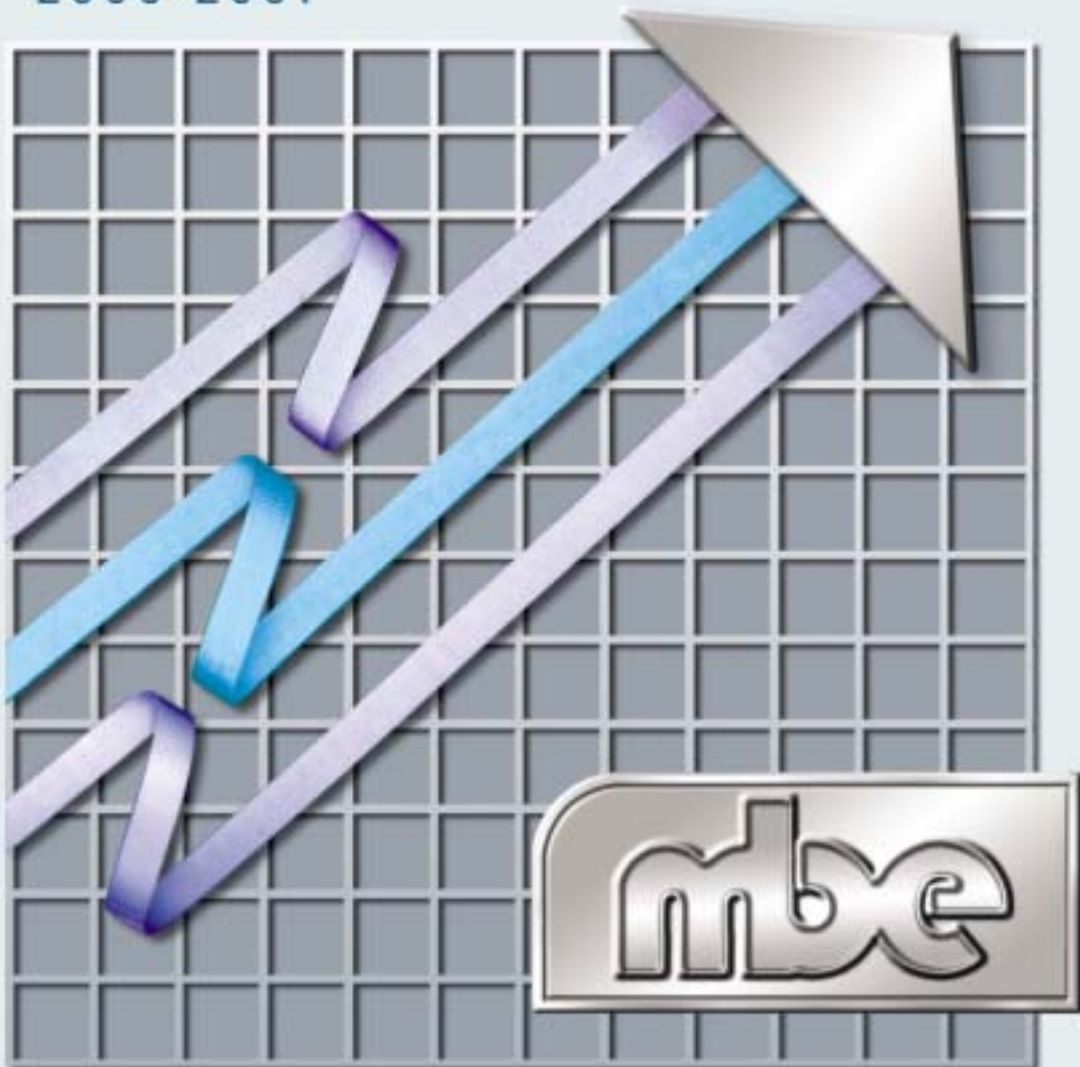


# BUILDING INDIA SILENTLY

Annual Report  
2006-2007



**McNally Bharat Engineering Co Limited**



## McNally Bharat Engineering Co Limited

### DIRECTORS

D.Khaitan	Chairman
S. P. Singhi	Vice Chairman
V. K. Verma	
S. K. Pasari	
U.Parekh	
C. K. Pasari	
U. S. Chaturvedi	(Nominee of GIC)
A. Khaitan	(Appointed w.e.f.31.10. 2006)
S. R. Dasgupta	(Appointed w.e.f. 21.6.2007)
S. Singh	Managing Director

### COMPANY SECRETARY

D. Chatterjee

### BANKERS

Bank of India  
State Bank of India  
Canara Bank  
United Bank of India  
UCO Bank  
Oriental Bank of Commerce  
Indian Overseas Bank  
Union Bank of India  
ICICI Bank Limited  
ING Vysya Bank Limited  
UTI Bank Limited  
Karur Vysya Bank

### REGISTERED OFFICE

4 Mangoe Lane, 7th Floor, Kolkata 700 001  
Phone : +91 (033) 6550 0725-39, 2213 8905, 2240 0340/5016  
E-mail : mbecal@mbecol.co.in

### SOLICITORS

S. K. Sawday & Co.  
7, Red Cross Place, Kolkata 700 001

### REGISTRARS & SHARE TRANSFER AGENTS

Maheswari Datamatics Private Limited.  
6 Mangoe Lane, 2nd Floor, Kolkata 700 001  
Phone : 2243-5029/5809



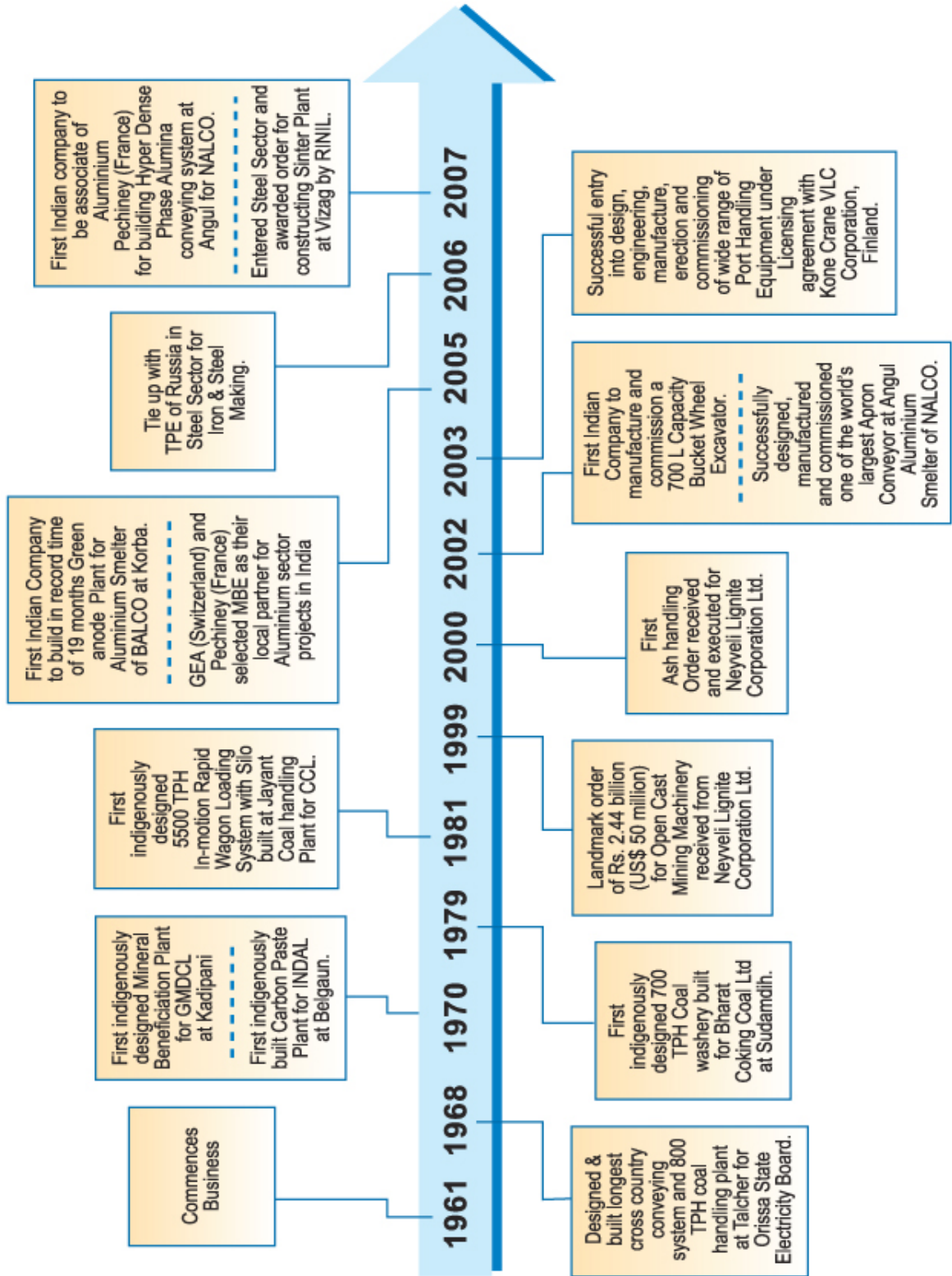
## C O N T E N T S

Director's Report	1-21
Auditors's Report	22-27
Balance Sheet	28
Profit & Loss Account	29
Schedules annexed to Profit & Loss Account and Balance Sheet	30-38
Notes on Accounts	38-49
Statement regarding Subsidiary Companies	50
Cash Flow Statement	51-52
Balance Sheet Abstract	53
Report & Accounts of :	
EWB Kornyezetvedelmi Kft	54-64
EWB MBE International Kornyezetvedelmi Kft.	65-73
Consolidated Auditors' Report & Accounts	74-92
Consolidated Cash Flow Statement	93-94



## McNally Bharat Engineering Co Limited

# MBE - an Illustrious Journey







## McNally Bharat Engineering Co Limited

### Five year financial highlight

#### Profit & Loss Account

(Rs. Crore)

	2003	2004	2005	2006	2007
Total Income	120	202	288	335	519
EBIDTA	4.36	7.98	11.51	18.07	30.82
PBT	0.50	1.59	3.45	6.60	20.08
PAT	1.02	1.50	2.63	5.25	17.50
Gross Dividend payout	--	--	0.56	1.51	3.13

#### Balance Sheet

(Rs. Crore)

	2003	2004	2005	2006	2007
Share Capital	19.78	19.78	19.78	26.46	26.78
Reserves	17.08	16.51	16.32	52.40	69.48
Net Worth	31.55	33.06	35.12	68.81	88.65
Loan Funds	35.47	41.72	61.44	79.54	117.28
Capital Employed	72.97	78.61	98.70	159.50	214.25
Net Fixed Assets	40.73	41.85	43.38	52.91	56.56
Net Working Capital	31.07	35.60	54.10	103.38	153.07

#### Ratios & Statistics

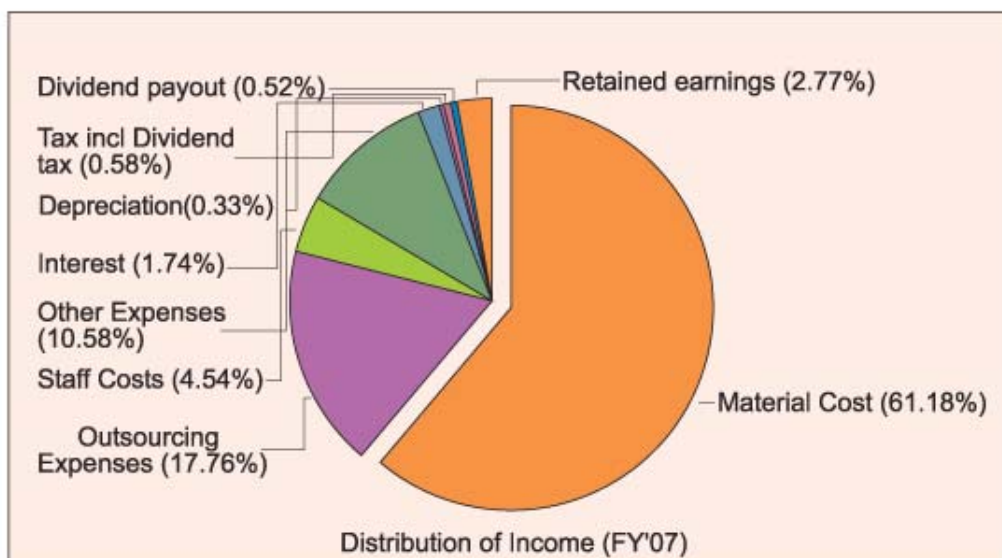
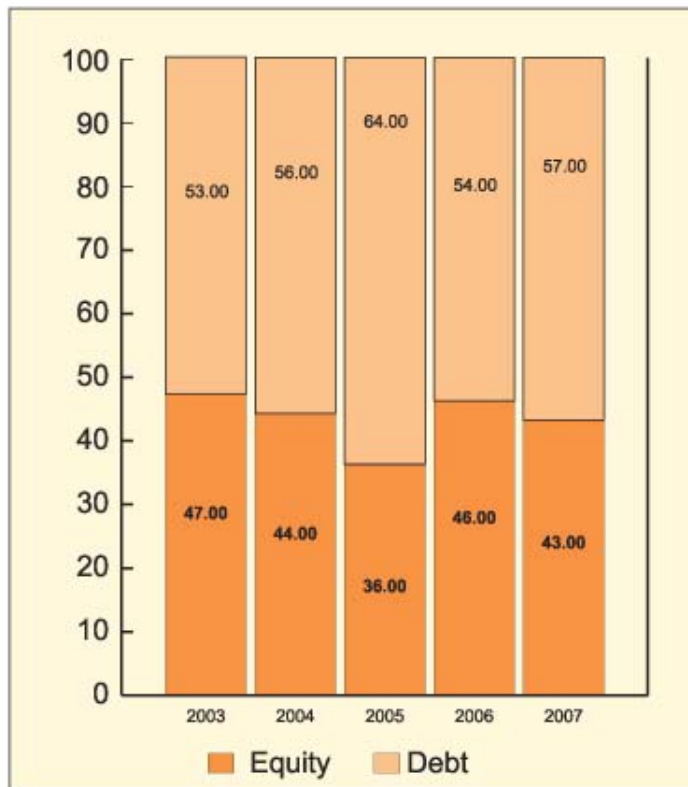
(Rs. Crore)

	2003	2004	2005	2006	2007
EBIDTA/Total Income (%)	3.63	3.95	4.00	5.39	5.94
PBT/Total Income (%)	0.42	0.78	1.21	1.97	3.87
Debt : Equity Ratio	1.12:1	1.26:1	1.75:1	1.16:1	1.32:1
ROCE (%)	7.08	10.78	12.06	12.95	15.11
RONW (%)	5.39	5.38	14.46	15.36	24.41
Current Ratio (Times)	1.62	1.37	1.40	1.63	1.65
Earnings per Share (Rs)	0.52	0.76	1.33	2.20	6.60



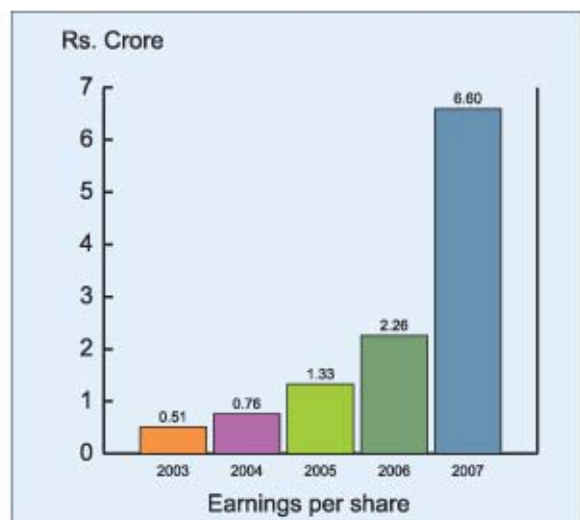
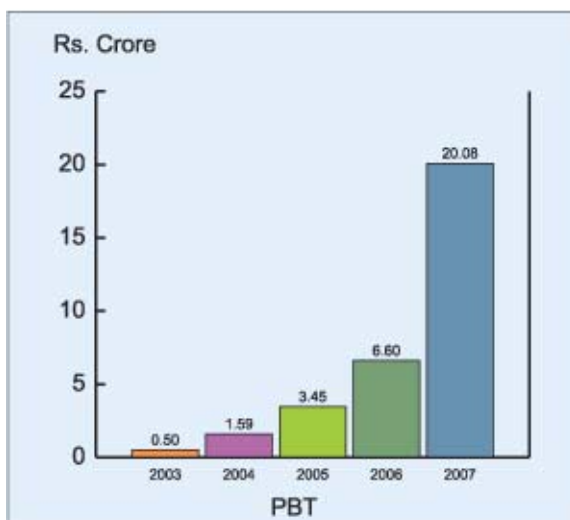
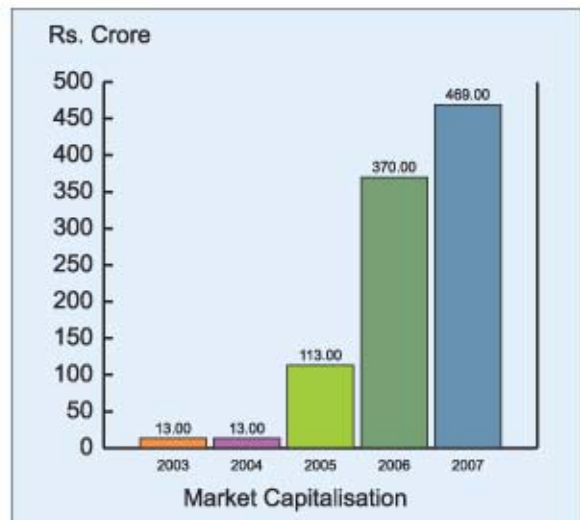
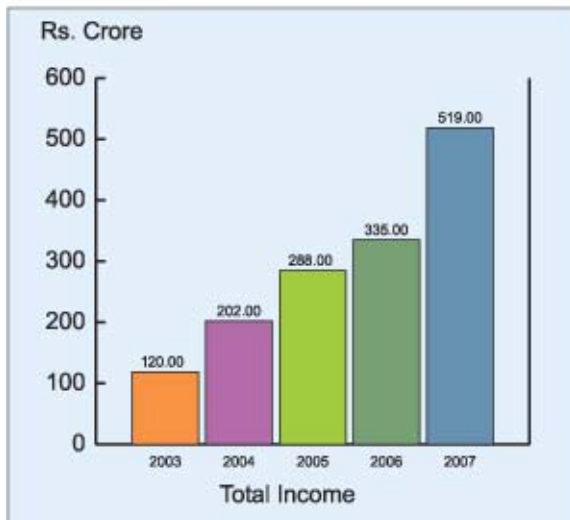
## McNally Bharat Engineering Co Limited

Net Gearing





## McNally Bharat Engineering Co Limited





Deepak Khaitan  
Chairman

**McNally Bharat Engineering Co Limited**  
Registered Office: Four Mangoe Lane, 7<sup>th</sup> Floor, Kolkata - 700 001



Srinivash Singh  
Managing Director

## DIRECTORS' REPORT

The Directors have pleasure in submitting their Report and Accounts of the Company for the year ended 31<sup>st</sup> March, 2007

### HIGHLIGHTS

The key highlights of the operations for the financial year 2006-07 over the previous year are:

Total Income increased by 55%

Earnings before Interest Depreciation and Taxes increased by 71%

Profit before Taxes increased by 204%

Earnings per Share increased by 192%

### ACCOUNTS

	For the year ended 31 <sup>st</sup> March, 2007	For the year ended 31 <sup>st</sup> March, 2006
	Rs.'000	Rs.'000
The Profit and Loss Account after providing all charges and Depreciation, shows a profit of	200,833	65,994
From which is adjusted : Provision for Taxation and Deferred Tax	(25,787)	(13,464)
Leaving a balance of	175,046	52,530
To which is added: Balance brought forward from previous year	106,237	68,793
Balance available for appropriation	281,283	121,323
Appropriated as under -		
Proposed Dividend	26,780	13,231
Corporate Dividend Tax	4,551	1,855
Leaving a balance to be carried forward of	249,952	106,237





## FINANCIAL RESULTS

The Company achieved the highest ever turnover and profits after taxes. While the total income of the Company has grown up by 55%, the Profit Before Tax has gone up by 204% and earnings per share up by 192%, i.e. from Rs.2.26 per share to Rs.6.60 per share. Based on the business scenario within the country and Company's expanded capability, the Company has set a higher benchmark of performance during the year 2007-08. The Board expects this growth trend, both in terms of profitability and sales, to be maintained in the coming years.

## OPERATIONAL REVIEW & PROSPECTS

### PROJECTS DIVISION

All Strategic Business Units (SBUs) of Projects Division continue to be in the growth path and are completing the projects as per schedule.

**Material Handling SBU:** The coal handling plants for West Bengal Power Development Corporation Limited at Sagardighi and Santaldih Thermal Power Stations and for Durgapur Projects Limited at Durgapur are nearing completion. Supplies for coal handling plant of Damodar Valley Corporation at Chandrapura TPS are almost complete and the work at Green Anode Plant of Vedanta Alumina at Jharsuguda and the coal handling plant at Barsingsar for Neyveli Lignite Corporation are progressing as per schedule.

**Mineral Processing SBU:** The Mineral Processing SBU has bagged another prestigious order for alumina evaporation package from Utkal Alumina, Raigada for Rs. 924 million. The work on the coal washery project of CESC at Sarsitali and alumina evaporation package of NALCO at Damanjodi are in full swing.

**Port Handling SBU:** During the year, 2 nos. grab unloaders for MPT Goa have been commissioned successfully. The SBU has bagged order for 2 nos. Stacker Reclaimers from MECON for the coal handling plant of Neyveli Lignite Corporation Limited.

**Ash Handling SBU:** The Ash Handling SBU has bagged 2 nos. prestigious orders from South Korea for design & supply of critical equipment for the ash handling plant of Boryeong Thermal Power Plant Unit # 2x500 MW and Young Hung Power Plant 2x800 MW Unit # 3 & 4.

They have also bagged orders for ash handling plant for 2x500 MW CFBC Boiler for Neyveli TPS Expansion-II and Ash Disposal Package with complete HCSD system for 9x135 MW power station of Vedanta at Jharsuguda from SEPCO, III, China.

**Steel SBU:** The company's efforts since last one year for entering into the steel plant technology area have yielded results and the company has been successful in bagging a Rs. 5557 million EPC contract for Sintering Plant-3 of Visakhapatnam Steel Plant from Rashtriya Ispat Nigam Limited.



The company has also participated in a large number of tenders in RINL and SAIL-IISCO plant at Burnpur and hope to be successful in some of these tenders.

### ***PRODUCTS DIVISION***

#### ***MANUFACTURING***

During the review period both Kumardhubi Works and Bangalore Works have been fully utilized and have achieved targeted results with respect to the order book, sales and operating profits.

Products Division has initiated innovative actions to reduce delivery time for its products, more particularly for Stacker cum Bucket Wheel Reclaimer for Paradeep Port Trust and Neyveli Lignite Corporation, Gravity Roller Conveyor and Power Roller Conveyor for Vedanta.

Kumardhubi Works continued to serve various industries with existing products range like Mill, Crushers, Screens. A few to name are TISCO, MECON/NLC, DEMPO, RAJLAKSHMI MINERALS, JINDAL STEEL & POWER LIMITED (JSPL), etc.

During the review period Kumardhubi Works have restarted manufacturing of Pressure Vessels for Projects Division as well as for other customers.

Bangalore Works also continued to report excellent results and have emerged as one of the major suppliers of Process Equipment like Thickener and Pumps. Record number of 24 Thickeners Flootation Cells & Spares were sold during the review period. As a diversification during 2006-07, we also entered into tie-up with M/S. LAROX of Finland and Bangalore unit would be responsible for promoting sale of these Filter.

