PARTNER
Membership No. : 60742

