

Auditors' Report

The Members of Pearl Polymers Limited

We have audited the attached Balance Sheet of Pearl Polymers Limited as at 31st March, 2006 and also the Profit and Loss Account and 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.

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.

As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Govt. in terms of Section 227(4A) of the Companies Act, 1956, on the basis of such checks as we considered appropriate, we enclose in the Annexure a statement on the matters specified in paragraph 4 and 5 of the said order to the extent applicable.

Further to our comments in the Annexure referred to in above paragraph, we report that;

- a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit.
- b) 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 the books and according to the reports of the branch auditors where such audit has not been conducted by us.
- c) The audit reports of the Mahad, Jigani and Lucknow branches conducted by the branch auditors have been forwarded to us and have been considered in preparing our report.
- d) The Balance Sheet, Profit & Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account.
- e) The Balance Sheet, Profit & Loss Account and Cash Flow Statement are in compliance with the mandatory Accounting Standards referred to in section 211 (3C) of the Companies Act, 1956 to the extent applicable.
- f) On the basis of written representations received from Directors, we report that none of the directors is disqualified as on 31.03.2006 from being appointed as a director under clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.
- g) Subject to above, in our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the notes thereon give a true and fair view in conformity with the accounting principles generally accepted in India:
 - i) in the case of Balance Sheet, of the state of affairs of the Company as at 31st March, 2006;
 - ii) in the case of Profit and Loss Account, of the profit for the year ended on that date; and
 - iii) in the case of Cash Flow Statement, of the cash flows for the year ended on that date.

Rajesh Sethi

Partner

Membership No:85669

For and on behalf of

J.C. Bhalla & Co.

Chartered Accountants

Place: New Delhi

Date: June 30th, 2006

Annexure to the Auditors' report on the accounts of Pearl Polymers Limited for the year ended 31st March 2006 as referred to in our report of even date.

- (i)
 - (a) The company is maintaining proper records showing full particulars including quantitative details and situation of fixed assets.
 - (b) The fixed assets have been physically verified by the management at the year-end. We are informed that no material discrepancies have been noticed by the management on such verification as compared with the record of fixed assets maintained by the company.
 - (c) The company has not disposed off substantial part of fixed assets during the year.
- (ii)
 - (a) The inventory (excluding stock with third parties which has been substantially confirmed by them) has been physically verified by the management at reasonable intervals.
 - (b) In our opinion, the procedures of physical verification of inventory followed by the management were adequate in relation to the size of the company and the nature of its business.
 - (c) The company is maintaining proper records of inventory. The discrepancies noticed on physical verification of stocks as compared to book records were not material and have been properly dealt with in the books of account.
- (iii)
 - (a) According to the information and explanations given to us, the company has not granted any loan, secured or unsecured to companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956. According to the information and explanations given to us, the company has not taken any loan, secured or unsecured from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.
 - (b) 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 the nature of its business for the purchase of inventory and fixed assets and for the sale of goods and services. Further, in our opinion, there is no continuing failure to correct major weaknesses in internal control system.
- (iv)
 - (a) In our opinion and according to the information and explanations given to us, we are of the opinion that the transactions that need to be entered in the register maintained under 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, we are not in a position to comment on reasonableness of prices of the above transactions as the company has not entered into similar transactions with parties other than those covered under section 301 of the Companies Act 1956.
- (v)
 - (a) In our opinion and according to the information and explanations given to us, the directives issued by the Reserve Bank of India and the provisions of Section 58A & 58AA and other relevant provisions of the Companies Act, 1956 and the rules framed there under, to the extent applicable, have been complied with by the company .We are informed by the management that no order has been passed by the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal, relevant to sections 58A, 58AA or the other relevant provisions of the Companies Act, 1956.

- (vii) On the basis of the reports submitted by the internal auditors to the management, In our opinion, the internal audit system is commensurate with the size and nature of its business.
- (viii) In our opinion and according to the information and explanations given to us, the maintenance of cost records has not been prescribed by the Central Government under section 209(1)(d) of the Companies Act, 1956.
- (ix) (a) The company is generally regular in depositing undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employee's State Insurance, Income-tax, Sales-tax, Service Tax, Custom Duty, Excise Duty, Cess and any other statutory dues with the appropriate authorities as per its records. There are no undisputed liabilities as on 31st March 2006, outstanding for a period of more than six months from the date they became payable.
- (b) As per the information and explanations given to us, there is no case where Sales Tax, Income Tax, Wealth Tax, Service Tax, Custom Duty, Excise Duty, Cess have not been deposited on account of dispute except as stated hereunder:

Name of the Statute	Nature of the Dues	Amount (Rs. In '000)	Period to which the amount relates	Forum where the dispute is pending.
The Central Excise Act, 1944	Producing and clearing dutiable and non-dutiable product under Notification No 4/97	36000	March 1997 to June 1997	Commissioner of Central Excise
The Central Excise Act, 1944	Excise duty on freight	7272	April 1997 to December 2001	Central Excise and Service Tax Appellate Tribunal
The Central Excise Act, 1944	Interest on differential duty paid in respect of supplementary invoices.	40	January 2001 to April 2003	Commissioner of Central Excise (Appeals)
The Central Excise Act, 1944	Cess on excess availment of Cenvat credit on supply of pet chips from South Asia Petrochemicals Ltd.	15	July 2004 to August 2004	Joint commissioner of Central Excise.

- (x) According to the records of the company, the company does not have accumulated losses at the end of the financial year. The company has not incurred cash losses in the financial year under report and in the immediately preceding financial year.
- (xi) According to the information and explanations given to us, the company has not defaulted in repayment of dues to any bank.
- (xii) According to the information and explanations given to us, the company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

- (xiii) In our opinion and according to the information and explanations given to us, the provisions of any special statute applicable to chit fund, nidhi, mutual benefit fund, societies are not applicable to company.
- (xiv) In our opinion and according to the information and explanations given to us, the company is maintaining proper records of transactions and contracts in respect of trading in shares, securities, debentures and other investments, and based upon representations received by us from the management, timely entries have been made therein. The investments are held by the company in its own name.
- (xv) According to the information and explanations given to us, the company has not given any guarantee for loans taken by others from banks or financial institutions.
- (xvi) According to the information and explanations given to us, on an overall basis, term loans have been applied for the purpose for which they were obtained.
- (xvii) According to the information and explanations given to us, on the basis of an overall examination of the Balance Sheet of the company, we are of the opinion that no funds raised on short-term basis have been used for long-term investment.
- (xviii) During the year, the company has made preferential allotment of 26,76,181 Equity Shares as per SEBI pricing formula @ Rs 11.21 per share, including share premium of Rs. 1.21 per share.
- (xix) The company has not issued any debentures during the year.
- (xx) The company has not made any public issue during the year.
- (xxi) According to the information and explanations given to us, no fraud on or by the company has been noticed or reported during the year.

Rajesh Sethi

Partner

Membership No:85669

For and on behalf of

J.C. Bhalla & Co.

Chartered Accountants

Place: New Delhi

Date: June 30th, 2006