#### ***EXPORTS***

During the review period both Kumardhubi and Bangalore Works have been executing orders for export market. To highlight the one 74.1M long Apron Conveyor against orders received from SOLIOS, France. It may be noted that this is probably the largest Apron Conveyor in the world.

#### ***CAPACITY EXPANSION***

Substantial expansion programme has been undertaken for both at Kumardhubi Works and Bangalore Works which are under implementation.

Kumardhubi Works Unit II expansion, Phase I has been completed and the work is under progress for the Phase II.



## **McNally Bharat Engineering Co Limited**

In addition Kumardhubi Works is investing substantially in Machine Tools to augment the machining capability and would be adding up state of the art Machining centers for both Unit I and Unit II.

Orders for these machine tools have already been placed and are expected to be in place by second quarter 2007.

Bangalore Works have also undertaken expansion initiative and have procured 4 acres of land for constructing a new workshop.

Projects Division has already expanded its resource in terms of Engineering & Project execution capabilities to attain annual turnover of Rs. 1500 crores.

### **EWB - MBE INTERNATIONAL KORNYEZETVEDELMI KFT EWB LIMITED**

The performance of the subsidiaries during the year is satisfactory. The unit has a healthy order book position. Your Company continues to receive valuable technical support in Dry Ash Handling Technology which is used in power projects.

### **PROJECT FUNDING**

During the year under review, your Company issued 4.5% Foreign Currency Convertible Bond worth US\$ 10 million, which is convertible at Rs.143/- per share at the option of the bondholders, within the tenure of the bonds. Out of the above issue an amount of US\$ 1 million have since been converted by the bondholders. The fund is being utilized for meeting the ongoing capital expenditures.

### **HEALTH AND SAFETY**

The Company gives utmost importance to the health and safety of the employees and all others influenced by the operations of the Company. Various seminars and training programs related to safety were arranged throughout the year to continue emphasis on awareness of the importance of safety among the employees, including Safety Exhibition celebrating National Safety Day and observing the National Safety Week.

### **COMMUNITY CARE SERVICES**

Your Company firmly believes that it is integral part of the social fabric and populace it caters to and Kumardhubi Drinking Water distribution is a noticeable example of this. The Company has always considered its social responsibility as a part of its governance.

### **INDUSTRIAL RELATIONS**

Industrial relations during the period under review have been cordial and your Directors record their appreciation to the workers, staff and officers at all levels for their sincerity and hard work throughout the year.





#### **PARTICULARS OF EMPLOYEES**

A statement of particulars of employees as required under section 217(2A) of the Companies Act, 1956 forms a part of this report as a separate Annexure. In terms of section 219 (1) (b) (iv) of the Act, this Report is being sent to all Members without the said Annexure. Any member interested in taking inspection or obtaining a copy of the statement may contact the Secretary of the Company at its Registered Office during working hours.

#### **DIRECTORS' RESPONSIBILITY STATEMENT PURSUANT TO SECTION 217(2AA) OF THE COMPANIES ACT, 1956**

The Directors hereby confirm:

- i) that in the preparation of the annual accounts, 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 judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period;
- iii) that the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act 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 on a going concern basis.

#### **FIXED DEPOSITS**

There was no outstanding on account of Deposits from the Public as on March 31, 2007.

#### **COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988**

In terms of the above Rules, your Board is pleased to give the particulars, as required therein, in an Annexure, which forms a part of the Directors' Report.

#### **CORPORATE GOVERNANCE REPORT**

The Corporate Governance Report is set out as a separate Annexure, which forms a part of this Report.

#### **MANAGEMENT DISCUSSION & ANALYSIS REPORT**

Management Discussion & Analysis Report is set out as a separate Annexure, which forms a part of this Report.

#### **LISTING OF THE SHARES AT STOCK EXCHANGES**

The equity shares of the Company were listed on the Stock Exchange Mumbai (BSE) under Scrip Code No. 532629 and ISIN No. INE748A01016 and on the National Stock Exchange under the symbol MBECL.





## **DIRECTORS**

During the current year, Mr. S.P. Singhi and Mr. Utsav Parekh retire by rotation and being eligible offer themselves for re-appointment.

Mr Amritanshu Khaitan was appointed as an Additional Director of the Company with effect from 31 October, 2006 pursuant to Article 103 of the Articles of Association of the Company and is eligible for appointment in the forthcoming Annual General Meeting.

Mr Subir Ranjan Dasgupta was also appointed as an Additional Director of the Company with effect from 21 June, 2007 pursuant to Article 103 of the Articles of Association of the Company and is eligible for appointment in the forthcoming Annual General Meeting.

## **AUDITORS**

The Auditors, Messrs Lovelock & Lewes, Chartered Accountants, statutory auditors of the Company hold office until the conclusion of the forthcoming Annual General Meeting and are recommended for reappointment. The Company has received a certificate from them to the effect that their reappointment, if made, would be within the prescribed limits under Section 224(1) of the Companies Act, 1956.

## **AUDITORS' REPORT**

The observations of Auditors are explained where necessary in the appropriate notes to the accounts.

As regards investments in Jayamkondam Lignite Power Corporation Ltd. (JLPC), the Company is confident of recovering value of the advance and investments in JLPC.

## **ACKNOWLEDGEMENT**

The Board would like to place on record its gratitude to all customers, collaborators and vendors for the faith and confidence reposed in your Company. The Board would also like to sincerely thank all Shareholders, Bankers, Auditors and other business associates for their continued help and support.

On behalf of the Board

**Deepak Khaitan**  
Chairman

Kolkata,  
21 June, 2007

**Srinivash Singh**  
Managing Director

## ANNEXURE TO DIRECTORS' REPORT

PARTICULARS REQUIRED UNDER THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988

### A. CONSERVATION OF ENERGY

#### 1. ENERGY CONSERVATION MEASURES TAKEN

There were no major steps considered necessary for energy conservation. Routine steps like strict control and monitoring of usage, good upkeep and tuning of equipments like DG Sets and AC Units have resulted in optimal usage of electrical parts.

#### 2. ADDITIONAL INVESTMENT AND PROPOSALS FOR REDUCTION OF CONSUMPTION OF ENERGY

As stated nothing substantial to report.

### B. RESEARCH & DEVELOPMENT (R & D)

SPECIFIC AREAS IN WHICH R & D CARRIED OUT BY THE COMPANY

#### 1. Development of New Products

1.1 Design of Gravity Roller Conveyor and Powered Roller Conveyor.

1.2 Detail shop engineering for manufacture of Pressure Vessel.

1.3 Design of Apron Feeder with Hydraulic Gate control.

1.4 Detail design of 4.8 meter dia Ball Mill.

#### 2. Product Improvement

2.1 Design optimization of 8 feet diameter and 2.7 meter diameter Ball Mill.

2.2 Design Improvement of Bucket Elevator.

2.3 High Power Roll Grinding attachment for faster operation.

2.4 Gap adjustment mechanism of Ring Granulator by manually operated Actuator.

### C. TECHNOLOGY ABSORPTION

#### 1. EFFORTS, IN BRIEF, MADE TOWARDS TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

1.1 Single Roll Crusher with hydraulic adjustment based on AUBEMA Technology.

1.2 High capacity Reversible Hammer Mill for Lignite crushing based on AUBEMA technology.

1.3 Exciter unit for Linear Motion Vibrating Screen as per SIEBTECHNIK Technology.

#### 2. BENEFIT DERIVED AS A RESULT OF THE ABOVE EFFORTS

The Company has been able to add new equipment and also widen its range of products to be more competitive against Indian, as well as, foreign Companies in various areas of infrastructure development.

### 3. IMPORTED TECHNOLOGY

As stated above.



D. FOREIGN EXCHANGE EARNINGS & OUTGO

		Rs.'000
Foreign Exchange Earnings	Export on FOR Works basis	15,546
	Others	135,050
Foreign Exchange Outgo	Royalty & Technical Know-how Fees	10,774
	Traveling	2,209
	CIF value of Component & Spare parts	24,488
	Others	56,621
	Expenditure in Foreign Currency - Others	32,266

ANNEXURE TO DIRECTORS' REPORT  
MANAGEMENT DISCUSSION & ANALYSIS REPORT

INDUSTRY STRUCTURE AND DEVELOPMENT

The economic survey of 2006-07 has estimated 9.2% growth rate for the 2006-07. The Union Budget 2007-08 forecasts the same growth level for the year 2007-08. Manufacturing sector with an estimated growth rate of 11.3% and construction activity with an estimated growth of 9.4% has been identified as two major growth drivers. Under the "Power for all by 2012" programme of Government of India, total capacity addition envisaged during 10th and 11th plan shall be 100,000 MW and the planned expenditure in power sector is Rs.3526 billion which includes Rs.779 billion investment in Coal based Thermal Sector, where capacity expansion is targeted by 20,000 MW within 2012. The estimated investment during 2007-12 in Steel Sector alone is Rs.820 billion, in Non-ferrous Metal the estimated investment is Rs.221 billion and in Coal, Lignite and other mining sectors the estimated investment has been estimated at Rs.145 billion. In Port Sector the estimated investment is Rs.558 billion during the period 2007-2012.

Based on the above scenario, the estimated size of the total construction and manufacturing equipment shall be Rs.4.2 billion by the end of 2010. The amount spent on construction as a total percentage as to total GDP has increased to 6.12% in 2007 from 5.7% in 2001.

Your Company operates as a major player in all the above sectors and is fully geared to take the benefit of growth opportunities which shall prevail in these sectors.

OPPORTUNITIES & THREATS

Your Company identifies this major growth across the above sectors as a major opportunity. The market acceptance of quality contractors and value added products should also provide opportunities to increase margin level of your Company's products across the sectors. Increase in input costs specially the cost of steel, copper and other base metals may act as a major threat which may adversely affect the fixed price contracts. Preference of Public Sector Companies continues in project allocation in Public Sector. Your Company has already put effective monitoring cell to deal in these areas effectively.

SEGMENTWISE OR PRODUCT WISE PERFORMANCE

The Company is engaged in turnkey projects in infrastructure and related manufacturing activities and therefore the question of segment-wise performance does not arise.

OUTLOOK

Considering the buoyant market situation and expected investment in infrastructure sector across the country, your Company expects strong double digit growth in future years. Effective steps have already been taken to mobilize resources to cater to the growth plan. Your Company has already raised adequate funding and has fixed

up access to funding for its future plans. The manufacturing capacity in its Plants at Kumardhubi and Bangalore has already been expanded to accommodate expanded activities. Your Company has added adequate manpower across the line to handle to its growth.

## RISKS & CONCERNS

With increased investment in infrastructure sector, the market is expected to open up for overseas competition. In view of the forthcoming Parliamentary election, there may be some slackness in government decisions, which may halt expected level of growth. The Company has diversified its activities in related areas and hence reduced its dependence on the growth of selected areas.

## INTERNAL CONTROL SYSTEMS & THEIR ADEQUACY

Your Company has a detailed well spelt internal control system in place to ensure that all financial, commercial and legal transactions are fully authorized, recorded and correctly reported. The Audit Committee of the Board of Directors reviews the adequacy of the Internal Control System. The Company's Internal Audit Department is in charge for periodically carrying out detailed audit of the transactions of the Company at various sites, manufacturing locations and offices in order to ensure that recording and reporting are adequate and as per the policy of the Company. The Internal Auditors periodically physically verify safeguarding of the Company's assets and ensure that there is no unauthorized usage. The assets are kept in proper conditions and are covered under adequate insurance.

The Audit Committee of the Board of Directors reviews all internal audit reports and their findings and suggest corrective measures to the Management for implementation. The Company during the year appointed Earnst & Young to design risk management model for the Company in order to ensure that all the risks are identified, monitored and properly hedged against all possible losses. The system has already been implemented and Chief Risk Officer has been assigned with co-ordination of the risk management function of the Company.

## FINANCIAL PERFORMANCE

During the year, your Company recorded commendable growth in its performance both in terms of sales and profitability. While the total income of the Company has grown up by 55%, the Profit Before Tax has gone up by 204% and earnings per share has up by 192%, i.e. from Rs.2.26 per share to Rs.6.60 per share.

Based on the business scenario within the country and Company's expanded capability, the Company has set a higher benchmark of performance during the year 2007-08. The Board expects this growth trend, both in terms of profitability and sales, to be maintained in the coming years.

## MATERIAL DEVELOPMENTS IN HUMAN RESOURCES / INDUSTRIAL RELATIONS FRONT, INCLUDING NUMBER OF PEOPLE EMPLOYED

Your Company considers its human resources as its valuable asset. The industrial relations during the year have been cordial. The number of permanent employees as on 31.03.2007 is 720. During the year, the Company successfully implemented in-house development of fresh engineering graduates towards future fast track managers.

## DISCLOSURES BY THE MANAGEMENT

Your Board has received confirmation from its Managerial staff that they had no personal interest in any material, financial and commercial transactions of the company.

## CAUTIONARY STATEMENT

Statements in the Management Discussion and Analysis Report in regard to projections, estimates and expectations have been made in good faith. Many unforeseen factor may come into play and affect the actual results, which could be different from what the Directors envisage in terms of future performance and outlook. Market data and product information contained in this Report, have been based on information gathered from various published and unpublished reports and their accuracy, reliability and completeness cannot be assured.



## ANNEXURE TO THE DIRECTORS' REPORT

### CORPORATE GOVERNANCE

In compliance with the Corporate Governance requirements as stipulated in Clause 49 of the Listing Agreement with the Stock Exchange, the Company has been incorporating for the last few years a separate section on corporate Governance in its annual Report. The Shareholders and Investors of the Company would have found the information informative and useful.

Company's policies on the Corporate Governance and due compliance report on specific areas wherever applicable for the year ended 31 March, 2007 are given hereunder divided into the following areas :

#### I Company's Philosophy

The Company continues to commit itself to maintaining the highest standards of integrity, transparency and accountability in all facets of its operations and to create Shareholders' value on a sustainable basis. McNally Bharat believes that good Corporate Governance, with transparency and independence as its key ingredients, provides a market oriented framework for the running of Companies. It can ensure a proper balance between management, board and shareholders, adequate levels of transparency, appropriate compensation schemes and the prevention of conflict of interests.

#### II Board of Directors:

##### (a) Composition of the Board

The Board of Directors comprises nine members at the end of the financial year, consisting of eight Non-executive Directors who account for more than 88.89 percent of the Board's strength as against minimum requirement of fifty percent as per the listing agreement. The Non-executive Directors are eminent professionals, drawn from amongst persons with experience in business and industry, finance, law and public enterprises. The Composition is as under :

Names of Directors	Category of Directors	No. of other Directorships held #		No. of other Board Committee(s) of which he/she is a member	No of other Board Committee(s) of which he/she is a Chairperson	No. of Shares held in the Company as at 31.03.2007
		Public	Private			
Mr. D. Khaitan – Chairman	Promoter-Non Executive	9	–	2	1	–
Mr. S.P. Singhi – Vice Chairman	Promoter-Non Executive	6	3	–	–	–
Mr. V.K. Verma	Independent-Non Executive	–	–	–	–	700
Mr. U. Parekh	Independent-Non Executive	13	1	13	–	100
Mr. U.S. Chaturvedi	Independent-Non Executive (Nominee of GIC)	–	–	–	–	–
Mr. C.K. Pasari	Independent-Non Executive	4	7	–	–	–
Mr. S.K. Pasari	Independent-Non Executive	2	9	–	–	–
Mr. A. Khaitan	Promoter-Non Executive	6	3	–	–	–
Mr. S. Singh	Executive-Managing Director	1	–	–	–	900

# Excluding Directorships in Foreign Companies and Companies under Section 25 of the Companies Act, 1956.

Except Mr. A. Khaitan, who is the son of Mr. D. Khaitan, Chairman of the Company, no director is related to any other Director on the Board in terms of the provisions of Companies Act, 1956. All the directors who are on various Committees are within the permissible limits of the listing agreement. The Directors have intimated from time to time their membership in the various Committees in other Companies.

No convertible instruments are held by non-executive directors.

b) Details of remuneration paid/payable to Non Executive Directors :

Name of the Directors	Sitting fees paid during the year
Mr. Deepak Khaitan	Rupees 25,000
Mr. S. P. Singhi	170,000
Mr. V. K. Verma	55,000
Mr. U. S. Chaturvedi	50,000
Mr. U. Parekh	35,000
Mr. C.K. Pasari	155,000
Mr. S.K. Pasari	10,000
Mr. A. Khaitan	5,000
<b>TOTAL</b>	<b>5,05,000</b>

Details of remuneration paid/payable to the Managing Director :

	Rupees	Rupees
Mr. S. Singh (Managing Director)		
Salary		62,30,000
Performance Bonus		4,50,000
Contributions to		
Provident Fund	5,04,000	
Superannuation Fund	<u>6,30,000</u>	11,34,000
Perquisites		1,14,978
<b>Total remuneration</b>		<b>79,28,978</b>

Service contract of the Managing Director is three years from April 1, 2005. Notice period is minimum three months.

- Notes :
1. None of the non-executive Directors receives any remuneration apart from the sitting fees for meetings attended by them
  2. The Managing Director is entitled to Performance Bonus upto a maximum of 6 months salary, payable annually, for each financial year, as may be determined by the Board.
  3. The Managing Director has been allotted 2,000 Convertible Warrants. Refer paragraph XV (m) (ii) for details.
  4. The resolutions appointing the Managing Director do not provide for payment of severance fees.

(c) Board Meetings and attendance of Directors :

- (i) The members of the Board have been provided with the requisite information mentioned in the listing agreement well before the Board Meetings and the same were dealt with appropriately.
- (ii) During the year, 6 Board Meetings were held on 23 June 2005, 4 July 2005, 10 August 2005, 28 October 2005, 31 January 2006 and 8 February 2006.

- (iii) The attendance recorded for each of the Directors at the Board Meetings during the year ended on 31 March 2006 and of the last Annual General Meeting is as under :

Directors	No. of Board Meetings attended	Attendance at the Last AGM
Mr. D. Khaitan	3	No
Mr. S. P. Singhi	8	Yes
Mr. V. K. Verma	6	Yes
Mr. U. Parekh	3	No
Mr. U. S. Chaturvedi	4	No
Mr. C. K. Pasari	8	Yes
Mr. S. K. Pasari	2	No
Mr. A. Khaitan	1	No
Mr. S. Singh	7	No

- (d) Code of conduct:

The Code of Conduct of the Company as adopted by the Board of Directors is applicable to all Directors, senior management and employees of the Company. The Code is available on the Company's corporate website.

The Code of Conduct for Prevention of Insider Trading in the shares and securities of the Company, inter alia, prohibits purchase/sale of shares of the Company by employees while in possession of unpublished price sensitive information in relation to the Company. The Code is available on the Company's corporate website.

### III Audit Committee

- a) The Audit Committee was constituted by the Board of Directors. Member Directors of the Audit Committee are as under :

Mr. V. K. Verma, Chairman

Mr. U. S. Chaturvedi

Mr. U. Parekh

All the members of the Audit Committee are Non-executive Directors. The Committee has elected Mr. V. K. Verma as its Chairman. All the members of Audit Committee are financially literate and one member is having accounting and related financial management expertise.

The Audit Committee Meetings were held on 30 June, 2006, 27 July, 2006, 31 October, 2006 and 29 January, 2007. The attendance of each Audit Committee member is as under :

Name of the Audit Committee Member	No. of meetings attended
Mr. V.K. Verma	4
Mr. U.S. Chaturvedi	3
Mr. U. Parekh	3

- b) At the invitation of the Company, representatives from various divisions of the Company, internal auditors, statutory auditors, Chief Financial Officer and Company Secretary who is acting as Secretary to the Audit Committee also attend the Audit Committee Meetings to respond to queries raised at the Committee Meetings.
- c) The role and terms of reference of the Audit Committee cover the matters specified for Audit Committees under Clause 49 of the Listing Agreement as well as in Section 292A of the Companies Act, 1956.

#### IV Remuneration Committee

The Remuneration Committee consists of three non-executive independent Directors :

Mr. S. P. Singhi, Chairman

Mr. U. S. Chaturvedi

Mr. U. Parekh

Broad terms of reference of the Remuneration Committee include recommendation to the Board of salary / perquisites, commission and retirement benefits payable to the Company's Directors and Senior Executives.

The Remuneration Committee of the Company met once during the year on 5 April June, 2006. The attendance of the members of the Remuneration Committee was as follows:

Name of Remuneration Committee Member	No. of meetings attended
Mr. S. P. Singhi	1
Mr. U. S. Chaturvedi	1
Mr. U. Parekh	–

#### V Remuneration Policy

Remuneration of employees largely consists of basic remuneration, perquisites and performance incentives.

The component of the total remuneration varies for different grades and is governed by industry patterns, qualifications and experience of the employee, responsibilities handled by him and his individual performance.

The objectives of the remuneration policy are to motivate employees to excel in their performance, recognize their contribution, retain talent in the organization and reward merit.

#### VI Shareholders'/Investors' Grievance Committee

The Board has formed a Shareholders/Investors' Grievance Committee consisting of the following Directors :

Mr. S. P. Singhi, Chairman of the Committee

Mr. U. Parekh

Mr. U. S. Chaturvedi

The Shareholders / Investors' Grievance Committee of the Company met two times during the year on 30 June, 2006 and 31 October, 2006.

All Investors complaints, which cannot be settled at the level of the Registrars - Maheshwari Datamatics Private Limited and Mr. D. Chatterjee, Company Secretary, the Compliance Officer, will be forwarded to the Shareholders'/Investors' Grievance Committee for final settlement.

Investors' Grievances

The following table shows the nature of complaints received from shareholders during 2006-07.

Nature of complaints	Pending as on 1 April 2006	Received during the year	Replied/resolved during the year	Pending as on 31 March 2007
Non receipt of Dividend Warrants	0	20	20	0
Non receipt of Share certificates	0	4	4	0
Non receipt of Annual Reports	0	3	3	0
	0	27	27	0

Investors' complaints are generally redressed within thirty days from their lodgment.



The Company confirms that there were no share transfers lying pending as on 31st March, 2007, and all requests for dematerialization and re-materialization of shares as on that date were confirmed/rejected into the NSDL / CDSL system.

#### VII Other Board Committees

Name of the Committee	Members	Number of Meetings held in 2005-06
Committee of Directors	Mr S P Singhi Mr C K Pasari Mr S Singh	19 meetings held on 20.04.06, 09.05.06, 25.05.06, 15.06.06, 07.07.06, 31.07.06, 11.08.06, 31.08.06, 15.09.06, 10.10.06, 31.10.06, 17.11.06, 30.11.06, 20.12.06, 11.01.07, 05.02.07, 21.02.07, 12.03.07 and 31.03.07
Allotment Committee	Mr D Khaitan Mr S P Singhi Mr C K Pasari Mr S Singh	4 meetings held on 30.06.06, 20.09.06, 19.10.06 and 05.02.07

#### VIII Subsidiary Companies :

The Company has two subsidiary companies in Hungary, viz. EWB-MBE International Kornyezetvedelmi Kft. and EWB Kornyezetvedelmi Kft. Hence it is not required to have an independent director of the Company on the Board of such subsidiary companies. With this acquisition the Company has the right to exploit the Ash Handling Technology for coal based Power Plants in India. The Company's investment in the subsidiaries has not yielded any substantial dividend except in one year.

#### IX Disclosures :

1. All related party transactions have been entered into in the ordinary course of business and were placed periodically before the audit committee in summary form. There were no material individual transactions with related parties which were not in the normal course of business required to be placed before the audit committee and that may have potential conflict with the interest of the Company at large. All individual transactions with related parties or others were on an arm's length basis.
2. The Company has complied with all the requirements of the listing agreements with the Stock Exchange as well as regulations and guidelines of SEBI. No penalties have been imposed or strictures have been issued by SEBI, Stock Exchange or any statutory authority on matters related to capital markets during the last three years.
3. All Accounting Standards mandatorily required have been followed in preparation of financial statements and no deviation has been made in following the same.
4. Risk assessment and its minimization procedures have been laid down by the Company and the same have been informed to board Members. These procedures would be periodically reviewed to ensure that executive management controls risks through means of a properly defined framework.
5. The Company has allotted 3,17,902 Equity Shares of Rs.10/- each at a price of Rs.143/- per Share upon conversion of Foreign Currency Convertible Bonds on 05.02.2007  
These Shares are listed in the Bombay Stock Exchange with effect from 16.03.2007 and National Stock Exchange with effect from 22.03.2007.
6. Management Discussion and Analysis forms part of the Annual Report to the shareholders and it includes discussion on matters as required under the provisions of Clause 49 of the listing agreement with Stock Exchange.
7. There were no material financial and commercial transactions by Senior Management as defined in Clause 49 of the listing agreement where they have personal interest that may have a potential conflict with the interests of the Company at large requiring disclosure by them to the Board of Directors of the Company.

X Compliance with of Non-Mandatory Requirements

The status of compliance in respect of non-mandatory requirements of Clause 49 of Listing Agreement is as follows:

(i) The Board :

No separate office is maintained for Non-Executive Chairman and therefore during the year under review, no expenses were incurred in connection therewith.

No specific tenure has been specified for the Independent Directors.

(ii) Remuneration Committee :

Details are given under the heading 'Remuneration Committee'.

(iii) Shareholder Rights:

Half-yearly declaration of financial performance including summary of the significant events in last six months are presently not being sent to the Shareholders of the Company.

(iv) Audit Qualification:

During the year under review, there was one audit qualification in the Company's financial statements. The Company has adopted best practices to ensure a regime of unqualified financial statements in future.

(v) Training of Board Members:

The Directors interact with the management freely on information required by them. The independent Directors are encouraged to attend training programmes that may be of relevance and interest to the Directors in discharging their responsibilities to the Company's shareholders.

(vi) Mechanism for evaluating Non-Executive Board Members:

There is no mechanism for evaluating Non-Executive Board Members at present.

(vii) Whistle Blower Policy :

There is no Whistle Blower Policy at present. However, employees aware of any alleged wrongful conduct are encouraged to make disclosure to the audit committee.

XI Compliance Certificate

Compliance Certificate for Corporate Governance from Auditors of the Company is given as Annexure to this report.

XII General Body Meetings

(a) The details of General Meetings held in the last three years are as under :

Annual General Meeting :

AGM	Day	Date	Time	Venue
41st	Wednesday	22.09.2004	12.30 p.m.	Rotary Sadan 94/2, Chowringhee Road, Kolkata 700 020
42nd	Wednesday	10.08.2005	12.30 p.m.	- do -
43rd	Wednesday	20.09.2006	11.30 a.m.	- do -

(b) Whether any special resolutions passed in the previous 3 AGMs.

Yes, details of which are given hereunder :

Date	Matter
22.09.04	Appointment of Lovelock & Lewes Statutory Auditors
22.09.04	Amendment of Articles of Association increasing the Authorised Share Capital
22.09.04	Rights Issue
10.08.05	Appointment of Managing Director
10.08.05	Issuance of FCCBs
10.08.05	Delisting of Shares from Stock Exchanges
20.09.06	Contribution to Rajiv Gandhi Foundation for charitable purposes

(c) During the year ended 31st March, 2007, the Company had held an Extraordinary General Meeting on 3rd June, 2006 for passing following special resolutions :

- 1) Issue of Foreign Currency Convertible Bonds
- 2) Issue of convertible warrants

### XIII Postal Ballot:

During the year ended 31st March, 2007, the Company had conducted a postal ballot on 15th June, 2006 as required by the Companies (Passing of Resolution by Postal Ballot) Rules, 2001. Sri Shyamal Bhattacharya, Company Secretary was appointed as the Scrutinizer for overseeing the Postal Ballot process. All the resolutions were passed with the requisite majority. The details of special resolutions put through postal ballot are as follows :

Particulars of special resolutions	Percentage of votes cast in favour of resolution
a. Alteration of Article 4 of the Articles of Association for increasing the Authorized Share Capital	99.97
b. Alteration of Object Clause of the Memorandum of Association by adding a new clause for undertaking new areas of business like mining, etc.	99.97

#### Procedure for Postal Ballot :

After receiving the approval of the Board/ Committee of Directors, the Notice, Explanatory Statement alongwith the Postal Ballot form and reply, paid self-addressed envelope were dispatched to the members to enable them to consider and vote for or against the proposal within a period of 30 days from the date of dispatch. Calendar of Events of the Postal Ballot process was filed with the Registrar of Companies, West Bengal within the stipulated period. After the last date of receipt of Postal Ballot, the Scrutinizer, after due verification submitted his report. Thereafter, the results of the Postal Ballot were declared by the Authorised Person.

At present, there is no proposal for passing any special resolution through postal ballot.

### XIV Means of Communication

#### Quarterly results :

- |   |  |
|---|--|
| (i) Which newspapers normally published in  | Business Standard, Kolkata & Mumbai<br>Pratidin (Bengali), Kolkata,<br>Kalantar Patrika (Bengali), Kolkata   |
| (ii) Any web site, where displayed  | <a href="http://www.mcnallybharat.com">www.mcnallybharat.com</a>   |
| (iii) Whether it also displays official news releases and presentations made to institutional investors/ analysts | General information on the Company, official news releases and presentations to analysts and institutional investors are also posted on the Company's website. |

## XIV General Shareholder Information

- (a) Details of Directors seeking appointment or reappointment at the ensuing Annual General Meeting are given as hereunder:

	Seeking reappointment	Seeking reappointment	Seeking appointment
Name of Director	Mr. S.P. Singhi	Mr. Utsav Pareks	Mr. A. Khaitan
Date of appointment	5th April, 1989	25th June, 1998	31st October, 2006
Brief resume and expertise in specific functional area	Given in the notice of the AGM	Given in the notice of the AGM	Given in the notice of the AGM
List of other Directorship held	-do-	-do-	-do-
Chairman/Member of the Committees of the Board of Companies in which he is a Director	-do-	-do-	-do-
Shareholding in the Company in case of Non-executive Director	Nil	100	nil

- (b) Annual General Meeting to be held :

Day, Date, time and venue :

Day : Monday  
Date : September 10, 2007  
Time : 11 a.m.  
Venue : Rotary Sadan, 94/2 Chowringhee Road, Kolkata - 700020

- (c) Financial Year : 2007-2008  
First Quarterly Results : Before end of July 2007  
Second Quarterly Results : Before end of October 2007  
Third Quarterly Results : Before end of January 2008  
Audited Yearly Results for the Year ended 31 March, 2008 : Before end of June 2008

- (d) Period of Book Closure : September 5, 2007 to September 10, 2007

- (e) Dividend payment date :

Dividend on Equity Shares when sanctioned will be made payable on or before October 8, 2007 to those Shareholders in physical form whose names stand on the Company's Register of Members on September 10, 2007 and to whom dividend warrants will be posted. In respect of shares held in electronic form, the dividend will be paid on the basis of beneficial ownership position as per the data to be furnished by National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) for this purpose.





(f) Listing on Stock Exchanges :

The Equity shares of the Company are listed at Bombay Stock Exchange Limited, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400001 and National Stock Exchange of India Ltd, 'Exchange Plaza', Bandra Kurla Complex, Bandra (E), Mumbai 400051 and listing fees have been paid for the year 2007-2008.

Stock Codes :

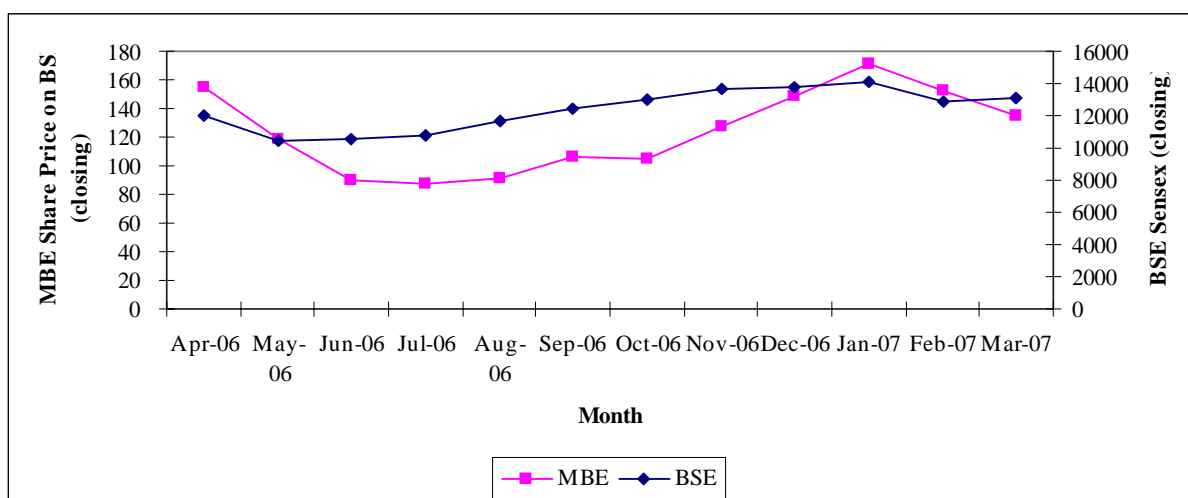
Bombay Stock Exchange	532629
National Stock Exchange	MBECL
Reuters Code	MCNL.BO
Bloomberg Code	MCNA : IN
International Securities Identification Number (ISIN) for the Company's shares in dematerialized form	INE 748A01016

(g) Market Price Data :

The details of monthly highest and lowest closing quotations of the equity shares of the Company at the Bombay Stock Exchange Limited during financial year 2006-2007 are as under :

Month	Bombay Stock Exchange (BSE)		National Stock Exchange (NSE)	
	High (Rs.)	Low (Rs.)	High (Rs.)	Low (Rs.)
April, 2006	160.00	129.00		
May, 2006	163.00	95.30		
June, 2006	125.00	67.35		
July, 2006	96.00	71.75		
August, 2006	99.00	81.50		
September, 2006	110.90	90.45		
October, 2006	122.00	101.00	123.00	104.00
November, 2006	132.50	95.55	130.00	95.00
December, 2006	160.40	121.00	160.90	128.00
January, 2007	194.80	149.65	194.90	150.00
February, 2007	184.70	145.05	184.00	147.00
March, 2007	158.85	128.20	158.40	127.50

The shares were listed and admitted to dealings on National Stock Exchange w.e.f. 6 October, 2006.



(h) Share Transfer Agents :

The Company has engaged the services of Maheshwari Datamatics Private Limited, 6 Mangoe Lane, Kolkata 700001, a SEBI registered Registrar, as their Share Transfer Agents for processing the transfers, sub-division, consolidation, splitting of securities, etc. Since trading in Company's shares can now be done only in the dematerialized form, request for Demat and Remat should be sent directly to Maheshwari Datamatics Private Limited, 6 Mangoe Lane, Kolkata 700001. Shareholders have the option to open their Accounts with either NSDL or CDSL as the Company has entered into Agreements with both these Depositories.

(i) Share Transfer System :

As already stated, the Company's shares are traded in the Stock Exchanges compulsorily in Demat mode. Therefore, Investors/Shareholders are requested to kindly note that physical documents, viz. Demat Request (DRF) and Share Certificates, etc. should be sent by their Depository Participants (DP's) directly to the Share Transfer Agents. Any delay on the part of the DP's to send the DRF and the Share Certificates beyond 15 days from the date of generation of the DRF by the DP will be rejected/cancelled. This is being done to ensure that no Demat requests remain pending with the Share Transfer Agents beyond a period of 30 days. Investors/Shareholders should, therefore, ensure that their DP's do not delay in sending the DRF and Share Certificates to Share Transfer Agents after generating the DRF.

(j) Distribution of Shareholding as on 31st March, 2007 :

No of Shares	No. of holders	% of total holders	No. of shares	% of total shares
1to 500	7783	84.1314	1198420	4.4751
501 to 1000	741	8.0099	623162	2.3270
1001 to 2000	309	3.3402	496807	1.8552
2001 to 3000	116	1.2539	309636	1.1562
3001 to 4000	34	0.3675	124673	0.4655
4001 to 5000	72	0.7783	349013	1.3033
5001 to10000	71	0.7675	527612	1.9702
10001 and above	125	1.3512	23150377	86.4475
Total	9251	100.0000	26779700	100.0000



(k) Pattern of Shareholding as on 31st March, 2007 :

Category	No. of Holders	No. of Shares
1 Resident Indian	8577	4534744
2 Domestic Companies	528	11313228
3 NRI	111	3051364
4 Foreign Companies	—	—
5 Mutual Fund	15	2984460
6 Financial Institutions	—	—
7 Bank (Non-Nationalised)	2	600
8 Directors & Relatives	7	37887
9 FII	5	3055526
10 Insurance	6	1801891
Total	9251	26779700

(l) Dematerialization of Shares :

As on 31st March, 2007, 26238356 Shares of the Company's total shares representing 97.98% shares were held in dematerialized form and the balance 2.02% representing 541344 shares were in paper form.

(m) Outstanding GDRs/ADRs/Warrants or any Convertible instruments :

(i) During the year, the Company has issued 100 4.5% Foreign Currency Convertible Bonds of US\$ 100,000 each. The Bonds are convertible at the option of the bondholders into equity shares at any time on or after 25<sup>th</sup> October, 2006 up to and including 20<sup>th</sup> October, 2011 at initial conversion price of Rs. 143/- per share. Out of the above issue an amount of US\$ 1 million have been converted to 3,17,902 equity shares by the bondholders on 5<sup>th</sup> February, 2007 vide notice dated 30.1.2007 issued by Bank of New York, the paying and issuing agent. If the remaining bonds were converted at the initial conversion price, approximately 27,43,427 equity shares would be allotted.

(ii) The Company has issued 14,53,000 Convertible Warrants during the year to certain Promoters, Associates and Senior Management of the Company at the rate of Rs. 143 per warrant. An amount of 10% of the Warrant value was paid on application. On payment of the Balance 90% within a period of 18 months from the date of application, one Equity Share will be allotted for each Warrant held.

(iii) There are no other outstanding GDR's/ADR's/warrants or any convertible instruments.

(n) Factory Location :

The Company's factory is located at Kumardhubi, Jharkhand.

(o) Address of Correspondence :

The Company's Registered Office is situated at 4, Mangoe Lane, 7th Floor, Kolkata 700001. Shareholders' correspondence should be addressed to :

McNally Bharat Engineering Company Limited

Share Department, 4, Mangoe Lane, 7th Floor, Kolkata - 700 001.

Contact persons :

Mr. D. Chatterjee, Company Secretary

Mr. E. Janardhanan, Deputy Manager

Telephone Nos : 65500725 to 65500739

Fax No: 2248-0340, E-mail: mbecal@mbecl.co.in

Maheshwari Datamatics Private Limited

6 Mangoe Lane, 2nd Floor, Kolkata - 700 001

Contact person :

Mr. T. K. Biswas, Manager

Telephone Nos: 2243-5029/ 5809

Fax No: 2248-4787, E-mail : mdpl@cal.vsnl.net.in

XV Declaration by the CEO under Clause 49 of the listing agreement regarding adherence to the Code of conduct

In accordance with Clause 49 sub-clause 1(D) of the Listing Agreement with the Stock Exchanges, I hereby confirm that all the Directors and the Senior Management personnel of the Company have affirmed compliance to their respective Codes of Conduct, as applicable to them for the Financial Year ended March 31, 2007.

For McNally Bharat Engineering Company Limited

Srinivash Singh  
Managing Director  
June 21, 2007

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AUDITORS' CERTIFICATE REGARDING COMPLIANCE OF CONDITIONS OF CORPORATE GOVERNANCE

To the Members of  
McNally Bharat Engineering Company Limited

We have examined the compliance of conditions of Corporate Governance by McNally Bharat Engineering Company Limited, for the year ended 31<sup>st</sup> March, 2007, as stipulated in Clause 49 of the Listing Agreements of the said Company with Stock Exchanges in India.

The compliance of conditions of corporate Governance is the responsibility of the Company's management. Our examination was carried out in accordance with the Guidance Note on Certification of Corporate Governance (as stipulated in Clause 49 of the Listing Agreement), issued by Institute of Chartered Accountants of India and was Limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreements.

We state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the Management has conducted the affairs of the Company.

Prabal Kr. Sarkar  
*Partner*  
Membership No. : 52340

For and on behalf of  
Lovell & Lewes  
*Chartered Accountants*

Kolkata, 21 June, 2007.



## AUDITORS' REPORT

TO THE MEMBERS OF McNALLY BHARAT ENGINEERING COMPANY LIMITED

1. We have audited the attached Balance Sheet of McNALLY BHARAT ENGINEERING COMPANY LIMITED, as at 31st March 2007, and the related Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto, which we have signed under reference to this report. 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 the 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 (Auditor's 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' of India (the 'Act') 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 give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. *As indicated in Note 9(a) on Schedule 23 to the accounts, in view of the prolonged non-conclusive status of the power project set up by Jayamkondam Lignite Power Corporation Limited (JLPC) in which the Company was a Co-promoter, we are unable to comment on the recoverability of the investment amount due from JLPC amounting to Rs.1,08,06,995 in these accounts.*
5. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:
  - (a) *Subject to our remarks in paragraph 4 above* we have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
  - (b) In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books;
  - (c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
  - (d) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Act;



- (e) On the basis of written representations received from the Directors, as on 31st March 2007 and taken on record by the Board of Directors, none of the Directors is disqualified as on 31st March 2007 from being appointed as a Director in terms of clause (g) of sub-section (1) of Section 274 of the Act;
- (f) In our opinion and to the best of our information and according to the explanations given to us, the said financial statements together with the notes thereon and attached thereto give in the prescribed manner the information required by the Act and also *subject to our remarks in paragraph 4* above give a true and fair view in conformity with the accounting principles generally accepted in India :
  - (i) in the case of the Balance Sheet, of the state of affairs of the company as at 31st March 2007;
  - (ii) in the case of the Profit and Loss Account, of the profit for the year ended on that date; and
  - (iii) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

PRABAL KR SARKAR  
Partner  
Membership Number 52340  
For and on behalf of  
LOVELOCK & LEWES  
Chartered Accountants

Place: Kolkata, June 21, 2007



## ANNEXURE TO AUDITORS' REPORT

[Referred to in paragraph 3 of the Auditors' Report of even date to the members of McNally Bharat Engineering Company Limited on the financial statements for the year ended 31st March, 2007]

1. (a) The company has maintained proper records showing full particulars including quantitative details and situation of all fixed assets except item-wise cost and/or location of pumps, pipes and fittings and electrical installations included in plant and machinery and fixtures acquired prior to 1st December, 1964.  
(b) The fixed assets are physically verified by the management according to a phased programme designed to cover all the items over a period of three years, which in our opinion, is reasonable having regard to the size of the company and the nature of its assets. Pursuant to the programme, a portion of the fixed assets has been physically verified by the management during the year and reconciliation between the book records and the physical inventory is in process.  
(c) In our opinion and according to the information and explanations given to us, a substantial part of fixed assets has not been disposed of by the company during the year.
2. (a) The inventory (excluding stocks with third parties) has been physically verified by the management during the year. In respect of inventory lying with third parties, these have substantially been confirmed by them. In our opinion, the frequency of verification is reasonable.  
(b) In our opinion, the procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the company and the nature of its business.  
(c) On the basis of our examination of the inventory records, in our opinion, the company is maintaining proper records of inventory. The discrepancies noticed on physical verification of inventory as compared to book records were not material.
3. (a) The company has not granted any loans, secured or unsecured, to companies, firms or other parties covered in the register maintained under Section 301 of the Act. Accordingly the paragraphs 4(iii)(b),(c), (d) of the Order are not applicable.  
(b) The company has not taken any loans, secured or unsecured, from companies, firms or other parties covered in the register maintained under Section 301 of the Act. Accordingly the paragraphs 4 (iii) (f), (g) of the Order are not applicable.
4. In our opinion and according to the information and explanations given to us, having regard to the explanation that certain items purchased are of special nature for which suitable alternative sources do not exist for obtaining comparative quotations, there is an adequate internal control system commensurate with the size of the company and the nature of its business for the purchase of inventory, fixed assets and for the sale of goods and services. Further, on the basis of our examination of the books and records of the company, and according to the information and explanations given to us, we have neither come across nor have been informed of any continuing failure to correct major weaknesses in the aforesaid internal control system.
5. In our opinion and according to the information and explanations given to us, there are no contracts that need to be entered into the register in pursuance of Section 301 of the Act. In view of the above, paragraph 4(v) (b) of the Order is not applicable to the Company for the current year.
6. The company has not accepted any deposits from the public within the meaning of Sections 58A and 58AA of the Act and the rules framed there under.
7. In our opinion, the company has an internal audit system commensurate with its size and nature of its business.

8. The Central Government of India has not prescribed the maintenance of cost records under clause (d) of sub-section (1) of Section 209 of the Act for any of the products of the company.
9. (a) According to the information and explanations given to us and the records of the company examined by us, in our opinion, the company is generally regular in depositing undisputed statutory dues including, employees' state insurance, and excise duty income-tax, wealth tax, customs duty, and cess and other material statutory dues as applicable, with the appropriate authorities except in certain cases of deposits to investor education and protection fund, provident fund, sales tax and service tax where there have been significant delays. Further, since the Central Government has till date not prescribed the amount of cess payable under Section 441A of the Companies Act, 1956 we are not in a position to comment upon the regularity or otherwise of the Company in depositing the same. The extent of the arrears of statutory dues outstanding as at 31st March, 2007, for a period of more than six months from the date they became payable, in respect of sales tax, service tax and ESI are as follows :

Name of the Statute	Nature of Dues	Amount	Period to which the amount relates	Due Date	Date of Payment
Karnataka Sales Tax Act	Sales Tax	11,568	2004-05	20.08.04	Not yet paid
Gujarat Sales Tax Act	Sales Tax	22,606	2006-07	21.07.06	07.05.07

- (b) According to the information and explanations given to us and the records of the company examined by us, as at 31st March, 2007, there were no dues in respect of wealth tax, service tax, customs duty and cess which have not been deposited on account of a dispute, other than certain disputed excise duty, sales tax and income tax dues as at 31st March 2007 amounting to Rs.21953859/-, Rs.4813538/- and Rs.30938/- respectively in respect of which amounts involved and forums at which dispute is pending are detailed in Annexure A attached.
10. The company has no accumulated losses as at 31st March 2007 and it has not incurred any cash losses in the financial year ended on that date or in the immediately preceding financial year.
11. According to the records of the company examined by us and the information and explanation given to us, the company has not defaulted in repayment of dues to any financial institution, bank or debenture holders as at the balance sheet date.
12. The company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
13. The provisions of any special statute applicable to chit fund/nidhi/mutual benefit fund/societies are not applicable to the company.
14. In our opinion, the company is not a dealer or trader in shares, securities, debentures and other investments.
15. In our opinion, and 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 during the year.
16. In our opinion, and according to the information and explanations given to us, on an overall basis, the term loans have been applied for the purposes for which they were obtained.



17. On the basis of an overall examination of the balance sheet of the company, in our opinion and according to the information and explanations given to us, there are no funds raised on a short-term basis which have been used for long-term investment.
18. The company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Act during the year.
19. As the Company has not issued any debentures the provisions of Clause 4 (xix) of the Order are not applicable to the Company.
20. The company has not raised any money by public issues during the year.
21. During the course of our examination of the books and records of the company, carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, we have neither come across any instance of fraud on or by the company, noticed or reported during the year, nor have we been informed of such case by the management.

Prabal Kr. Sarkar  
*Partner*

Membership Number. 52340  
For and on behalf of  
Lovelock & Lewes  
*Chartered Accountants*

Kolkata, June 21, 2007



# ANNEXURE – A

[Referred to in paragraph 9(b) of the Auditors' Report on matters specified in paragraphs 4 and 5 of Companies (Auditor's Report) Order, 2003.]

NAME OF THE STATUTE	NATURE OF DUES	AMOUNT in Rs.	PERIOD TO WHICH THE AMOUNT RELATES	FORUM IN WHICH THE DISPUTE IS PENDING
CENTRAL EXCISE ACT, 1944	Excise Duty and Penal Interest thereon	670,220	1990-91	CEGAT – Kolkata
- DO -	- DO -	2,119,191	1994-95 & 95-96	Commissioner (Appeal) - Patna
- DO -	- DO -	2,831,749	1996-97	Asst. Commissioner - Dhanbad
- DO -	- DO -	674,059	1993-94	Asst. Commissioner - Dhanbad
- DO -	- DO -	1,879,868	1994-95	Asst. Commissioner - Dhanbad
- DO -	- DO -	355,691	1992-93	Asst. Commissioner - Dhanbad
- DO -	- DO -	464,000	2005-06	Asst. Commissioner - Dhanbad
- DO -	- DO -	7,722	2004-05 & 2005-06	Asst. Commissioner - Dhanbad
- DO -	- DO -	12,951,359	1989-90 to 1992-93	Commissioner of Central Excise-Trichy
	SUB-TOTAL	21,953,859		
APGST ACT, 1957	Sales Tax	624,128	1994-95	Sales Tax Appellate Tribunal-Hyderabad
- DO -	Sales Tax	1,314,578	1995-96	Sales Tax Appellate Tribunal-Hyderabad
- DO -	Sales Tax	452,894	1997-98	Sales Tax Appellate Tribunal-Hyderabad
- DO -	Sales Tax	886,480	1996-97	Sales Tax Appellate Tribunal-Hyderabad
OST ACT	Sales Tax	166,333	2003-04	Asstt Commissioner of Commercial Taxes - Cuttack Circle
WBST ACT	Sales Tax	177,694	2003-04	Dy Commissioner of Commercial Taxes - Kolkata
BIHAR FINANCE ACT, 1981	SALES TAX	644,052	1991-92	Dy Commissioner of Commercial Taxes - Chirkunda Circle
- DO -	Sales Tax	547,379	1992-93	Dy Commissioner of Commercial Taxes - Chirkunda Circle
	SUB - TOTAL	4,813,538		
INCOME TAX ACT,1961	Income - Tax	30,938	1988-89	Dy. Commissioner - Kolkata
	SUB-TOTAL	30,938		



**BALANCE SHEET AS AT 31ST MARCH, 2007**

	Schedule No.	As at 31st March, 2007 Rs.'000	As at 31st March, 2006 Rs.'000
<b>I. SOURCES OF FUNDS</b>			
1. Shareholders' Funds			
a) Capital	1	267,797	264,618
b) Reserves and Surplus	2	673,978	523,952
2. Shares Warrant Application Money (Refer Note 24 in Schedule 23)		20,777	—
3. Loan Funds			
a) Secured Loans	3	706,693	795,415
b) Unsecured Loans	4	466,209	—
4. Deferred Tax Liability	14	7,022	11,016
<b>Total</b>		<b>2,142,476</b>	<b>1,595,001</b>
<b>II. APPLICATION OF FUNDS</b>			
1. Fixed Assets			
a) Gross Block		778,894	838,326
b) Less: Depreciation		326,932	310,921
c) Net Block	5	451,962	527,405
2. Capital Work in Progress		113,689	1,717
3. Investments	6	46,137	32,094
4. Current Assets, Loans and Advances			
a) Interest Accrued on Investments	7	—	—
b) Inventories	8	188,169	118,023
c) Sundry Debtors	9	2,603,738	1,895,741
d) Cash and Bank Balances	10	544,500	153,916
e) Loans and Advances	11	669,867	574,156
		<b>4,006,274</b>	<b>2,741,836</b>
Less : Current Liabilities and Provisions			
a) Liabilities	12	2,431,502	1,683,576
b) Provisions	13	44,084	24,475
		<b>2,475,586</b>	<b>1,708,051</b>
<b>Net Current Assets</b>		<b>1,530,688</b>	<b>1,033,785</b>
<b>Total</b>		<b>2,142,476</b>	<b>1,595,001</b>
Notes on Accounts	23		

Schedules referred to above form an integral part of the Balance Sheet.

This is the Balance Sheet referred to in our Report of even date.

**PRABAL KR SARKAR**

*Partner*

Member No. 52340

For and on behalf of

**LOVELOCK & LEWES**

*Chartered Accountants*

Kolkata, 21st June, 2007

**DEEPAK KHAITAN** – *Chairman*

**SRINIVASH SINGH** – *Managing Director*

**P. K. GHOSH** – *Chief Financial Officer*

**D. CHATTERJEE** – *Company Secretary*

**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2007**

	Schedule No.	For the year ended 31st March, 2007 Rs. '000	For the year ended 31st March, 2006 Rs. '000
<b>INCOME</b>			
Sale of Products & Contracts	15	5,020,528	3,301,742
Increase/(Decrease) in Jobs-in-progress	16	99,741	19,691
Agency Commission		13,603	10,166
Sale of scrap		5,917	15,456
Other Income	17	56,227	5,067
<b>Total</b>		<b>5,196,016</b>	<b>3,352,122</b>
<b>EXPENDITURE</b>			
Materials	18	3,179,106	1,973,727
Outsourcing Expenses to outsiders for Job Work		922,649	631,447
Expenses	19	743,292	558,652
Advance/Debts written off/Provision/Liabilities written back (Net)	20	11,269	6,674
Loss on sale of Fixed Assets (Net)		31,408	970
Depreciation and Amortisation	21	17,219	27,285
Interest and Finance charges (Net)	22	90,240	87,373
<b>Total</b>		<b>4,995,183</b>	<b>3,286,128</b>
<b>PROFIT BEFORE TAXATION</b>		<b>200,833</b>	<b>65,994</b>
<b>TAXATION FOR THE YEAR</b>			
Current Tax [(including Rs.Nil (2005-06-10,00,000 for earlier years)]		20,259	6,500
Deferred Tax [after considering Rs.59,26,000 (2005-06 – Rs.45,14,000 being tax effect of expenses relating to issue of Foreign Currency Convertible Bonds (FCCB) adjusted against Share Premium Account]		1,932	3,959
Fringe Benefit Tax		3,596	3,005
		25,787	13,464
<b>PROFIT AFTER TAXATION</b>		<b>175,046</b>	<b>52,530</b>
Brought forward from Previous Year		106,237	68,793
		<b>281,283</b>	<b>121,323</b>
<b>APPROPRIATIONS</b>			
Proposed Dividend		26,780	13,231
Corporate Dividend Tax		4,551	1,855
Balance Carried Forward		249,952	106,237
		<b>281,283</b>	<b>121,323</b>
Notes on Accounts	23		
Earnings per Share (Equity Shares, Nominal Value of Rs.10/- each)			
Basic and diluted (Refer Note 25 on Schedule 23)		6.60	2.26

Schedules referred to above form an integral part of the Profit and Loss Account.

This is the Profit and Loss Account referred to in our Report of even date.

**PRABAL KR SARKAR**

*Partner*

Member No. 52340

For and on behalf of

**LOVELOCK & LEWES**

*Chartered Accountants*

Kolkata, 21st June, 2007

**DEEPAK KHAITAN** – *Chairman*

**SRINIVASH SINGH** – *Managing Director*

**P. K. GHOSH** – *Chief Financial Officer*

**D. CHATTERJEE** – *Company Secretary*



SCHEDULES

	As at 31st March, 2007 Rs.'000	As at 31st March, 2006 Rs.'000
1. Capital		
Authorised		
4,00,00,000 (2005-06 – 3,00,00,000)	400,000	300,000
Equity Shares of Rs.10/- each		
Issued and Subscribed		
2,67,79,700 Equity Shares of Rs.10/- each fully paid up	267,797	264,618
(2005-06 2,64,798 Equity Shaes of Rs.10/- each fully paid up)		
Refer Note 23 in Schedule 23		
Note:		
Of the above Shares :		
i) 4,86,100 Shares were allotted as fully		
paid-up pursuant to Contracts without		
payments being received in cash;		
ii) 12,57,930 Shares were issued as		
fully paid-up Bonus Shares by		
Capitalisation of General Reserve		
Total	267,797	264,618
2. Reserves and Surplus		
Capital Redemption Reserve	100	100
Securities Premium Account		
Balance as per last account	239,779	7,235
Add : Addition during the year	30,770	232,544
[net of Issue Expenses relating to Foreign Currency		
Convertible Bonds (FCCB) after adjustment of tax		
effect amounting to Rs.1,15,10,962		
(2005-06 Rs.88,97,254)] (Refer Note 23 in Schedule 23)		
Balance as at 31st March, 2007	270,549	239,779
Revaluation Reserve as per last account	100,580	9,854
Add : Amount added on revaluation	—	111,633
Less : Transferred to Profit and Loss Account	24,202	20,907
Less : Amount withdrawn on assets sold	257	—
Revaluation Reserve as at 31st March 2007	76,121	100,580
General Reserve	77,256	77,256
Profit & Loss Account		
Balance as per last account	106,237	68,793
Add : Profit for the year	143,715	37,444
Balance as at 31st March, 2007	249,952	106,237
Total	673,978	523,952

SCHEDULES	As at 31st March, 2007 Rs.'000	As at 31st March, 2006 Rs.'000
3. Secured Loans		
From Banks :		
Overdraft including Working Capital Demand Loans (including interest accrued and due Rs.3,41,978; 2005-06 – Rs.2,268/-) (Secured by hypothecation of all Stocks, Book Debts and by way of a First Charge on certain Fixed Assets of the Company)	586,933	441,116
Term Loans	105,322	315,529
Include :		
i) Rs.5,60,00,000 is secured by a second mortgage and charge on the immovable and movable properties of the Kumardhubi unit of the Company and a guarantee from United Insurance Company Limited		
ii) Rs. 3,66,66,664 secured by way of subservient charge on all fixed and current assets of the Co. and a guarantee from United India Insurance Company Limited (pending creation of charge)		
iii) Rs. 50,59,042 secured by subservient charge on entire fixed assets of the company both present and future.		
iv) Rs. 75,00,000 secured by a subservient charge on entire fixed assets of the company both present and future. (including interest accrued and due Rs.96,340; 2005-06 – Rs.Nil)		
Equipment Finance Loan (Secured by hypothecation of the tangible movable asset acquired out of these loans).	2,700	6,769
Car Loans (Secured by hypothecation of Motor Vehicles acquired out of these loans).	5,245	1,121
From Others :		
Equipment Finance Loans (Secured by hypothecation of the tangible movable assets acquired out of these loans).	6,493	30,880
Total	<u>706,693</u>	<u>795,415</u>
4. Unsecured Loans		
Short Term Loan from Others		
From banks (including interest accrued and due Rs.628,477; 2005-06 – Rs.Nil)	73,750	—
Other Loans		
Car Loan	149	—
4.5% Foreign Currency Convertible Bond (Refer Note 23 on Schedule 23)	392,310	—
Total	<u>466,209</u>	<u>—</u>



## SCHEDULES

## 5. Fixed Assets

Rs. '000

Particulars	GROSS BLOCK AT COST/VALUATION					DEPRECIATION					NET BLOCK	
	As at 31st March, 2006	Amount added on Revaluation	Additions	Sale/Adjustment	As at 31st March, 2007	As at 31st March, 2006	Adjustment on Re-valuation	For the year	On Sales Adjustment	As at 31st March, 2007	As at 31st March, 2007	As at 31st March, 2006
Tangible Assets :												
Freehold Land	15,427	—	—	—	15,427	—	—	—	—	—	15,427	15,427
Leasehold Land	48,606	—	3,109*	—	51,715	—	—	150	—	150	51,565	48,606
Building	245,640	—	—	—	245,640	102,098	—	5,099	—	107,197	138,443	143,542
Plant & Machinery	378,998	—	15,276	88,906	305,368	152,603	—	20,177	24,389	148,391	156,977	226,395
Furniture & Fixtures	11,375	—	1,139	1,296	11,218	6,856	—	482	608	6,730	4,488	4,519
Refrigerators & Air Conditioners	4,903	—	2,523	—	7,426	2,089	—	255	—	2,344	5,082	2,814
Office Equipments	4,772	—	173	—	4,945	2,439	—	284	—	2,723	2,222	2,333
Vehicles	4,651	—	6,104	1,453	9,302	2,298	—	536	413	2,421	6,881	2,353
Telephone Plant	1,500	—	26	—	1,526	579	—	55	—	634	892	921
Cooking Appliances	94	—	—	—	94	87	—	—	—	87	7	7
Intangible Assets :												
Technology for :												
Pump #	75,290	—	—	—	75,290	22,587	—	7,529	—	30,116	45,174	52,703
Mineral Processing Equipment #	26,297	—	—	—	26,297	7,890	—	2,630	—	10,520	15,777	18,407
Vibrating Screens	8,572	—	—	—	8,572	4,024	—	1,712	—	5,736	2,836	4,548
Granulators etc.	4,289	—	—	—	4,289	1,716	—	861	—	2,577	1,712	2,573
Computer Software	7,912	—	3,873	—	11,785	5,655	—	1,651	—	7,306	4,479	2,257
Total	838,326	—	32,223	91,655	778,894	310,921	—	41,421	25,410	326,932	451,962	527,405
Previous Year	691,570	113,337	39,590	6,171	838,326	265,875	1,704	48,192	4,850	310,921	527,405	

Notes : - Represents land allotted by Karnataka Industrial Area Development Board on lease cum sale basis for a period of six years. At the end of six years the lease shall be converted into sale subject to the fulfilment of the conditions of allotment and payment of the price of land in full after adjustment of the amount already paid.

# Acquired on amalgamation.

Also Refer Note 18 on Schedule 23.

SCHEDULES

	As at 31st March, 2007 Rs.'000	As at 31st March, 2006 Rs.'000
6. Investments—Unquoted unless otherwise stated		
Current - Other than trade		
Investment in 31,32,727,352 Units (2005-06 1725716; 657 Units) of Grindlays Floating Rate Fund-Short Term Plan - Growth	38,003	19,960
Long Term (at Cost)		
A. IN GOVERNMENT SECURITIES		
5 Year Kishan Vikas Patra	—	10
6 Year National Savings Certificate VIII Issue (All the above Securities have been lodged with the Sales Tax Authorities)	—	20
B. IN SUBSIDIARY COMPANY		
100% Shares fully paid up in EWB-MBE International Kornyezvetvedelmi Kft. Hungary (formerly EWB-MBE International Environmental Limited)	7,427	7,427
C. TRADE INVESTMENTS		
40,000 Equity Shares of Rs.100/- each fully paid in Eriez MBE India Limited (Joint Venture Company) #	—	4,000
24,970 Equity Shares of Rs.10/- each fully paid in Jayamkondam Lignite Power Corporation Limited	250	250
D. OTHER THAN TRADE		
100 Shares of Rs.10 each fully paid up in McNally Bharat Co-operative Credit Society Limited	1	1
10,960 Equity Shares of Rs.5/- each fully paid-up in Eveready Industries India Limited (Quoted)	228	228
10,960 Equity Shares of Rs.5/- each fully paid-up in Mcleod Russel India Ltd. (Quoted)	228	228
	<u>46,137</u>	<u>32,124</u>
Less : Provision for investments	—	30
Total	<u>46,137</u>	<u>32,094</u>
Aggregate Book Value of Unquoted Investments	45,681	31,668
Aggregate Book Value of Quoted Investments	456	456
Aggregate Market Value of Quoted Investments	1,398	2,971



SCHEDULES

	As at 31st March, 2007 Rs.'000	As at 31st March, 2006 Rs.'000
7. Interest Accrued on Investments		
In Government Securities	—	19
Less : Provision for interest accrued on investments	—	19
	<u>—</u>	<u>—</u>
8. Inventories		
Stores and Spare Parts (Including in-Transit Rs.64,97,729; 2005-06 – Rs.20,10,774)	20,202	23,996
Loose Tools (including in transit Rs.5,23,420; 2005-06 - Rs.3,37,799)	3,491	3,436
Raw Materials including Intermediate Stock (including In-Transit Rs.1,86,22,741; 2005-06 - Rs.85,93,061)	31,648	53,504
Jobs-in-Progress [Includes items amounting to Rs. NIL ready for despatch (2005-06 – Rs.40,00,000)]	132,828	37,087
Total	<u>188,169</u>	<u>118,023</u>
9. Sundry Debtors		
Unsecured		
Debts outstanding for a period exceeding Six Months*		
– Considered good	1,151,033	560,997
– Considered doubtful	873	—
	1,151,906	560,997
Less : provision	<u>873</u>	<u>—</u>
	1,151,033	560,997
Other Debts	1,452,705	1,334,744
* Including Retention money not due Rs.95,39,35,419 (2005-06 Rs.35,76,64,708)		
Total	<u>2,603,738</u>	<u>1,895,741</u>
10. Cash and Bank Balances		
Cash and Cheques in hand	90,417	40,517
Remittance-in-Transit	5,784	4,504
With Scheduled Banks		
On Current Account	112,803	91,036
On Deposit Account *	335,496	17,859
Total	<u>544,500</u>	<u>153,916</u>
* Includes Rs.31,02,226 (2005-06 - Rs.1,77,56,056 pledged with Banks		

SCHEDULES	As at 31st March, 2007 Rs.'000	As at 31st March, 2006 Rs.'000
11. Loans and Advances (Unsecured-Considered Good)		
Advances Recoverable in Cash or in kind or for value to be received (Refer Note 26 - on Schedule 23)	441,716	332,005
Deposits with Government, Public Bodies and Others	143,613	148,235
Balance with Central Excise	18,410	4,962
Advance Payment of Tax (net of Provision for Tax)	66,128	88,954
Total	<u>669,867</u>	<u>574,156</u>
12. Current Liabilities		
Acceptances	195,923	49,778
Sundry Creditors		
Dues to Small Scale Undertakings	6,649	5,839
Others (include due to Subsidiaries – Rs.42,07,117); (2005-06 – Rs.47,07,538)]	1,476,771	1,045,096
Advance Payment from Customers	605,662	471,149
Other Liabilities	141,888	111,714
Interest accrued but not due on Loan	4,609	—
Total	<u>2,431,502</u>	<u>1,683,576</u>
13. Provisions		
Proposed Dividend	26,780	13,231
Corporate Dividend Tax	4,551	1,855
Provision for Leave Encashment	12,753	9,389
Total	<u>44,084</u>	<u>24,475</u>
14. Deferred Tax		
<u>Liabilities</u>		
Depreciation	8,536	17,097
<u>Assets</u>		
Section 43B items	(1,514)	(994)
FCCB issue expenses	—	(3,611)
Others items	—	(1,476)
Total	<u>7,022</u>	<u>11,016</u>



## McNally Bharat Engineering Co Ltd

### SCHEDULES

For the year ended  
31st March, 2007  
Rs.'000

For the year ended  
31st March, 2006  
Rs.'000

#### 15. Sale of Products and Contracts

Sale of Plant, Equipment and Spare Parts

398,122

307,604

Less : Excise Duty

125,817

74,069

272,305

233,535

Contracts

4,748,223

3,068,207

Total

5,020,528

3,301,742

#### 16. Increase /(Decrease) in Jobs-in-Progress

Balance as at 1st April 2006

33,087

13,396

Balance as at 31st March 2007

132,828

33,087

Total

99,741

19,691

#### 17. Other Income

Service Charges

1,395

544

Miscellaneous Income

1,995

2,234

Profit on Sale of Investment (Net)

1,837

1,186

Profit on Sale of Long Term Investment (Net)

51,000

—

Gain on Exchange Fluctuations (Net)

—

1,103

Total

56,227

5,067

#### 18. Materials

Balance as at 1st April, 2006

53,504

96,296

Add : Purchases

549,983

586,155

603,487

682,451

Less : Balance as at 31st March, 2007

31,648

53,504

Consumption of Raw Materials

571,839

628,947

Consumption of bought out Components  
and Spare Parts

2,607,267

1,344,780

Total

3,179,106

1,973,727



SCHEDULES	For the year ended 31st March, 2007 Rs.'000	For the year ended 31st March, 2006 Rs.'000
19. Expenses		
Salaries, Wages and Bonus	200,417	149,166
Contribution to Provident and Other Funds	23,387	10,742
Workmen and Staff Welfare Expenses	12,102	9,041
Professional Services	45,438	32,514
Stores and Spare Parts	5,970	8,410
Power and Fuel	19,060	14,637
Building Repairs and Maintenance	1,085	525
Machinery Repairs and Maintenance	7,126	1,691
General Repairs	26,038	20,261
Rent	11,926	15,039
Subscriptions and Donations	1,140	2,769
Bank Charges	59,185	60,395
Rates & Taxes	15,057	24,436
Insurance	18,075	15,248
Cartage & Freight	142,042	76,680
Directors' Fees	505	485
Travelling	67,567	49,427
Running and Maintenance of Vehicles	2,892	3,223
Royalty	8,151	6,072
Inventories written off	4,000	15,238
Loss from Exchange Fluctuations (Net)	15,088	—
Commission Expenses	612	892
Provision for investment/interest accrued on investments	—	49
Provision for Bad and Doubtful Debts	873	—
Loss on sale of stock	10,441	—
Miscellaneous	49,022	41,712
	<u>747,199</u>	<u>558,652</u>
Less : Transferred to capital Work in Progress	3,907	—
Total	<u>743,292</u>	<u>558,652</u>
20. Advance/Debts written off/Provision written back (net)		
Debts written off	1,604	18,612
Advances written off	12,941	26,695
	<u>14,545</u>	<u>45,307</u>
Less :		
Debts/Advances realised	411	—
Provision no longer required written back	—	22,500
Liabilities no longer required written back	2,865	16,133
Total	<u>11,269</u>	<u>6,674</u>



SCHEDULES	For the year ended 31st March, 2007 Rs.'000	For the year ended 31st March, 2006 Rs.'000
21. Depreciation & Amortisation		
Total Charge	41,421	48,192
Less : Transferred from Revaluation Reserve	24,202	20,907
Total	<u>17,219</u>	<u>27,285</u>
22. Interest and Finance Charges		
Interest		
On Fixed Loans	39,267	14,303
On Others	54,458	68,032
	<u>93,725</u>	<u>82,335</u>
Less : Interest Earned (Gross)		
On Fixed Deposit & Others (Tax deducted at source Rs.24,370/- (2005-06 - Rs.3,60,289)	10,229	1,807
On Income Tax refund	5,688	—
	<u>77,808</u>	<u>80,528</u>
Bill Discounting charges	12,432	6,845
Total	<u>90,240</u>	<u>87,373</u>

23. Notes on Accounts

1. Accounting Policy Statement

i. The financial statements have been prepared in accordance with applicable Accounting Standards (AS) specified by the Institute of Chartered Accountants of India (ICAI). A summary of important accounting policies, which have been applied consistently, is set out below. Financial statements have also been prepared in accordance with relevant presentational requirements of the Companies Act, 1956.

ii. BASIS OF ACCOUNTING.

The financial statements are prepared in accordance with the historical cost convention modified by the revaluation of certain fixed assets.

iii. FIXED ASSETS.

a) Fixed Assets other than those revalued are stated at their cost. Cost includes Inward Freight, Duties and Taxes and Expenses incidental to acquisition and installation.

b) Depreciation.

Depreciation on assets is provided on Straight Line Method as below :

(i) In respect of assets acquired prior to 1st June 1987 at rates specified in Income tax Act 1961 and rules made thereunder and in terms of section 205(2)(b) of the Companies Act, 1956 prevailing at the time of acquisition of the assets.

(ii) For assets acquired on or after 1st June 1987 at rates specified in Schedule XIV to the Companies Act, 1956 as prevailing on the date of acquisition of the assets except as follows:

Certain items of plant and machinery 7.07%, 11.31%

(iii) Freehold Land and Leasehold Land on perpetual lease are not depreciated. Other Leasehold Land are amortised over the period of Lease.

In respect of revalued assets, depreciation on amount added on revaluation is recouped from revaluation reserve.

## SCHEDULES

### 23. Notes on Accounts (Contd.)

- c) Profit and Loss on disposal of Fixed Assets is recognized in Profit and Loss Account.
  - d) Intangible Assets represents technologies for pumps and mineral processing equipments (acquired on amalgamation) and technical know-how for vibrating screens and granulators which are amortized over a period of ten years and five years respectively under straight line method. Intangible assets also include computer software which are amortized over a period of five years.
  - e) Amortizations of revalued intangible assets are recouped from Revaluation Reserve, wherein the credit was given on its valuation.
  - f) An impairment loss is recognized where applicable when the carrying value of the Fixed Assets exceeds its market value or value in use, whichever is higher.
- iv. **GOVERNMENT GRANTS.**  
Grants / Subsidies that relate to Capital Expenditure are deducted from the cost of the assets. Other grants / subsidies are credited to the Profit and Loss Account.
- v. **INVESTMENTS**  
Investments that are readily realizable and intended to be held for not more than one year are classified as current investments. All other investments are classified as long term investments. Current investments are carried at lower of cost and fair value determined on an individual investment basis. Long term investments are carried at cost. However provision for diminution in value is made to recognize a decline other than temporary in the value of such investments.
- vi. **STOCK and JOBS-IN PROGRESS.**  
Inventories including Jobs-in-Progress are stated at cost or Net Realizable Value, whichever is lower.  
In case of raw materials and stores and spares, such cost is arrived on Weighted Average Basis. Cost comprises of expenditure incurred in the normal course of business in bringing Stocks and Jobs-in-Progress to their location and condition (including appropriate overheads in case of Jobs-in-Progress, calculated on a basis appropriate to the business carried on by the Company). Where the current estimate of total cost and revenue in respect of Jobs-in-Progress covered by customers' orders indicate a loss, provision is made for entire loss.  
Loose tools are written off over a period of ten years.  
Obsolete, slow moving and defective stocks are identified at the time of physical verification of stocks and where necessary, provision is made for such stocks.
- vii. **REVENUE RECOGNITION.**  
Revenue on contracts is recognized on percentage of completion method wherein the stage of completion is determined with reference to the ratio of the contract cost incurred for work performed upto the reporting date to the estimated total contract cost. In the case of unit rate contracts the stage of completion is determined with reference to the valuation of the actual amount of work completed as per the contracted rates. In cases where the current estimate of total contract cost and revenue indicate a loss, such loss is recognized as an expense.
- viii. **FOREIGN CURRENCIES.**  
Transactions in foreign currency are recorded in Rupees by applying the rate of exchange ruling at the time of transactions. Exchange differences arising on the settlement of transactions are recognized as income or as expense in the period in which they arise, except in respect of fixed assets acquired from outside India, where exchange variance is adjusted to the carrying amount of respective fixed assets.

## SCHEDULES

### 23. Notes on Accounts (Contd.)

Monetary current assets and monetary current liabilities denominated in foreign currency are translated at the exchange rate prevalent at the date of the balance sheet. The resulting difference is also recorded in the profit and loss account. Non monetary items at the balance sheet date are stated at historical cost.

The Company uses foreign exchange forward contracts to hedge its exposure to movements in foreign exchange rates. The premium or discount arising at the inception of a forward exchange contract is amortised as expense or income over the life of the contract. Exchange differences on such a contract are recognized in the profit and loss account in the reporting period in which the exchange rates change. Any profit or loss arising on cancellation or renewal of such a forward exchange contract is recognized as income or as expense for the period.

#### ix. SALES

Sales represent the invoiced value of goods and services supplied and exclude Sales Tax. Agency commission is recognized in terms of agency agreement.

#### x. INCOME FROM INVESTMENTS

Income from Investment is included, together with related tax credit, in the Profit and Loss Account on an accrual basis.

#### xi. RETIREMENT BENEFITS.

##### a) Provident Fund :

Contribution to Provident Fund, which is administered by an independent Trust/Fund maintained by the Regional Fund Commissioner, is charged to the Profit and Loss Account.

##### b) Pension :

The Company operates a superannuation fund scheme for some of its employees towards which the Company contributes upto a maximum of 15% of the employees' current salary, which is charged to the Profit and Loss Account. The scheme, which is fully funded, is administered by Trustees and is independent of the Company's finance.

##### c) Gratuities and Leave Encashment:

The Company operates a Gratuity Fund Scheme for its employees. The liability in respect of such scheme is ascertained on the basis of actuarial valuation at the year-end and provided for. The scheme, which is funded is administered by Life Insurance Corporation of India (LIC). Accrued liability towards leave encashment benefits payable to employees is also ascertained on the basis of actuarial valuation at the end of the year and recognized as a charge in the accounts.

#### xii BORROWING COSTS.

Borrowing costs attributable to the acquisition, construction or production of qualifying assets (i.e. assets that necessarily take substantial period of time to get ready for its intended use or sale) are capitalized as part of the cost of such asset upto the date when such asset is ready for its intended use or sale. Other borrowing costs are recognized as an expense in the period in which they are incurred.

SCHEDULES

23. Notes on Accounts (Contd.)

xiii TAXES ON INCOME.

Current tax represents the amount that would be payable based on computation of tax as per prevailing taxation laws under the Income tax Act, 1961.

Deferred Tax is recognized, subject to the consideration of prudence, on timing differences, being the difference between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods. Deferred Tax assets are not recognized unless there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized.

Fringe Benefit Tax is accounted for based on the estimated value of Fringe Benefits for the period as per the related provisions of the Income tax Act, 1961.

	As at 31st March 2007 Rs. '000	As at 31st March 2006 Rs. '000
2. Other money for which the Company is contingently liable :		
a) Excise Duty matters pending in appeal related to issues of applicability and classification	21,954	21,502
b) Sales Tax matters pending in appeal relating to disputes regarding assessable value and exemptions claimed	5,473	4,469
c) Income Tax matters pending in appeal before ITAT and the High Court at Calcutta	531	488
The probable cash outflow in respect of the above matters is not determinable at this stage.		
3. Jobs-in-Progress include value of Raw Materials lying with third parties for fabrication	1,122	348
4. Stores and Spare Parts consumed include loose tools	2,566	2,267
5. Capital Commitment	17,800	—
6. Auditors' Remuneration:		
Fees	750	750
Tax Audit	200	150
Miscellaneous Certificates	710	1,022
Out of Pocket Expenses	33	—
	<u>1,693</u>	<u>1,922</u>
7. Directors' Remuneration :		
Remuneration to director included in Schedule 19:		
Salary	6,680	3,713
Contribution to Provident and Other Funds	1,134	486
Perquisites, etc.	115	100
Directors' Fees	505	485
	<u>8,434</u>	<u>4,784</u>

8. During the year, the Company has acquired and sold the following investments :

Name of Investment	No of Units ('000)	Cost (Rs.'000)
Grindlays Floating Rate Fund - Short Term Plan-Growth	10,322	123,684

9. Advances recoverable in cash or in kind or for value to be received include

- a. Rs.1,08,06,995 (2005-06 – Rs.1,08,06,995) paid as pre-operational expenses incurred in connection with the power project at Tamil Nadu set up by Jayamkondam Lignite Power Corporation Limited (JLPC) of which the Company was one of the promoters. Consequent to the inordinate delay in finalizing the financial closure, the Company had expressed its willingness to withdraw from the project. As a result, Reliance Industries Ltd. was identified as a co-promoter by Tamil Nadu Industries Development Corporation (TIDCO) and the Company was assured the amount will be returned as soon as financial closure is reached. Currently there is indication that the project will be jointly undertaken by Tamil Nadu Electricity Board and Neyveli Lignite Corporation, which are Government Undertakings. The project is being actively pursued by the State Government and the Company is in regular touch with JLPC and is confident of recovery of such amount. Accordingly, no provision for these dues is considered necessary at this stage by the management.
  - b. A loan of Rs.40,00,000 (2005-06 – Rs.40,00,000) recoverable from Eriez MBE India Limited, a erstwhile Joint Venture Company.
10. The company had entered in September 2003 a joint venture agreement with Elsamex S.A. where officially it was appointed as a subcontractor in “West Bengal Corridor Development Project – Improvement of Gazole Hilli Section of SH 10 with a link to Balurghat from Patiram,” (the project). However consequent to considerable delay in execution of the project the Public Works Department of Government of West Bengal (PWD) had terminated the contract in January 2006. The company and Elsamex S.A. feels that such delay in execution was due to the inability of PWD to hand over the stretch of land for widening of road and non-availability of construction drawings on time by PWD. The company has a legitimate claim of Rs.15,16,90,568 towards receivable and Rs.11,33,09,901 on account of deposit against Performance Guarantee. Elsamex S.A. has already moved to arbitration and has claimed an amount of Rs.73,34,03,024 including an additional claim on consequential losses as per guidelines of “Federation Internationale Des Ingenieurs-Conseils” (FIDIC). Arbitration proceedings are underway, however pending settlement of the arbitration proceeding and also based on legal opinion obtained in this regard in the previous year, the company is confident in recovering at least an amount not less than the recoverable shown in its books and considers that no provision towards such amounts recoverable is necessary at this stage.



## SCHEDULES

### 22. Notes on Accounts (Contd.)

#### 11. a) Installed Capacity of Plant at Kumardhubi

- |  |  |
|--|--|
| i) Coal Washing Plant of 300 Tons per hour capacity  | Two Plants per annum   |
| ii) Coal Washing Plant, Materials Handling & Conveying System, Thermal Power Plant on Coal Handling System, Rail Wagon, Haulages, Retarders, Unloaders and Loaders, Wagon Tipplers, Rotary Discharge Machines, Automatic Sampling, Primary, Secondary Crushing & Screening of Bulk Materials, Pump and Centrifugal and Valves, Feeders and Gates, Bins, Hoppers, Chutes, Gears, Pulleys, Sprockets, Screens and Screen Plates, Dryers, Centrifugal and Thermal Coal Cleaners, Conveyor Chain Drives, Coal Crushing, Breaking, Screening and Conveying System, Structural Steel Work, Engineering, Fabrication and Erection.<br>Port & Yard Handling Equipment Open<br>Cast Mining Machinery<br>Steel Plant Equipment<br>Sinter Plant | 20,000 Tonnes per annum<br><br><br><br><br><br><br>3000 MT<br>5000 MT<br>1000 MT |
| iii) Cement Mill Machinery   | Two Plants of 3,000 Tonnes and above per day each                                |
| iv) Lime Recovery Plant, Lime Burning Plant, Coke Calcining Plant, Phosphate Ore Nodulizing Plant, Lightweight Aggregate Plant, Magnesite Calcining to Periclase for Refractory Industry, Carbon Paste, Green Anode – Bath Handling, Carbon Recycling, Alumina Handling Plant, Special Coke Plant, Pelletizing Fine Materials, Rock Crushing and Screening, Pneumatic Handling System, Complete Line of Kennedy Van Saun Machinery such as Crushers and Kilns which are components of the above plants.  | Nine Plants per annum  |
| v) Mineral Beneficiation and Treatment Plants with all associated equipments like, grinding mills, Floatation Cells, Thinners, Pumps, Filters etc.   | 3 Plants of 60000 TPD p.a.   |
| vi) Ash handling/Pneumatic handling Plants, Equipments like Transporter Vessel, Valves, Pressure Vessels, Chemical Plants, such as avaporation and Bye products with associate items like Pressure Vessels, utilities, etc.  | 4 Plants of 60 MT per Hr. Capacity   |
| vii) Spare Parts, Jobing works, Water Treatment, Transport & Distribution  |  |

#### b) Installed Capacity of Projects Division

Sl. No.	Description	Installed Capacity	
1	Engineering, Procurement & Construction Jobs		
1.1	Coal Handling, Material Handling, Crushing & Conveying Systems, etc.	Nos.	10
1.2	Metallurgical & Mineral Process Plants for Aluminium, Copper, Zinc, Iron Ore etc. including coal washeries	Nos.	8
1.3	Ash Handling Plants	Nos.	12
1.4	Water Management Systems	Nos.	6
1.5	Port Handling Equipment & Stockyard Machinery	Nos.	30
1.6	Structural Fabrication	MT	30,000

Note : The installed capacities are as certified by the Management.

**SCHEDULES**
**23. Notes on Accounts (Contd.)**
**12. Sale and Production for the year ended 31st March, 2007.**

	PRODUCTION	PURCHASE		SALE	
	Quantity M.T.	Quantity M.T.	Amount Rs. '000	Quantity M.T./Nos.	Amount Rs.'000
1. Metallurgical Machinery					
a) Kiln & Cooler Plant/ Machinery/Spares	147 (201)	— —	— —	147 (201)	38,889 (21,220)
b) Crushing & Screening Plant/ Machinery/Spares	122 (53)	— —	— —	122 (53)	26,224 (20,897)
c) Feeders & Gates Machinery/Spares	106 (43)	— —	— —	106 (43)	22,059 (13,200)
d) Ball Mill-Machinery/Spares	49 (126)	— —	— —	49 (126)	39,869 (32,218)
e) Structural Steel Work, Engineering, Fabrication & Erection	94 (136)	— —	— —	94 (136)	14,246 (13,154)
f) Mineral Beneficiation Plant/Machinery/Spares	168 M.T./4 Nos. (7 M.T./6 Nos.)	— —	— —	168 M.T./4 Nos. (7M.T./6 Nos.)	562,780 (46,913)
2. Material Handling & Conveying Plant/Machinery/Spares	239M.T./24 Nos (290 M.T./33 Nos)	—	—	239 M.T./24 Nos (290 M.T./33 Nos)	3,977,199 (2,372,884)
3. Coal Washing Plant/Machinery/Spares	—	—	—	—	176
4. Cement Mill/Plant	29	—	—	29	2,348
5. Road Construction Machinery/Spares	—	—	—	—	—
	—	—	(950)	—	(950)
6. Pump & Spares	4960 Nos (12 M.T./5472 Nos)	—	—	4864 Nos. (12 M.T./5395 Nos)	55,157 (74,778)
7. Road Construction	—	—	—	—	112,649 (236,573)
8. Water Management System	3 Nos. (5 Nos.)	— —	— —	3 Nos. (5 nos.)	24,147 (46,377)
9. Port Equipment	6 Nos. (5 Nos.)	— —	— —	6 Nos. (5 Nos.)	165,467 (467,642)
10. Thickener, Floatation cells and spares	1187 Nos. (1096 Nos)	— —	— —	1185 Nos. (1081 Nos)	105,135 (29,005)
	954 MT/6184 Nos	—	—	954 MT/6086 Nos	5,146,345
	(868 MT/6617 Nos)	—	(950)	(868 MT/6525 Nos)	(3,375,811)
Excise Duty					125,817 (74,069)
	954 MT/6184 Nos	—	—	954 MT/6086Nos.	5,020,528
	(868 MT/6617 Nos)	—	(950)	(868 MT/6225Nos)	(3,301,742)

Note : Figures in brackets are for the year ended 31st March, 2006.

# SCHEDULES

## 23. Notes on Accounts (Contd.)

		For the year ended 31st March, 2007		For the year ended 31st March, 2006	
		Quantity	Amount Rs.'000	Quantity	Amount Rs.'000
13.	Details of Consumption of Raw Materials, Components, Spare Parts, Stores, etc.				
	<u>Raw Materials</u>				
a)	Steel Tonnes	19,540	560,419	18,623	535,212
b)	Pipes Meters	5,641	2,914	767	1,497
c)	Others	—	8,506	—	92,238
			<u>571,839</u>		<u>628,947</u>
	<u>Components, Spare Parts, Stores, etc.</u>				
a)	Castings Tonnes	696	49,072	466	35,729
b)	Motors Nos	59	4,295	208	22,834
c)	Others	—	2,559,870	—	1,294,627
			<u>2,613,237</u>		<u>1,353,190</u>
		Percentage %	Amount Rs.'000	Percentage %	Amount Rs.'000
14.	Break-up of imported and indigenous Materials Consumed				
	<u>Raw Materials</u>				
a)	Imported	—	—	—	—
b)	Indigenous	<u>100.00%</u>	<u>571,839</u>	<u>100.00%</u>	<u>628,947</u>
		<u>100.00%</u>	<u>571,839</u>	<u>100.00%</u>	<u>628,947</u>
	<u>Components, Spare Parts, Stores, etc.</u>				
a)	Imported	0.96%	25,084	9.22%	124,699
b)	Indigenous	<u>99.04%</u>	<u>2,588,153</u>	<u>90.78%</u>	<u>1,228,491</u>
		<u>100.00%</u>	<u>2,613,237</u>	<u>100.00%</u>	<u>1,353,190</u>
15.	Value of Import (CIF Basis)				
	Components, Spare Parts & Stores		24,488		118,882
	Capital Goods		56,621		—
	Others		—		324
			<u>81,109</u>		<u>119,206</u>
16.	a) <u>Expenditure in Foreign Currency</u>				
	Travelling		2,209		1,396
	Royalty & Technical Know-how		10,774		1,461
	Professional and consultation fees		14,425		28,687
	Interest		9,023		—
	Others		8,818		4,013
			<u>45,249</u>		<u>35,557</u>
	b) <u>Earnings in Foreign Currency</u>				
	Sale of contracts		125,563		30,071
	Export of Goods and Components		15,546		18,397
	Professional and consultation fees		—		1,501
	Interest		9,160		—
	Others		327		—
			<u>150,596</u>		<u>49,969</u>

## SCHEDULES

### 23. Notes on Accounts (Contd.)

17. Small Scale Industrial undertakings in respect of which amounts payable are outstanding for more than 30 days are Anand Auto Engg. Works Pvt. Ltd. (Rs.85,890), B. M. Engineering Works (Rs.104,996), J. J. Industries (Rs.5,47,456), Khan Brothers (Rs.1,35,669), Parent Metal Engineering (Rs.39,284), Prakash Spectro Cast Pvt. Ltd. (Rs.4,45,523), Rusa Industries (Rs.430,445), S.K. Engineering Works (Rs.4,554), Shape Machine Tools Pvt. Ltd. (Rs.3,08,661), Singh Engineering Works (Rs.47,312), Sri Guru Electricals (Rs.18,686), T. D. Udyog (Rs.339,657), Benedict Traders & Engineering Works (Rs.52,054), BBS Alloys (Rs.2,88,094), Hydro Tools & Engineering (Rs.4,295), Ideal Fibre Glass Industries (Rs.1,350), Industrial Rubber Products (Rs.61,962), Satya Engineering Enterprises (Rs.55,634), Balaji Enterprises (Rs.29,912), Bhadra Metal Products (Rs.107,311), Do all Do Well Engineering (Rs.52,820), S. M. Engineering Works (Rs.77,340), Allied Engineers (Rs.49,029), Patterns India & Engineering Works (Rs.65,404), Vasuki Udyama (Rs.45,260), Murali Fab Systems (Rs.108,258), Jayvecons (Rs.78,086), Nagalakshmi Industries (Rs. 49,053), S M Industries (Rs.14,392), Singh Engineering Works (Rs.29,894), Surya Rubbers (Rs.38,812), Meta Cast (Rs.8,400), S. V. Fabs (Rs.117,460), Sri Lakshmi Engineering & Technology (Rs.519), A. P. Tools (Rs.75,364), A R. S. Steel Traders (Rs.521), Leo Engineers (Rs.9,510), Sri Ganesh Enterprises (Rs.1,508), Savita Suppliers (Rs.10,851), MIL Industries Ltd. (Rs.65,721).

Note: The information regarding Small Scale Industrial Undertaking has been determined to the extent such parties have been identified on the basis of information available with the Company. The information pertaining to micro and small enterprises as required to be disclosed in accordance with Section 22 of Micro, Small and Medium Enterprises Development Act, 2006 is not readily ascertainable and hence not disclosed.

18. Land, Buildings and major Plant and Machinery as at 31st May 1984 are stated as per valuation made by a Chartered Engineer and Registered Valuer at the then market value. Subsequently, Land, Buildings and Plant and Machinery located at Kumardhubi Factory have been revalued by Registered Valuers at the Net Replacement Cost on 31st December, 2002 and on 28th February 2006, resulting in a further increase in value of these assets by Rs.16,15,87,228/ and Rs.11,16,32,970 respectively.
19. The Company has leasing arrangements in respect of operating leases for premises (residential, office, etc.). These leasing arrangements which are not non-cancellable are for a period of 3 years generally, or longer, and are usually renewable by mutual consent on mutually agreeable terms. The aggregate lease rentals payable are charged as Rent under Schedule 19.

SCHEDULES

23. Notes on Accounts (Contd.)

20. Information in respect of contracts in progress:

	2006-07 Rs. in '000	2005-06 Rs. in '000
Contract costs incurred	6,151,498	4,845,713
Add: Recognised profits net of recognised losses	416,935	77,487
Contract Revenues	6,568,433	4,923,200
Less: Progress billing	6,616,169	4,859,169
Due from customers	202,114	250,662
Due to customers	249,850	186,631
Advance payments received	549,904	437,425
Amount of retentions	1,076,799	701,628

21. Related party disclosures as required by AS 18 on Related Party Disclosures are as given below,

a) Relationships

i) a) Subsidiary of the Company

– EWB-MBE International Kornyezetvedelmi Kft, Hungary (EWB-MBE)  
(formerly EWB-MBE International Environmental Ltd.)

b) Subsidiary of EWB-MBE International Kornyezetvedelmi Kft, Hungary  
– EWB Kornyezetvedelmi Kft, Hungary

ii) Eriez MBE India Limited ( EMIL ) a joint venture company (upto 23rd March 2007)

iii) Key Management Personnel :

Mr. Srinivash Singh - Managing Director

b) The following transactions were carried out with the related parties in the ordinary course of business.

i) Relating to subsidiaries/Joint Venture company referred to in (a) (i) and (ii) above.

	Rs in ' 000 EWB-MBE	Rs in ' 000 EMIL
Purchase of Materials and components	— (504)	4,261 (300)
Sale of Materials and Components	—	—
Rendering of services	8,928 (7,923)	0 —
Agency Commission Income	—	10,514 (9,462)
Outstanding payable (net )	4,207 (4,707)	— (413)
Outstanding receivable	—	—
Advance receivable	—	(4,865)
	—	(4,000)

## SCHEDULES

### 23. Notes on Accounts (Contd.)

II) Relating to persons referred to in (a) ( iii ) above	
Remuneration Paid	7,929
	(4,299)
Dividend Paid	0.5
Advance Paid	(0.2)
	35
	(-)

Figures in bracket are for the year ended 31st March 2006.

### 22. Derivative Instruments :

	Currency pair	As at 31st March, 2007	
		Buy	Sell
		(in '000)	(in '000)
(a) The Company uses Forward Exchange Contracts to hedge its exposures in foreign currency. The information on such contracts are as follows:			
– Forward exchange contracts outstanding as at year end	USD/INR	5,417	
(b) Foreign Exchange Currency Exposures recognised by the Company that have not been hedged by a Derivative Instrument or otherwise as at year end	USD/INR		251
	EUR/INR	188	

23. During the year, the Company issued 4.5% Foreign Currency Convertible Bond worth US\$ 10 million, which is convertible at Rs.143/- per share at the option of the bondholders, within the tenure of the bonds. Out of the above issue an amount of US\$ 1 million have been converted by the bondholders On 5th February, 2007 vide notice dated 30.01.2007 issued by Bank of New York, the paying and issuing agent.

24. The Company has issued 1453000 Convertible Warrants during the year to certain Promoters, Associates and Senior Management of the Company at the rate of Rs. 143 per warrant. An amount of 10% of the Warrant value was paid on application and such amount has been disclosed as Share Warrant application money in the Balance Sheet. On payment of the Balance 90% within a period of 18 months from the date of application, one Equity Share will be allotted for each Warrant held.



SCHEDULES

23. Notes on Accounts (Contd.)

	As at 31st March 2007	As at 31st March 2006
25. Earning Per Share		
Basic		
Number of Equity Shares at the beginning of the year	26,461,798	19,783,196
Number of Equity Shares at the end of the year	26,779,700	26,461,798
Weighted average number of Equity Shares outstanding during the year	26,508,830	23,233,234
Face Value of each Equity Share (Rs)	10	10
Profit after Tax available for Equity Shareholders		
Profit after Taxation (Rs in '000)	175,046	52,530
Basic Earning per Shares (Rs)	6.60	2.26
Diluted		
Diluted Potential Equity Shares (Refer Note Below)		
Diluted Earning per Shares (Rs)	6.60	2.26

*Note:*

In view of the average market price (fair value) of Equity Shares of the Company being less than the applicable conversion price, the conversion option embedded in 4.95% Convertible Bonds of USD 9000000 as indicated in Schedule 4, is considered as anti-dilutive and accordingly has not been taken into account for computation of diluted earning per shares.

26. Advances recoverable in cash or in kind or for value to be received in Schedule 11 includes an amount due from Director of Rs.35,000 (2005-2006 – Rs.Nil).
27. Previous year's figures have been regrouped and/or rearranged wherever necessary.

Kolkata, 21st June 2007

DEEPAK KHAITAN – *Chairman*  
 SRINIVASH SINGH – *Managing Director*  
 P. K. GHOSH – *Chief Financial Officer*  
 D. CHATTERJEE – *Company Secretary*



## STATEMENT REGARDING SUBSIDIARY COMPANIES

Pursuant to Sections 212(1) (e) and (3) of the Companies Act, 1956

Name of the Subsidiary Companies — Kornyezetvedelmi Kft.	EWB-MBE International Kornyezetvedelmi Kft. Hungary (formerly – EWB-MBE International Environmental Limited, Hungary)	EWB Kornyezetvedelmi Kft. Hungary
a) Holding Company's Interest	100% of the Shares amounting to FLORINT 9,900,000	100% subsidiary of EWB-MBE International Kornyezetvedelmi Kft.
b) Net aggregate amount of Subsidiary's Profits/Losses not dealt within the Holding Company's Accounts	FLORINT '000	FLORINT '000
i) Profit/(Loss) for the Subsidiary's financial year ended 31st December, 2006	- 1760	319
ii) Profit/(Loss) for its previous financial years	- 3769	606
c) Net aggregate amount of Subsidiary's Profits/Losses dealt within the Holding Company's Accounts :		
i) Profit/(Loss) for the Subsidiary's Financial year ended 31st December, 2006	—	—
ii) Profit/(Loss) for its previous Financial years	—	—

Kolkata, 21st June, 2007

DEEPAK KHAITAN – *Chairman*  
SRINIVASH SINGH – *Managing Director*  
P. K. GHOSH – *Chief Financial Officer*  
D. CHATTERJEE – *Company Secretary*

# CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2007

	For the year ended 31st March, 2007		For the year ended 31st March, 2006	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
A. Cash Flow from Operating Activities				
Net Profit before Tax		200,833		65,994
Adjustments for :				
1. Depreciation	17,219		27,285	
2. Interest Charged	93,725		82,335	
3. Interest Income	(15,917)		(1,807)	
4. Loss/(Profit) on Sale of Fixed Assets (Net)	31,408		970	
5. Loss/(Profit) on Sale of Investment (Net)	(52,837)		(1,186)	
6. Bad Debts written off	1,604		18,612	
7. Advance written off	12,941		26,695	
8. Provision for bad and doubtful debts	873		—	
9. Liabilities no longer required written back	(2,865)		(16,133)	
10. Provision for investment/interest accrued on investments	—		49	
11. Provision for leave encashment	3,364		1,459	
12. Inventories written off	4,000		15,238	
13. Unrealised (gain)/loss on exchange - net	(11,039)		—	
14. Provision no longer required written back	—	82,476	(22,500)	131,017
Operating Profit before Working Capital Changes		283,309		197,011
Adjustments for :				
1. Trade and Other Receivables	(783,479)		(767,747)	
2. Inventories	(74,146)		1,776	
3. Trade Payables	750,249	(107,376)	245,6076	(520,364)
Cash generated from Operations		175,933		(323,353)
1. Direct Taxes Paid	(1,030)		(39,599)	
		(1,030)		(39,599)
Net Cash Flow in Operating Activities		174,903		(362,952)
B. Cash Flow from Investing Activities				
Purchase of Fixed Assets	(144,196)		(33,170)	
Sale of Fixed Assets	34,571		351	
Interest received	11,831		1,817	
Purchase of Investments	(149,722)		(149,451)	
Sale of Investments	133,516	(114,000)	130,730	(49,723)
Net Cash used in Investing Activities		(114,000)		(49,723)



## McNally Bharat Engineering Co Ltd

	For the year ended 31st March, 2007		For the year ended 31st March, 2006	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash Flow Statement (Contd.)				
C. Cash Flow from Financing Activities				
Interest Paid	(88,052)		(83,140)	
Proceeds from issue of Share Capital	45,460		308,230	
Proceeds from share warrants application money	20,777		—	
Expenses on issue of Share Capital	(17,437)		(13,411)	
Proceeds from Long Term Borrowings	77,015		140,926	
Proceeds from issue of Foreign Currency Convertible Bonds (net of amount converted during the year)	409,950		—	
Repayment of Long Term Borrowings	(245,386)		(8,451)	
Proceeds from Other Borrowings	151,376		59,233	
Repayment of Other Borrowings	—		(9,900)	
Dividend Paid (including tax thereon)	(15,248)	338,455	(5,771)	387,776
Net Cash from Financing Activities		<u>338,455</u>		<u>387,776</u>
Net Increase/(Decrease) in Cash & Cash Equivalents	399,358		(24,899)	
Cash & Cash Equivalents (Opening Balance)	153,916		178,815	
Cash & Cash Equivalents (Closing Balance)	553,274		153,916	

### Notes to the Cash Flow Statement for the year ended 31st March, 2005

	31st March, 2007	31st March, 2006
1. <u>Cash and Cash Equivalents</u> :		
Cash and Cheques in Hand	90,417	40,517
Remittance in Transit	5,784	4,504
With Scheduled Banks		
On Current Account	112,350	90,472
On Cash Credit Account	—	—
On Dividend Account	453	564
On Deposit Account	335,496	17,859
	<u>544,500</u>	<u>153,916</u>
Effect of exchange rate changes	8,774	—
Cash & cash equivalents as restated	<u>553,274</u>	<u>153,916</u>

- The above Cash Flow Statement has been prepared under the 'Indirect Method' as set out in the Accounting Standard – 3 on Cash Flow Statement issued by The Institute of Chartered Accountants of India.
  - Cash and Cash Equivalents include Rs.31,02,226 (2005-06 Rs.1,77,56,056 which are not available for use at the year end by the Company.
  - Previous year's figures have been rearranged and/or regrouped wherever necessary.
- This is the Cash Flow Statement referred to in our report of even date.

PRABAL KR SARKAR  
*Partner*  
 Member No. 52340  
 For and on behalf of  
 LOVELOCK & LEWES  
*Chartered Accountants*  
 Kolkata, 21st June, 2007

DEEPAK KHAITAN – *Chairman*  
 SRINIVASH SINGH – *Managing Director*  
 P. K. GHOSH – *Chief Financial Officer*  
 D. CHATTERJEE – *Company Secretary*

## BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

### I. REGISTRATION DETAILS

Registration No. : 25181	State Code	21
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Balance Sheet Date 31st March, 2007

### II. CAPITAL RAISED DURING THE YEAR

(Amounts in Rs. Thousands)

Public Issue	Nil	Rights Issue	Nil
Bonus Issue	Nil	Private Placement	66786

### III. POSITION OF MOBILISATION AND

DEPLOYMENT OF FUNDS

(Amount in Rs. Thousands)

Total Liabilities	2,135,454	Total Assets	2,135,454
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#### SOURCES OF FUNDS

Paid-up Capital	267,797	Reserves & Surplus	694,755
Secured Loans	706,693	Unsecured Loans	466,209

#### APPLICATION OF FUNDS

Net Fixed Assets	565,651	Investments	46,137
Net Current Assets	1,523,666	Miscellaneous	
Accumulated Losses	Nil	Expenditure	NIL

### IV. PERFORMANCE OF COMPANY

(Amount in Rs. Thousands)

Turnover	5,196,016	Total Expenditure	4,995,183
Profit before Tax	200,833	Profit after Tax	175,046
Earnings per share in Rs.	6.60	Dividend Rate %	10

### V. GENERIC NAME OF THREE PRINCIPAL

PRODUCTS/SERVICES OF COMPANY

(as per monetary terms)

Description	ITC Code
1. Turnkey Projects in Bulk Material Handling	—
2. Turnkey Projects in Mineral Beneficiation	—
3. Manufacture and sale of equipment for such projects	—

DEEPAK KHAITAN – *Chairman*  
 SRINIVASH SINGH – *Managing Director*  
 P. K. GHOSH – *Chief Financial Officer*  
 D. CHATTERJEE – *Company Secretary*

Kolkata, 21st June, 2007

FINANCIAL STATEMENTS  
OF  
EWB KÖRNYEZETVÉDELMI KFT.  
AS OF 31ST DECEMBER 2006

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REPORT OF THE INDEPENDENT AUDITOR

TO THE OWNER OF EWB KÖRNYEZETVÉDELMI KFT.

We have audited the simplified financial statements of EWB Környezetvédelmi Kft. as of December 31, 2006 showing an equalling total of balance sheet assets and liabilities of HUF 95.480 thousand and a net profit per balance sheet of HUF 319 thousand as well as the profit and loss statement and accompanying notes included in the year 2006 simplified financial statements of the audited organization.

These simplified financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these simplified financial statements on the basis of our audit, and to judge the congruence of the business report and the simplified financial statements.

We conducted our audit in accordance with the Hungarian National Audit Standards as well as the respective laws and statutory provisions valid in Hungary. These statutory provisions require that we plan and perform the audit to obtain reasonable assurance about whether the simplified financial statements are free of material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the balance sheet, profit and loss statement and accompanying notes. An audit also includes assessing the accounting principles used as well as evaluating the overall presentation of the simplified financial statements.

Clause :

In the course of the audit, we have audited EWB Környezetvédelmi Kft.'s simplified financial statements as well as its components and items, their book-keeping and accounting verification in compliance with the currently valid National Audit Standards.

We have to draw up the Owner's attention that the net profit per balance sheet which is shown in the simplified financial statements as of 2006 does not contain provisions what should be made to cover guarantee obligations.

In our opinion, the financial statements provide a true and fair picture on the equity, financial and income position of EWB Környezetvédelmi Kft. as of December 31, 2006. The business report complies with the data submitted in the simplified financial statements.

Budapest, April 15, 2007

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Péter Honti  
Managing Director

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Zsuzsanna Nagy  
Chartered Accountant  
003774

INTERAUDITOR Neuner + Henzl  
Consulting Ltd.  
000171



**Assets**

31.12.2006  
in thousand HUF

No.	Denomination	Previous year	Modifications of previous years	Current year
01	A. INVESTED ASSETS (I + II + III)	9 651	0	7 283
02	I. INTANGIBLE ASSETS	176	0	82
03	II. FIXED ASSETS	9 475	0	7 201
04	III. INVESTED FINANCIAL INVESTMENTS	0	0	0
05	B. CURRENT ASSETS (I + II + III + IV)	114 458	0	82 079
06	I. INVENTORIES	12	0	12
07	II. RECEIVABLES	88 158	0	72 546
08	III. MARKETABLE SECURITIES	0	0	0
09	IV. CASH AT BANK AND IN HAND	26 288	0	9 521
10	C. PREPAYMENTS AND ACCRUED INCOME	3 610	0	6 118
11	TOTAL ASSETS (A + B + C)	127 719	0	95 480
				<b>Liabilities</b>
12	D. EQUITY (I + II + III + IV + V + VI + VII)	15 606	0	15 925
13	I. ISSUED CAPITAL	15 000	0	15 000
14	II. ISSUED BUT UNPAID CAPITAL (-)	0	0	0
15	III. CAPITAL RESERVE	0	0	0
16	IV. ACCUMULATED PROFIT RESERVE	0	0	606
17	V. TIED-UP RESERVE	0	0	0
18	VI. EVALUATION RESERVE	0	0	0
19	VII. BALANCE SHEET PROFIT OR LOSS FIGUR	606	0	319
20	E. PROVISIONS FOR RISK, LIABILITIES AND CHARGES	0	0	0
21	F. LIABILITIES (I + II + III)	107 762	0	75 341
22	I. SUBORDINATED LIABILITIES	0	0	0
23	II. LONG TERM LIABILITIES	3 519	0	2 631
24	III. SHORT TERM LIABILITIES	104 243	0	72 710
25	G. ACCRUALS AND DEFERRED INCOME	4 351	0	4 214
26	TOTAL EQUITY & LIABILITIES (D + E + F + G)	127 719	0	95 480



McNally Bharat Engineering Co Limited



*Goliath Gantry Crane*



*High Concentration Slurry Disposal System at CESC. Budge Budge*



McNally Bharat Engineering Co Limited



*Gantry Type Grab Unloader*



*Crawler Mounted Spreader for Neyveli Lignite Corporation*





**McNally Bharat Engineering Co Limited**



*Coal shed under construction at Sagardighi*



*Coal Handling Plant for Durgapur Projects Ltd, W.B*



McNally Bharat Engineering Co Limited



*Stacker cum Reclaimer*



*MBEs Santaldih Project*

"A" Profit and Loss Statement  
(with aggregate costs procedure)  
31.12.2006  
in Thousand HUF

No.	Definition	Previous year	Modifications of Previous year(s)	Subject year
1.	Net Sales Revenues	144 881	0	132 737
2.	Capitalised value of own performance	0	0	0
3.	Other revenues	4 850	0	6 521
4.	Material-type expenditures	94 286	0	69 817
5.	Payments to personnel	49 929	0	45 689
6.	Depreciation	2 532	0	2 368
7.	Other expenditures	6 169	0	24 151
8.	A. PROFIT OF OPERATIONS (I+II+III-IV-V-VI-VII)	-3 185	0	-2 767
9.	VIII. Income from financial transaction	1 424	0	2 808
10.	IX. Expenditures of financial transactions	1 133	0	1 715
11.	B. FINANCIAL PROFIT OR LOSS (VIII-IX)	291	0	1 093
12.	C. PROFIT OR LOSS ON ORDINARY ACTIVITIES (A+B)	-2 894	0	-1 674
13.	X. Extraordinary income	3 500	0	2 119
14.	XI. Extraordinary expenditures	0	0	0
15.	D. EXTRAORDINARY PROFIT OR LOSS FIGURE (X-XI)	3 500	0	2 119
16.	E. PRE-TAX PROFIT OR LOSS (C+D)	606	0	445
17.	XII. Tax liabilities	0	0	126
18.	F. AFTER TAX PROFIT OR LOSS (E-XII)	606	0	319
19.	XIII. Dividends paid out of accumulated profit reserve	0	0	0
20.	XIV. Dividends paid (approved)	0	0	0
21.	G. BALANCE SHEET PROFIT OR LOSS FIGURE (F+22-23)	606	0	319



NOTES TO THE SIMPLIFIED FINANCIAL STATEMENTS OF  
EWB-MBE INTERNATIONAL KÖRNYEZETVÉDELMI KFT. AS OF DECEMBER 31, 2006  
(All the sums are stated in thousand HUF unless otherwise noted)

*1. General Information*

The EWB-MBE International Environment Limited founded the company on 10.12.2002.

The company was founded as a one-person limited company for undetermined time. The Court of Registry signed the company to its registration on 04.02.2003.

On 08.02.2005 a new owner obtained shares in the Company.

The present members of the Company and the ownership share are the following :

99% EWB-MBE Kft.

1% Horváth Károly

The Company's main activity :

7420'03 Engineering activities, consultancy services

Other signed activities :

2821'03 Manufacture of metallic containers

2830'03 Manufacture of steam boilers

2921'03 Manufacture of annealing furnace

2922'03 Manufacture of material lifting and moving machines

2923'03 Manufacture of not household coolers and air-controllers

2924'03 Manufacture of other general machinery not listed elsewhere

5190'03 Wholesale of other machine, transport machine

7430'03 Technical inquiry, analyses

7487'03 Other economical services not listed elsewhere

Market position (main sales fields, purchase sources)

Although the market demand of power-plant investments is on the wane in Hungary or rather in the surrounding countries even so the environmental protection gets more and more significant part.

The most important for us is the preservation of existing partner relationships and the high level compilation in technical and economic aspect of the given offers to prospective customers.

The fair cooperation with the foreign partners, which was developed last years and the excellent quality of the planned and delivered equipments ensure a large magnitude of contracts for 2007 and 2008. We would like to emphasize the following:

1. Participation in the planning and delivering of equipments of the power-plant reconstruction in Obrenovac Tent-B (Serbia).
2. Planning and delivering of the chalk powder conveyor of the thermal power station in Rybnik, Poland
3. Participation in the reconstruction of the 1. and 2. unit of the thermal power station in Kangal, Turkey
4. There are more carbon power plant project planned in India in which our Indian owner intend to entrust our company principally conception processing and planning similar to last years.

There are also further expected jobs from the prepared and issued offers.

2. *Main guidelines of the accounting policy*

The company meets its accounting obligation by preparing simplified annual report.

The company prepares its balance sheet relating to the financial year that corresponds to the calendar year.

The Company prepares "A" type balance sheet.

The Company states its profit by cost summary method and prepares its profit and loss statement with cost summary method ("A" type).

The Company maintains double-entry bookkeeping.

The Company does not use the account classes Nr. 6-7.

The Company stated its B/S date on 15th April January following the current year considering all assets and liabilities.

The Company keeps analytical registers of invested assets and of income accounting.

The balance sheet is published at the Company-registration and Company-information Service of the Ministry of Justice.

3. *Valuation of equity, financial and income position*

The Company works profitable, but it has problems in liquidity.

The following index numbers make possible the detailed analysis (data in T HUF)

Value of production

<i>Description</i>	<i>2005</i>	<i>2006</i>
Annual net sales revenues	144 881	132 737
Capitalised value of own performance		
Cost of goods sold	-4 307	-5 221
Value of services sold	-11 972	-26 899
Value of production	128 602	100 617

Profit on revenues = (Profit before taxation/Net sales revenues) \* 100

In 2005 (606 / 144 881) \* 100 = 0.4%

In 2006 (445 / 132 737) \* 100 = 0.3%

Profit on implement = (Profit before taxation/ Total implement) \* 100

In 2005 (606 / 127 719) \* 100 = 0.5%

In 2006 (445 / 95 480) \* 100 = 0.5%

Profit on capital = (Profit before taxation/Own capital) \*100

In 2005                      (606 / 15 606) \* 100            =     3.9%

In 2006                      (445 / 15 925) \* 100            =     2.8%

Composition of assets and liabilities = The assets and liabilities break-down in sum and with index according to main classes.

<i>Description</i>	<i>31-12-2005</i>		<i>31-12-2006</i>	
	<i>sum</i>	<i>%</i>	<i>sum</i>	<i>%</i>
Invested assets	9 651	7.6	7 283	7.6
Current assets	114 458	89.6	82 079	86.0
Prepaid expenses	3 610	2.8	6 118	6.4
Total assets	127 719	100.0	95 480	100.0
Equity	15 606	12.2	15 925	16.7
Provision	0	0	0	0.0
Liabilities	107 762	84.4	75 341	78.9
Accrued expenses	4 351	3.4	4 214	4.4
Total liabilities	127 719	100.0	95 480	100.0

Strength of capital = (Equity / Total liabilities) \* 100

In 2005                      (15 606 / 127 719) \* 100            =    12.2%

In 2006                      (15 925 / 95 480) \* 100            =    16.7%

Capital supply = [Equity / (Invested assets+ inventories)] \* 100

In 2005                      15 606 / (9 651 + 12) \* 100            =    162%

In 2006                      15 925 / (7 283 + 12) \* 100            =    218%

Cash earned = Profit per balance sheet + depreciation

In 2005                                      606 + 2 532            =    3 138

In 2006                                      319 + 2 368            =    2 687

Liquidity rate = Liquid assets / Short term liabilities

In 2005                                      114 458 / 107 762            =     1.06

In 2006                                      82 079 / 75 341            =     1.09

Dividend on capital = [ Dividend paid (approved)/Issued capital ] \* 100

In 2005 there was no approved dividend

In 2006 there was no approved dividend

#### 4. Notes to the balance sheet

It was not necessary to regroup in the balance sheet, figures of the prior and the current year are comparable. The range, qualifying and valuation methods were not changed. (Values in the charts are expressed in one thousand HUF.)

Break-down gross value, depreciation and net value of intangible and tangible assets :

<i>Description</i>	<i>Opening value</i>	<i>Addition</i>	<i>Disposal</i>	<i>Closing value</i>
<i>Gross value</i>				
Rights representing money or monies worth	0	0	0	0
Intellectual property	563	0	0	563
Real estate	0	0	0	0
Technical tangible assets	4 264	0	0	4 264
Other tangible assets	9 255	0	0	9 255
Investments	0	0	0	0
In quantity registred assets	0	0	0	0
Total invested assets	14 082	0	0	14 082
<i>Depreciation</i>				
Rights representing money or monies worth	0	0	0	0
Intellectual property	387	94	0	481
Real estate	0	0	0	0
Technical tangible assets	1 384	639	0	2 023
Other tangible assets	2 660	1635	0	4 295
In quantity registred assets	0	0	0	0
Total invested assets	4 431	2 368	0	6 799
<i>Net value</i>				
Rights representing money or monies worth	0	–	–	0
Intellectual property	176	–	–	82
Real estate	0	–	–	0
Technical tangible assets	2 880	–	–	2 241
Other tangible assets	6 595	–	–	4 960
Investments	0	–	–	0
Total invested assets	9 651	–	–	7 283

The Company accounts depreciation by linear method.

Assets do not comprise rights representing money or monies worth.

Among intellectual property the Company has software with depreciation of 30-40%.

The real estate is not shown among assets.

Among technical tangible assets the Company shows the equipment to modelling of pneumatic transport. Its depreciation is 15%.

Among other tangible assets the Company shows the office equipments and IT assets with depreciation of 25% and 33%, the second hand assets' depreciation is 16,6%, 40% and 50%, furthermore automobile's depreciation is 16%.

The Company accounts the depreciation of assets with purchase value below 50 000 HUF in one amount at activation. Later these assets are recorded only in quantity.

In 2005 the Company purchased automobiles among assets recorded with value, they have residual value.

There was no value loss, respectively rebooked value loss in 2005.

The Company did not show goodwill depreciated in more than 5 years.

There were no adjustments in the accounting of depreciation charged on tangible assets.

The Company has no financial investment at balance cut-off date.

<i>Description</i>	<i>2005</i>	<i>2006</i>
Accounts receivables	53 585	32 153
Receivables from related company	26 410	35 044
Deposit	1 019	1 019
Tax receivables	1 808	1 528
VAT receivables	5 336	2 771
Other receivables	0	31
Total receivable	88 158	72 546

Changes of equity in the financial year :

<i>Description</i>	<i>Opening value</i>	<i>Addition</i>	<i>Disposal</i>	<i>Closing value</i>
Subscribed capital	15 000	0	0	15 000
Accumulated profit reserve	0	606	0	606
Net profit per balance sheet	606	319	606	319
Total equity	15 606	925	606	15 925

The net profit of the last year was 606 THUF, which sum increased the accumulated profit reserve. In 2006 the net profit per balance sheet was 319 THUF which the owner raised the accumulated profit reserve.

The Company had no provision at the end of the year.

There are no subordinated liabilities shown in the balance sheet.

The Company had no commitments exceeding 5 years.

The Company had no bank guarantee at the end of 2006.

Liabilities :

<i>Description</i>	<i>2005</i>	<i>2006</i>
Investment credit over 1 year maturity	3 519	2 631
Total long term liabilities	3 519	2 631
Investment credit - 1 year maturity	855	888
Trade creditors	82 426	59 547
Short term liabilities to affiliated undertakings	4 500	4 500
Short term liabilities from dividend to affiliated undertakings	2 871	1 200
Liabilities against tax authority and selfpension-funds	11 300	6 522
Liabilities from wages and salaries	1 671	53
Other liabilities	620	0
Total short term liabilities	104 243	72 710

The Company does not have material financial liability not included in the balance sheet.

5. *Notes to the profit and loss statement*

The Company did not change the type of the profit statement, so the data are comparable.

<i>Description</i>	<i>2005</i>	<i>2006</i>
Domestic revenues from Indian owner	35 825	48 711
Domestic revenues from the hungarian chain store of Slovak partner	0	1 227
Domestic revenues from the Serbian partner	0	3 690
Domestic revenues from domestic partners	65 176	69 837
Total domestic revenues	101 001	123 465
Export revenues from Indian owner	2 206	0
Export revenues from Austrian partner	9 187	1 583
Export revenues from German partner	2 054	4 608
Export revenues from Austrian partner (export to China)	1 604	0
Export revenues from Korean partner (export to Saudi-Arabia)	256	-392
Export revenues from Serbian partner (export to Bosnia-Herczegovina)	28 573	3 473
Total export revenues	43 880	9 272

<i>Description</i>	<i>2005</i>	<i>2006</i>
7420'03 Engineering consulting	85 041	68 801
5190'03 Other wholesale	15 960	54 664
Total domestic revenues	101 001	123 465
7420'03 Engineering consulting	33 824	3 474
5190'03 Other wholesale	10 056	5 798
Total export revenues	43 880	9 272

Break-down of material type and other services used :

<i>Description</i>	<i>2005</i>	<i>2006</i>
Rental fee	5 402	5 483
Legal activity	0	28
Accounting, tax expert services	2 640	2 760
Audit fee	1 300	100
Accommodation and travelling costs	3 561	1 566
Transport and duty costs	2 130	486
Post, phone, internet costs	1 942	1 646
Planning and fulfilment	360	550
Other services used	2 013	2 309
Total material type services used	17 348	14 928
Bank costs	1 533	1 229
Insurance fee	533	632
Other services	185	226
Total other services	1 209	2 087

<i>Description</i>	<i>2005</i>	<i>2006</i>
Interest income on bank account	26	8
Interest income from other companies	112	0
Booked FX changes	1 286	2 800
Total financial revenues	1 424	2 808
Paid interest of credit investment	216	251
Booked FX changes	917	1 464
Total financial expenditures	1 133	1 715

In 2006 the Company do not any research and development activity.

The Company did not get any support or export support.

Corporate tax base modifying items and allowances :

<i>Description</i>	<i>Decreasing items</i>	<i>Increasing items</i>	<i>Tax allowance</i>
Carried forward loss	3 583		
Depreciation according to the Tax Law (book value of assets led out)	2 549		
Depreciation according to the Law on Accounting (net value of assets led out)		2 368	
Released liabilities	1 500		
Additional charge because of tax defaults, paid to the tax authority		368	
Paid taxes after the foreign incomes		4 798	
Total	7 632	7 534	0

The tax base modifying items relating to the depreciation has an effect on the future.



Special corporate tax base modifying items and allowances :

<i>Description</i>	<i>2005</i>	<i>2006</i>
Paid taxes after the foreign incomes	0	4 798
Total	0	4 798

The tax base modifying has no effect on the future.

The tax liability consists of corporate tax in value of 56 THUF and special corporate tax in value of 70 THUF.

Extraordinary revenues are the dividend obligation in value of 1500 THUF, which was released by the owners, because of the liquidation position of the Company and writing off a stated liability in value 619 THUF.

There are not shown deferred expenses and accrued revenues.

6. *Other information data*

Number and salaries of employees :

<i>Description</i>	<i>2005</i>	<i>2006</i>
Average statistical staff	10	9
Salaries	28 080	23 789
Commissions fee	4 560	6 964
Food contribution	770	930
Costs of inland and foreign delegation	3 782	2 253
Travel expenses allowances	0	449
Sick leave	339	381

The management and members of Supervisory Board did not received any advance or loan, and the Company did not take over any guarantee obligation, interest instead of them.

Board of directors does not work at the Company.

External and internal audit did not disclose material fault.

The Company does not have task in connection with environment protecting.

Budapest, April 15, 2007

.....  
General manager

**FINANCIAL STATEMENTS  
OF  
EWB-MBE INTERNATIONAL KÖRNYEZETVÉDELMI KFT.  
AS OF 31ST DECEMBER, 2006**

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**REPORT OF THE INDEPENDENT AUDITOR**

TO THE OWNER OF EWB-MBE INTERNATIONAL KÖRNYEZETVÉDELMI KFT.

We have audited the simplified financial statements of EWB-MBE International Környezetvédelmi Kft. as of December 31, 2006 showing an equaling total of balance sheet assets and liabilities of HUF 15 792 thousand and a net profit per balance sheet of HUF 1 760 thousand loss as well as the profit and loss statement and accompanying notes included in the year 2006 simplified financial statements of the audited organization.

These simplified financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these simplified financial statements on the basis of our audit, and to judge the congruence of the business report and the simplified financial statements.

We conducted our audit in accordance with the Hungarian National Audit Standards as well as the respective laws and statutory provisions valid in Hungary. These statutory provisions require that we plan and perform the audit to obtain reasonable assurance about whether the simplified financial statements are free of material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the balance sheet, profit and loss statement and accompanying notes. An audit also includes assessing the accounting principles used as well as evaluating the overall presentation of the simplified financial statements. We believe that our audit provides a reasonable basis for giving the authentication clause.

Clause :

In the course of the audit, we have audited EWB-MBE International Környezetvédelmi Kft.'s simplified financial statements as well as its components and items, their book-keeping and accounting verification in compliance with the currently valid National Audit Standards, and based on this we have obtained reasonable assurance on the fact that these have been compiled in accordance with the Act on Accounting and the general accounting principles.

In our opinion, the simplified financial statements provide a true and fair picture on the equity, financial and income position of EWB-MBE International Környezetvédelmi Kft. as of December 31, 2006. The business report complies with the data submitted in the simplified financial statements.

Budapest, January 31, 2007

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Peter Honti  
Managing Director

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Zsuzsanna Nagy  
Chartered Accountant  
003774

INTERAUDITOR Neuner + Henzl  
Consulting Ltd.  
000171

**EWB-MBE INTERNATIONAL**  
**KÖRNYEZETVÉDELMI KFT.**

Assets  
31.12.2006  
in thousand HUF

No.	Denomination	Previous year	Modifications of previous years	Current year
01	A. INVESTED ASSETS (I + II + III )	10 000	0	10 000
02	I. INTANGIBLE ASSETS	0	0	0
03	II. FIXED ASSETS	0	0	0
04	III. INVESTED FINANCIAL INVESTMENTS	10 000	0	10 000
05	B. CURRENT ASSETS (I + II + III + IV)	7 472		5 792
06	I. INVENTORIES	0	0	0
07	II. RECEIVABLES	7 427	0	5 776
08	III. MARKETABLE SECURITIES	0	0	0
09	IV. CASH AT BANK AND IN HAND	45	0	16
10	C. PREPAYMENTS AND ACCRUED INCOME	0	0	0
11	TOTAL ASSETS (A + B + C)	17 472	0	15 792

Liabilities

1.	D. EQUITY I + II + III + IV + VI + VII	12 108	0	10 348
2.	I. ISSUED CAPITAL	9 900	0	9 900
3.	II. ISSUED BUT UNPAID CAPITAL (–)	0	0	0
4.	III. CAPITAL RESERVE	0	0	0
5.	IV. ACCUMULATED PROFIT RESERVE	5 977	0	2 208
6.	V. TIED-UP RESERVE	0	0	0
7.	VI. EVALUATION RESERVE	0	0	0
8.	VII. BALANCE SHEET PROFIT OR LOSS FIGURE	–3 769	0	–1 760
9.	E. PROVISIONS FOR RISK, LIABILITIES AND CHARGES	0	0	0
10.	F. LIABILITIES I + II + III	5 211	0	5 331
11.	I. SUBORDINATED LIABILITIES	0	0	0
12.	II. LONG TERM LIABILITIES	0	0	0
13.	III. SHORT TERM LIABILITIES	5 211	0	5331
14.	G. ACCRUALS AND DEFERRED INCOME	153	0	113
15	TOTAL EQUITY & LIABILITIES D + E + F + G	17 472	0	15 792

**EWB-MBE INTERNATIONAL**  
**KÖRNYEZETVÉDELMI KFT.**

“A” Profit and Loss Statement  
(with aggregate costs procedure)  
31.12.2006  
in Thousand HUF

No.	Definition	Previous year	Modifications of Previous year(s)	Subject year
1.	Net Sales Revenues	0	0	0
2.	Capitalised value of own performance	0	0	0
3.	Other revenues	0	0	0
4.	Material type expenditures	266	0	259
5.	Payments to personnel	0	0	0
6.	Depreciation	0	0	0
7.	Other expenditures	3	0	0
8.	A. PROFIT OF OPERATIONS (I+II+III-IV-V-VI-VII)	-269	0	-259
9.	Income from financial transactions	0	0	1
10.	Expenditures of financial transactions	0	0	2
11.	B. FINANCIAL PROFIT OR LOSS (VIII-IX)	0	0	-1
12.	C. PROFIT OR LOSS ON ORDINARY ACTIVITIES (A + B)	-269	0	-260
13.	Extraordinary income	0	0	0
14.	Extraordinary expenditures	3 500	0	1 500
15.	D. EXTRAORDINARY PROFIT OR LOSS FIGURE (X-XI)	-3 500	0	-1 500
16.	E. PRE-TAX PROFIT OR LOSS (C + D)	-3 769	0	-1 760
17.	Tax liabilities	0	0	0
18.	F. AFTER TAX PROFIT OR LOSS (E-XII)	-3 769	0	-1 760
19.	Dividends paid out of accumulated profit reserve	0	0	0
20.	Dividends paid (approved)	0	0	0
21.	G. BALANCE SHEET PROFIT OR LOSS FIGURE (F+22-23)	-3 769	0	-1 760

NOTES TO THE SIMPLIFIED, FINANCIAL STATEMENTS OF  
EWB-MBE INTERNATIONAL KÖRNYEZETVÉDELMI KFT. AS OF DECEMBER 31, 2006  
(All the sums are stated in thousand HUF unless otherwise noted)

*1. General Issues*

*1.1 General information*

The Company started its operations as a limited liability company on January 1, 1991.

The Company's spheres of activity include the following:

- 74.20 Engineering activities, consultancy services
- 28.21 Manufacture of metallic containers
- 28.30 Manufacture of steam boilers
- 29.22 Manufacture of material lifting and moving machines
- 29.24 Manufacture of other general machinery not listed elsewhere
- 51.65 Wholesale of other machine, transport machine

Present member of the Company and its ownership share:

ownership share: 100% McNally Bharat Engineering Ltd. - Calcutta

*1.2 Brief description of the Company's market positions*

The Company does not show contractual activity at present.

*2. Main guidelines of the accounting policy*

The company meets its accounting obligation by preparing simplified annual report.

The company prepares its balance sheet relating to the financial year that corresponds to the calendar year.

The Company prepares „A” type balance sheet.

The Company states its profit by cost summary method and prepares its profit and loss statement with cost summary method (“A” type).

The Company maintains double-entry bookkeeping.

The Company does not use the account classes Nr. 6-7.

The Company stated its B/S date on 31th January following the current year considering all assets and liabilities.

The Company keeps analytical registers of invested assets and of income accounting.

The balance sheet is published at the Company-registration and Company-information Service of the Ministry of Justice.

### 3 The Company's equity, financial and income position

The Company does not show contractual activity, it has not problems in liquidity.

*Supporting figures :*

2.1	Value of own performance	2005	2006
	Annual net sales revenues		
	+ Capitalized value of self-manufactured assets		
	– Cost of goods sold		
	– Value of subcontracted work		
	Value of own performance	0	0

2.2	Profit on revenues :
	<u>Profit before taxation * 100</u>
	Net sales revenues
	In 2005 not applicable
	In 2006 not applicable

2.3	Profit on assets
	<u>Profit before taxation * 100</u>
	Total assets
	In 2005 $-3\,769 / 17\,472 * 100 = -21.57 \%$
	In 2006 $-1\,760 / 15\,792 * 100 = -11.14 \%$

2.4	Profit on capital :
	<u>Profit before taxation * 100</u>
	Equity
	In 2005 $-3\,769 / 12\,108 * 100 = -31.13 \%$
	In 2006 $-1\,760 / 10\,348 * 100 = -17.01 \%$

*Composition of assets and liabilities* = The assets and liabilities break-down in sum and with index according to main classes.

<i>Description</i>	<i>31.12.2005</i>		<i>31.12.2006</i>	
	<i>Sum</i>	<i>%</i>	<i>Sum</i>	<i>%</i>
Invested assets	10 000	57.23	10 000	63.32
Current assets	7 472	42.78	5 792	36.68
Prepaid expenses	0	0.00	0	0.00
Total assets	17 472	100.0	15 792	100.0
Equity	12 108	69.31	10 348	65.53
Provisions	0	0.00	0	0.00
Liabilities	5 211	29.82	5 331	33.76
Accrued expenses	153	0.87	113	0.71
Total liabilities	17 472	100.0	15 792	100.0

2.6 *Strength of capital :*

Equity \* 100

Total liabilities

In 2005                      12 108 / 17 472 \* 100                      =                      69.31%

In 2006                      10 348 / 15 792 \* 100                      =                      65.53%

2.7 *Capital supply :*

Equity x 100

Invested assets + inventories

In 2005                      12 108 / (10 000+0) \* 100                      =                      121.08 %

In 2006                      10 348 / (10 000+0) \* 100                      =                      103.48 %

2.8 *Cash earned :*

Profit per balance sheet + depreciation

In 2005                      -3 769 + 0                      =                      -3 769

In 2006                      -1 760 + 0                      =                      -1 760

2.9 *Liquidity rate :*

Liquid assets

Short term liabilities

In 2005                      7 472 / 5 211                      =                      1.43

In 2006                      5 776 / 5 331                      =                      1.08

2.10 *Dividend on capital :*

Dividend paid (approved) \* 100

Issued capital

In 2005                      there was no approved dividend

In 2006                      there was no approved dividend



4 *Notes to the balance sheet*

It was not necessary to regroup in the balance sheet, figures of the prior and the current year are comparable. The range, qualifying and valuation methods were not changed. (Values in the charts are expressed in one thousand HUF).

Break-down gross value, depreciation and net value of intangible and tangible assets :

<i>Description</i>	<i>Opening value</i>	<i>Addition</i>	<i>Disposals</i>	<i>Closing value</i>
<i>Gross value</i>				
Rights representing money or monies worth	0			0
Intellectual property	26			26
Real estate	0			0
Technical tangible assets	0			0
Other tangible assets	0			0
Investments	0			0
In quantity registered assets	0			0
Total invested assets	26	0	0	26

<i>Depreciation</i>				
Rights representing money or monies worth	0			0
Intellectual property	26			26
Real estate	0			0
Technical tangible assets	0			0
Other tangible assets	0			0
In quantity registered assets	0			0
Total invested assets	26	0	0	26

**EWB-MBE INTERNATIONAL**  
**KÖRNYEZETVÉDELMI KFT.**

<i>Net Value</i>				
Rights representing money or monies worth	0			0
Intellectual property	0			0
Real estate	0			0
Technical tangible assets	0			0
Other tangible assets	0			0
Investments	0			0
Total invested assets	0			0

Assets do not comprise rights representing money or monies worth.

Among intellectual property the Company has software.

The real estate is not shown among assets.

The Company accounts the depreciation of assets with purchase value below 50 000 HUF in one amount at activation. Later these assets are recorded only in quantity.

There was no value loss, respectively rebooked value loss in 2006.

The Company did not show goodwill depreciated in more than 5 years.

There were no adjustments in the accounting of depreciation charged on tangible assets.

The interest in EWB Környezetvédelmi Kft. is shown among financial investments in amount of HUF 10 000 thousand.

<i>Description</i>	<i>Opening value</i>	<i>Addition</i>	<i>Disposal</i>	<i>Closing value</i>
Subscribed capital	9 900	0	0	9 900
Accumulated profit reserve	5 977	-3 769	0	2 208
Net profit per balance sheet	-3 769	-1 760	-3 769	-1 760
Total equity	12 108	-5 529	-3 769	10 348

The accumulated profit reserve increased by the profit of the previous period.

The net profit per balance sheet amounts to -1 760 THUF, from which the accumulated profit reserve will be increased.

Provision for probable expenses is not shown in the balance sheet.

There are no subordinated liabilities shown in the balance sheet.

The Company had no commitments exceeding 5 years.

The company doesn't have liabilities secured by right of pledge or other right.

The Company does not have material financial liability which is not included in the balance sheet.

5 *Notes to the profit and loss statement*

The Company did not change the method of profit accounting. Data of P/L statement is comparable to the prior year P/L statement.

Break-down of material type and other services used :

<i>Description</i>	<i>2005</i>	<i>2006</i>
Accounting, tax expert, auditing services	100	200
Total material type services used	100	200
Bank costs	143	151
Other services	23	8
Total other services	166	159

In 2005 the Company did not perform research and development and it didn't get any support.

Tax base modifying items and allowances :

<i>Description</i>	<i>Decreasing items</i>	<i>Increasing items</i>	<i>Tax allowance</i>
Released demands	0	1 500	0
Penalties to be paid to the tax authority	0	0	0
Total	0	1 500	0

Tax base modifying items don't have any effect on the future.

Extraordinary revenues and expenditures are not shown in the profit and loss statement. The Company released a part of its dividend-demands against its affiliated company.

There are not shown deferred expenses and accrued revenues.

6 *Other information data*

The Company didn't employ any employee in 2006.

Board of Directors does not work at the Company.

External and internal audit did not disclose material fault.

The Company does not have task in connection with environment protecting.

Budapest, January 31, 2007.

Peter Honti  
Managing Director



Auditors Report to the Board of Directors of McNALLY BHARAT ENGINEERING COMPANY LIMITED

1. We have audited the attached consolidated Balance Sheet of McNALLY BHARAT ENGINEERING COMPANY LIMITED and its Subsidiaries (the Group) as at 31st March, 2007 and the related consolidated Profit and Loss Account and consolidated Cash Flow Statement for the year ended on that date annexed thereto, all of which we have signed under reference to this report. These consolidated financial statements are the responsibility of the management of McNALLY BHARAT ENGINEERING COMPANY LIMITED and have been prepared by the management on the basis of separate financial statements and other financial information regarding components. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with generally accepted auditing standards in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework and are free of material misstatements. 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 and the report of other auditors provides a reasonable basis for our opinion.
3. We did not audit the financial statements of subsidiaries EWB MBE International Konyezetvedelmi Kft. and EWB Konyezetvedelmi Kft whose financial statements reflect total assets of Rs.7339 (000) as at 31st December, 2006, total revenues of Rs.32463 (000) and total cash outflows of Rs.3251 (000) for the year then ended as considered in the consolidated financial statements. These financial statements have been audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included in respect of the subsidiaries is based solely on the report of the other auditors.
4. We report that the consolidated financial statements have been prepared by the Company in accordance with the requirements of Accounting Standard (AS) 21, "Consolidated Financial Statements" issued by the Institute of Chartered Accountants of India and on the basis of the separate audited financial statements of McNALLY BHARAT ENGINEERING COMPANY LIMITED and its subsidiaries, included in the consolidated financial statements.
5. *As indicated in Note 4 on Schedule 23 to the accounts, the cost of investment of Eriez MBE India Limited (EMIL) for the purpose of computation of the profit on sale of investment in EMIL has been determined on the basis of the proportionate net asset position of the jointly controlled entity as on 31.3.2006 instead of the proportionate net assets position as on the date of sale as required by AS 27 on Financial Reporting of Interests in Joint Ventures issued by the Institute of Chartered Accountants of India. This has resulted in incorrect computation of profit on sale of long term investment though it has no impact on the ultimate consolidated profit for the year.*

6. *As indicated in Note 5 (a) on Schedule 23 to the accounts, in view of the prolonged non-conclusive status of the power project set up by Jayamkondam Lignite Power Corporation Limited (JLPC) in which the Group was a Co-promoter, we are unable to comment on the recoverability of the investment amount due from JLPC amounting to Rs.1,08,06,995 in these accounts.*
7. *The net profit as per balance sheet of a subsidiary does not contain provisions required to be made to cover guarantee obligations.*
8. Based on our audit and on consideration of the report of other auditors referred to paragraph 3 above on separate financial statements and other financial information and to the best of our information and according to the explanations given to us, we are of the opinion, *that subject to our remarks in paragraphs 5 to 7 above, the attached Consolidated Financial Statements give a true and fair view in conformity with the accounting principles generally accepted in India :*
  - a) in the case of the consolidated balance sheet, of the consolidated state of affairs of the Group as at 31st March, 2007;
  - b) in the case of the consolidated profit and loss Account, of the consolidated profit of the Group for the year ended on that date and
  - c) in the case of the consolidated cash flow statement, of the consolidated cash flows of the Group for the year ended on that date.

Prabal Kr. Sarkar  
Partner  
Membership number: 52340  
For and on behalf of  
Lovelock & Lewes  
Chartered Accountants

Kolkata, 21st June, 2007



CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH, 2007

	Schedule No.	As at 31st March, 2007 Rs.'000	As at 31st March, 2006 Rs.'000
I. SOURCES OF FUNDS			
1. Shareholders' Funds			
a) Capital	1	267,797	264,618
b) Reserves and Surplus	2	675,094	531,900
2. Share Warrant Application Money (Refer Notes 14 in Schedule 23)		20,777	—
3. Minority Interest		34	33
4. Loan Funds			
a) Secured Loans	3	706,693	798,893
b) Unsecured Loans	4	466,209	—
5. Deferred Tax Liability	14	7,022	11,382
<b>Total</b>		<b>2,143,626</b>	<b>1,606,826</b>
II. APPLICATION OF FUNDS			
1. Fixed Assets			
a) Gross Block		785,752	870,277
b) Less: Depreciation & Amortisation		328,523	321,892
c) Net Block	5	457,229	548,385
2. Capital Work in Progress		113,689	1,893
3. Investments	6	38,710	20,667
4. Current Assets, Loans and Advances			
a) Interest accrued on Investments	7	—	—
b) Inventories	8	188,172	121,822
c) Sundry Debtors	9	2,617,788	1,914,383
d) Cash and Bank Balances	10	546,723	161,804
e) Loans and Advances	11	671,293	576,152
		<b>4,023,976</b>	<b>2,774,161</b>
Less : Current Liabilities & Provisions			
a) Liabilities	12	2,445,894	1,713,314
b) Provisions	13	44,084	24,966
		<b>2,489,978</b>	<b>1,738,280</b>
Net Current Assets		<b>1,533,998</b>	<b>1,035,881</b>
<b>Total</b>		<b>2,143,626</b>	<b>1,606,826</b>
Notes on Accounts	23		

Schedules referred to above form an integral part of the Balance Sheet.  
This is the Balance Sheet referred to in our Report of even date.

PRABAL KR SARKAR  
Partner  
Membership No. 52340  
For and on behalf of  
LOVELOCK & LEWES  
Chartered Accountants  
Kolkata, 21 June, 2007

DEEPAK KHAITAN – Chairman  
SRINIVASH SINGH – Managing Director  
P.K. GHOSH – Chief Financial Officer  
D. CHATTERJEE – Company Secretary

**CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2007**

	Schedule No.	For the year ended 31st March, 2007 Rs. '000	For the year ended 31st March, 2006 Rs. '000
<b>INCOME</b>			
Sale of Products & Contracts	15	5,042,543	3,354,225
Increase/(Decrease) in Jobs-in-progress	16	99,741	21,185
Agency Commission		13,603	6,427
Sale of scrap		5,917	15,457
Other Income	17	51,180	6,117
<b>Total</b>		<b>5,212,984</b>	<b>3,403,411</b>
<b>EXPENDITURE</b>			
Materials	18	3,191,901	2,003,258
Outsourcing Expenses to outsiders for Job Work		922,649	631,539
Expenses	19	753,872	575,295
Advance/Debts written off/Provision Liabilities written back (net)	20	11,125	6,765
Loss on sale of Fixed Asset (Net)		31,408	970
Depreciation and Amortisation	21	17,771	30,381
Interest and Finance charges (Net)	22	90,297	87,511
<b>Total</b>		<b>5,019,023</b>	<b>3,335,719</b>
<b>PROFIT BEFORE TAXATION</b>		<b>193,961</b>	<b>67,692</b>
<b>TAXATION FOR THE YEAR</b>			
Current Tax [including Rs.Nil (2005-06 - 10,00,000 for earlier years)		20,288	7,820
Deferred Tax [after considering Rs.59,26,000 (2005-06 - Rs.45,14,000 being tax effect of expenses relating to issue of Foreign Currency Convertible Bonds (FCCB) adjusted against Securities Premium Account]		1,932	3,451
Fringe Benefit Tax		3,596	3,076
		25,816	14,347
<b>PROFIT AFTER TAXATION</b>		<b>168,145</b>	<b>53,345</b>
Less : Minority Interest		13	12
		168,132	53,333
Brought forward from Previous Year		116,636	78,390
<b>Total</b>		<b>284,768</b>	<b>131,723</b>
<b>APPROPRIATIONS</b>			
Proposed Dividend		26,780	13,231
Corporate Dividend Tax		4,551	1,856
Balance carried forward		253,437	116,636
		284,768	131,723
Notes on Accounts	23		
<b>Earnings Per Share (Equity Shares, Nominal Value of Rs.10/- each)</b>			
Basic and Diluted (Refer Note 15 on Schedule 23)		6.34	2.30

Schedules referred to above form an integral part of the Profit and Loss Account.

This is the Profit and Loss Account referred to in our Report of even date.

**PRABAL KR SARKAR**

*Partner*

Membership No. 52340

For and on behalf of

**LOVELOCK & LEWES**

*Chartered Accountants*

Kolkata, 21 June, 2007

**DEEPAK KHAITAN** – *Chairman*

**SRINIVASH SINGH** – *Managing Director*

**P.K. GHOSH** – *Chief Financial Officer*

**D. CHATTERJEE** – *Company Secretary*





SCHEDULES

	As at 31st March, 2007 Rs. '000	As at 31st March, 2006 Rs.'000
1. Capital		
Authorised		
4,00,00,000 (2005-06 - 3,00,00,000) Equity Shares of Rs.10/- each	400,000	300,000
Issued and Subscribed		
2,67,79,700 Equity Shares of Rs.10/- each fully paid up (2005-06 2,64,61,798 Equity Shares of Rs.10/- each fully paid up) Refer Note 13 in Schedule 23	267,797	264,618
Note: Of the above Shares :		
i) 4,86,100 Shares were allotted as fully paid-up pursuant to Contracts without payments being received in cash;		
ii) 12,57,930 Shares were issued as fully paid-up Bonus Shares by Capitalization of General Reserve		
Total	267,797	264,618
2. Reserves and Surplus		
Capital Redemption Reserve	100	100
Securities Premium Account		
Balance as per last account	239,779	7,235
Add : Addition during the year [Net of Issue Expenses relating to Foreign Currency Convertible Bonds (FCCB) after adjustment of tax effect amounting to Rs.1,15,10,962 (2005-06 Rs.88,97,254)] (Refer Note 13 in Schedule 23)	30,770	232,544
Balance as at 31st March, 2007	270,549	239,779
Revaluation Reserve as per last account	100,580	9,854
Add : Amount added on revaluation	—	111,633
Less : Transferred to Profit and Loss Account	24,202	20,907
Less : Amount withdrawn on assets Sold	257	—
Revaluation Reserve as at 31st March 2007	76,121	100,580
General Reserve	74,417	74,417
Foreign Currency Translation Reserve	470	388
Profit & Loss Account		
Balance as per last account	116,636	78,390
Add : Profit for the year	136,801	38,246
Balance as at 31st March, 2007	253,437	116,636
Total	675,094	531,900

SCHEDULES	As at 31st March, 2007 Rs. '000	As at 31st March, 2006 Rs.'000
3. Secured Loans		
From Banks		
Overdraft including Working Capital Demand Loans (including interest accrued and due Rs.3,41,978; 2005-06 - Rs.2,268) (Secured by hypothecation of all Stocks, Book Debts and by way of a first charge on certain assets of the Company)	586,933	444,208
Term Loan	105,322	315,529
Include,		
i) Rs.5,60,00,000 secured by a second mortgage and charge on the immovable and moveable properties of the Kumardhubi unit of the Company and a guarantee from United Insurance Company Limited		
ii) Rs.3,66,66,664 secured by way of subservient charge on all fixed and current assets of the Co. and a guarantee from United India Insurance Company Limited (pending creation of charge)		
iii) Rs.50,59,042 secured by a subservient charge on entire fixed assets of the company both present and future.		
iv) Rs.75,00,000 secured by subservient charge on entire fixed assets of the company both present and future. (including interest accrued and due Rs.96,340; 2005-06 - Rs.Nil)		
Equipment Finance Loan (Secured by hypothecation of the tangible movable asset acquired out of these loans).	2,700	6,769
Finance Lease (Secured by hypothecation of assets taken on lease)	—	386
Car Loans (Secured by hypothecation of motor vehicles acquired out of these loans).	5,245	1,121
From Others		
Equipment Finance Loans (Secured by hypothecation of the tangible movable assets acquired out of these loans.)	6,493	30,880
Total	<u>706,693</u>	<u>798,893</u>
4. Unsecured Loans		
Short Term Loan		
Fom banks (including interest accrued and due Rs.628,477; 2005-06 - Rs.Nil)	73,750	—
Other Loans		
Car Loan	149	—
4.5% Foreign Currency Convertible Bond (Refer Note 13 in Schedule 23)	392,310	—
Total	<u>466,209</u>	<u>—</u>

## SCHEDULES

## 5. Fixed Assets

Rs. '000

Particulars	GROSS BLOCK AT COST / VALUATION						DEPRECIATION						NET BLOCK	
	As at 31st March, 2006	Amount added on Re-valuation	Additions/ Adjustment (Refer Note 3)	Adjustment consequent to sale of Joint Venture	Sale	As at 31st March, 2007	As at 31st March, 2006	Adjustment on Re-valuation	For the year/ Adjustment (Refer Note 4)	Adjustment consequent to sale of Joint Venture	On sale	As at 31st March, 2007	As at 31st March, 2007	As at 31st March, 2006
<b>Tangible Assets</b>														
Freehold Land	17,968	—	—	2,541	—	15,427	—	—	—	—	—	—	15,427	17,968
Leasehold Land	48,606	—	3,109 (Refer Note 1)	—	—	51,715	—	—	150	—	—	150	51,565	48,606
Building	250,608	—	—	4,968	—	245,640	104,055	—	5,099	1,957	—	107,197	138,443	146,553
Plant & Machinery	386,025	—	15,385	6,141	88,906	306,363	156,433	—	20,361	3,542	24,389	148,863	157,500	229,592
Patterns	205	—	—	205	—	—	201	—	—	201	—	—	—	4
Furniture & Fixtures	11,727	—	1,139	352	1,296	11,218	7,023	—	482	167	608	6,730	4,488	4,704
Refrigerators & Air Conditioners	4,905	—	2,523	2	—	7,426	2,089	—	255	—	—	2,344	5,082	2,816
Office Equipments	7,251	—	406	555	—	7,102	3,191	—	732	199	—	3,724	3,378	4,060
Vehicles	5,111	—	6,104	460	1,453	9,302	2,343	—	536	45	413	2,421	6,881	2,768
Telephone Plant	1,500	—	26	—	—	1,526	579	—	55	—	—	634	892	921
Cooking Appliances	94	—	—	—	—	94	87	—	—	—	—	87	7	7
<b>Intangible Assets :</b>														
Goodwill	3,819	—	(250)	—	—	3,569	—	—	—	—	—	—	3,569	3,819
Technology for : Pump (Refer Note 2)	75,290	—	—	—	—	75,290	22,587	—	7,529	—	—	30,116	45,174	52,703
Mineral Processing Equipment (Refer Note 2)	26,297	—	—	—	—	26,297	7,890	—	2,630	—	—	10,520	15,777	18,407
Vibrating Screens	8,572	—	—	—	—	8,572	4,024	—	1,712	—	—	5,736	2,836	4,548
Granulators etc.	4,289	—	—	—	—	4,289	1,716	—	861	—	—	2,577	1,712	2,573
Other Technical Knowhow	9,487	—	—	9,487	—	—	3,711	—	—	3,711	—	—	—	5,776
Computer Software	8,523	—	3,888	489	—	11,922	5,963	—	1,683	222	—	7,424	4,498	2,560
Total	870,277	—	32,580	25,200	91,905	785,752	321,892	—	42,085	10,044	25,410	328,523	457,229	548,385
Previous Year	722,796	113,337	40,999	—	6,855	870,277	273,979	1,704	51,288	—	5,079	321,892	548,385	

Notes : 1. Represents land allotted by Karnataka Industrial Area development Board on lease cum sale basis for a period six years. At the end of six years the lease shall be converted into sale subject to the fulfillment of the conditions of allotment and payment of the price of land in full after adjustment of the amount already paid.

2. Acquired on amalgamation.

3. Includes exchange difference Rs.106,000

4. Includes exchange difference Rs.1,12,000

Also Refer 7 in Schdule 23

# SCHEDULES

	As at 31st March, 2007 Rs. '000	As at 31st March, 2006 Rs.'000
6. Investments - Unquoted unless otherwise stated		
Current - Other than trade		
Investment in 31,32,727, 352 Units (2005-06 1725716.657 Units) of Grindlays Floating Rate Fund-Short Term Plan - Growth	38,003	19,960
Long Term (at cost)		
A. IN GOVERNMENT SECURITIES		
5 1/2 Year Kishan Vikas Patra	—	10
6 Year National Savings Certificates-VIII Issue (All the above Securities have been lodged with the Sales Tax Authorities)	—	20
B. TRADE INVESTMENTS		
24,970 Equity Shares of Rs.10/- each fully paid-up in Jayamkondam Lignite Power Corporation Limited	250	250
C. OTHER THAN TRADE		
100 Shares of Rs.10/- each fully paid up in McNally Bharat Co-operative Credit Society Limited	1	1
10,960 Equity Shares of Rs. 5/- each fully paid-up in Eveready Industries India Ltd. (Quoted)	228	228
10,960 Equity Shares of Rs. 5/- each fully paid-up in McLeod Russel India Ltd. (Quoted)	228	228
	<u>38,710</u>	<u>20,697</u>
Less : Provision for investments	—	30
Total	<u>38,710</u>	<u>20,667</u>
Aggregate Book Value of Unquoted Investments	38,254	20,211
Aggregate Book Value of Quoted Investments	456	456
Aggregate Market Value of Quoted Investments	1,398	2,971
7. Interest Accrued on Investments		
In Government Securities	—	19
Less : Provision for interest accrued on investments	—	19
Total	<u>—</u>	<u>—</u>



SCHEDULES

	As at 31st March, 2007 Rs. '000	As at 31st March, 2006 Rs.'000
8. Inventories		
Stores and Spare Parts (including In Transit Rs. 64,97,729; 2005-06 - Rs.20,10,774)	20,202	23,996
Loose Tools (including In-Transit Rs. 5,23,420; 2005-06 - Rs.3,37,799)	3,491	3,436
Raw Materials including Intermediate Stock (including In-Transit Rs.1,86,22,741; 2005-06 - Rs 86,53,469)	31,651	55,657
Jobs-in-Progress [Includes items amounting to Rs.Nil ready for despatch (2005-06 – Rs.40,00,000)]	132,828	38,733
Total :	<u>188,172</u>	<u>121,822</u>
9. Sundry Debtors		
Unsecured - Considered Good :		
Debts outstanding for a period exceeding six months*	1,151,033	561,101
Other Debts	1,466,755	1,353,282
Unsecured – Considered Doubtful :		
Debts outstanding for a period exceeding six months	873	9
Other Debts	—	662
	<u>2,618,661</u>	<u>1,915,054</u>
Less : Provision for doubtful debts	873	671
Total :	<u>2,617,788</u>	<u>1,914,383</u>
* Including Retention money not due Rs.95,35,419 (2005-06 Rs.35,76,64,708)		
10. Cash and Bank Balances		
Cash and Cheques in hand	90,417	40,520
Remittance in transit	5,784	4,504
With Scheduled Banks		
On Current Account	115,026	96,628
On Deposit Account *	335,496	20,152
Total :	<u>546,723</u>	<u>161,804</u>
* Includes Rs. 31,02,226 (2005-06 - Rs.1,77,56,056) pledged with Banks.		

# SCHEDULES

	As at 31st March, 2007 Rs. '000	As at 31st March, 2006 Rs.'000
11. Loans and Advances - Unsecured considered Good		
Advances recoverable in Cash or in kind or for value to be received. (Refer Note 16 in Schedule 23)		
– Considered good	443,142	333,023
– Considered doubtful	—	443
	<u>443,142</u>	<u>333,466</u>
Less : Provision for doubtful advances	—	443
	<u>443,142</u>	<u>333,023</u>
Deposits with Government, Public Bodies & Others	143,613	148,235
Balance with Central Excise	18,410	5,658
Advance payment of Tax (net of Provision for Tax)	66,128	89,236
Total	<u>671,293</u>	<u>576,152</u>
12. Current Liabilities		
Acceptances	195,923	49,778
Sundry Creditors		
Dues to Small Scale Undertakings	6,649	7,268
Others	1,491,163	1,069,156
Advance Payment from customers	605,662	474,233
Other Liabilities	141,888	112,879
Interest Accrued but not due on loan	4,609	—
Total	<u>2,445,894</u>	<u>1,713,314</u>
13. Provisions		
Provision for Warranties	—	320
Proposed Dividend	26,780	13,231
Corporate Dividend Tax	4,551	1,856
Provision for Leave Encashment	12,753	9,559
Total	<u>44,084</u>	<u>24,966</u>



## McNally Bharat Engineering Co Ltd

SCHEDULES	For the year ended 31st March, 2007 Rs. '000	For the year ended 31st March, 2006 Rs.'000
14. Deferred Tax		
Liabilities		
Depreciation	8,536	18,235
Assets		
Section 43B items	(1,514)	(994)
FCCB issue expenses	—	(3,611)
Others items	—	(2,248)
Total	<u>7,022</u>	<u>11,382</u>
15. Sale of Products and Contracts		
Sale of Plant, Equipment & Spare Parts	420,137	363,929
Less : Excise Duty	<u>125,817</u>	<u>77,911</u>
	294,320	286,018
Contracts	<u>4,748,223</u>	<u>3,068,207</u>
Total	<u>5,042,543</u>	<u>3,354,225</u>
16. Increase / (Decrease) in Jobs-in-Progress :		
Balance as at 1st April 2006	34,733	13,548
Less : Share belonging to Joint Venture disposed off during the year (Refer Note 4 in Schedule 23)	<u>1,646</u>	<u>—</u>
Balance as at 31st March 2007	<u>132,828</u>	<u>34,733</u>
Total	<u>99,741</u>	<u>21,185</u>
17. Other Income		
Service Charges	1,395	544
Miscellaneous Income	3,515	3,377
Profit on Sale of Investment (Net)	1,837	1,186
Profit on Sale of Long Term Investment (Net)	44,433	—
Gain on Exchange Fluctuation (Net)	<u>—</u>	<u>1,010</u>
Total	<u>51,180</u>	<u>6,117</u>
18. Materials, etc.		
Balance as at 1st April, 2006	55,657	100,354
Less : Share belonging to Joint Venture disposed off during the year (Refer Note 4 in Schedule 23)	<u>2,151</u>	<u>—</u>
Add : Purchases	<u>562,779</u>	<u>614,405</u>
	616,285	714,759
Less : Balance as at 31st March, 2007	<u>31,651</u>	<u>55,657</u>
Consumption of Raw Materials	<u>584,634</u>	<u>659,102</u>
Consumption of bought out Components and Spare parts	<u>2,607,267</u>	<u>1,344,156</u>
Total	<u>3,191,901</u>	<u>2,003,258</u>



SCHEDULES	For the year ended 31st March, 2007 Rs. '000	For the year ended 31st March, 2006 Rs.'000
19. Expenses		
Salaries, Wages and Bonus	211,068	162,057
Contribution to Provident and Other Funds	23,387	10,992
Workmen and Staff Welfare Expenses	12,102	9,155
Professional Services	37,206	25,959
Stores and Spare Parts	5,970	8,410
Power and Fuel	19,060	14,888
Building Repairs and Maintenance	1,085	544
Machinery Repairs and Maintenance	7,126	1,740
General Repairs	26,038	20,604
Rent 13,204	16,183	
Subscriptions and Donations	1,140	2,769
Bank Charges	59,506	60,896
Rates & Taxes	15,057	24,501
Insurance	18,222	15,541
Cartage & Freight	142,042	76,997
Directors' Fees	505	485
Travelling	68,045	51,171
Running and Maintenance of Vehicles	2,892	3,223
Royalty	8,151	7,338
Inventories written off	4,000	15,238
Assets written off	—	419
Loss on Exchange Fluctuations (Net)	14,777	—
Commission Expenses	612	370
Provision for investment/interest accrued on investments	—	49
Provision for Bad and Doubtful Debts	873	671
Provision for doubtful advances	—	444
Loss on sale stock	10,441	—
Miscellaneous expenditure written off	—	42
Miscellaneous	55,270	44,609
	<u>757,779</u>	<u>575,295</u>
Less : Transferred to Capital Work in Progress	3,907	—
Total	<u>753,872</u>	<u>575,295</u>
20. Advance/Debts written off/Provision Liabilities written back (net)		
Debts written off	1,954	18,614
Advances written off	12,941	26,864
	<u>14,895</u>	<u>45,478</u>
Less :		
Debts/Advances realised	411	—
Provision no longer required written back	350	22,580
Liabilities no longer required written back	3,009	16,133
Total	<u>11,125</u>	<u>6,765</u>



SCHEDULES

	For the year ended 31st March, 2007 Rs. '000	For the year ended 31st March, 2006 Rs.'000
21. Depreciation & Amortisation		
Total Charge	41,973	51,288
Less : Transferred from Revaluation Reserve	24,202	20,907
Total	<u>17,771</u>	<u>30,381</u>
22. Interest and Finance Charges		
Interest		
On Fixed Loans	39,267	14,306
On Others	54,517	68,229
	<u>93,784</u>	<u>82,535</u>
Less : Interest Earned (Gross)		
On Fixed Deposit & Others (Tax deducted at source Rs.24,370 (2005-06 – Rs.3,70,339)	10,231	1,869
On Income Tax refund	5,688	—
	<u>77,865</u>	<u>80,666</u>
Bill Discounting charges	12,432	6,845
Total	<u>90,297</u>	<u>87,511</u>

22. Notes to Consolidated Financial Statements for the year ended 31st March, 2007

1. The Consolidated Financial Statements have been prepared in accordance with Accounting Standard 21 – “Consolidated Financial Statements” and Accounting Standard 27- “ Financial Reporting of Interests in Joint Ventures” issued by The Institute of Chartered Accountants of India.

2. List of Subsidiaries

The Consolidated financial statement represents consolidation of accounts of McNally Bharat Engineering Company Limited (the company) and its following subsidiaries.

Name of Company	Country of Incorporation	Proportion of Ownership Interest	Reporting Dates
EWB-MBE International Kornyezetvedelmi Kft.	Hungary	100%	31/12/2006
EWB Kornyezetvedelmi Kft.	Hungary	99%	31/12/2006

The consolidated financial statement does not include the company's interest in the following domestic joint venture company which was disposed off on 23rd March 2007.

Name of Company	Country of Incorporation	Proportion of Ownership Interest
Eriez MBE India Limited	India	40%

3. The financial statements of EWB MBE International Kornyezetvedelmi Kft. and EWB Kornyezetvedelmi Kft., the Hungarian based subsidiaries of the company are prepared as per the applicable Acts and statutory requirements under the Hungarian laws. These have been audited by Hungarian Auditors under Hungarian laws. The balances of these companies have been considered for consolidation on a line to line basis. However, uniformity in the accounting policies between the holding company and its subsidiaries could not be ensured due to non availability of information from its subsidiaries. Such non uniformity in accounting policies do not have any material impact on the consolidated profit for the year ended 31st March, 2007 and the consolidated net assets position as at that date.

## SCHEDULES

### 22. Notes on Accounts (Contd.)

The proportion of balances of its subsidiaries as compared to the corresponding balances of the consolidated financial statements are as below :

Net Fixed Assets	–	0.30 per cent
Net Current Assets	–	0.22 per cent
Total Income	–	0.62 per cent
Total Expenditure	–	0.65 per cent

4. With effect from 23rd March 2007 Eriez MBE India Limited (EMIL) has ceased to be a joint venture company of McNally Bharat Engineering Company Limited on the latter disposing off the entire shareholding of EMIL to a third party. The cost of investment of EMIL for the purpose of computation of the profit on sale of investment in EMIL has been determined on the basis of the proportionate net asset position of the jointly controlled entity as on 31.3.2006 instead of the proportionate net assets position as on the date of sale as required by AS 27 on Financial Reporting of Interests in Joint Ventures. This has resulted in incorrect computation of profit on sale of shares in Joint Venture Company (long term investment) though it has no impact on the ultimate consolidated profit for the year.
5. Advances recoverable in cash or in kind or for value to be received include :
  - a. Rs.1,08,06,995 (2005-06 – Rs.1,08,06,995) paid as pre-operational expenses incurred in connection with the power project at Tamil Nadu set up by Jayamkondam Lignite Power Corporation Limited (JLPC) of which the Company was one of the promoters. Consequent to the inordinate delay in finalizing the financial closure, the Company had expressed its willingness to withdraw from the project. As a result, Reliance Industries Ltd. was identified as a co-promoter by Tamil Nadu Industries Development Corporation (TIDCO) and the Company was assured the amount will be returned as soon as financial closure is reached. Currently there is indication that the project will be jointly undertaken by Tamil Nadu Electricity Board and Neyveli Lignite Corporation, which are Government Undertakings. The project is being actively pursued by the State Government and the Company is in regular touch with JLPC and is confident of recovery of such amount. Accordingly, no provision for these dues is considered necessary at this stage by the management.
  - b. A loan of Rs.40,00,000 (2005-06 – Rs.40,00,000) recoverable from Eriez MBE India Limited, an erstwhile Joint Venture Company.
6. The Company had entered in September 2003 a joint venture agreement with Elsamex S.A. where officially it was appointed as a subcontractor in “West Bengal Corridor Development Project – Improvement of Gazole Hilli Section of SH 10 with a link to Balurghat from Patiram,” (the project). However consequent to considerable delay in execution of the project the Public Works Department of Government of West Bengal (PWD) had terminated the contract in January 2006. The Company and Elsamex S.A. feels that such delay in execution was due to the inability of PWD to hand over the stretch of land for widening of road and non-availability of construction drawings on time by PWD. The Company has a legitimate claim of Rs.15,16,90,568 towards receivable and Rs.11,33,09,901 on account of deposit against Performance Guarantee. Elsamex S.A. has already moved to arbitration and has claimed an amount of Rs.73,34,03,024 including an additional claim on consequential losses as per guidelines of “Federation Internationale Des Ingenieurs-Conseils” (FIDIC). Arbitration proceedings are underway, however pending settlement of the arbitration proceeding and also based on legal opinion obtained in this regard in the previous year, the Company is confident in recovering at least an amount not less than the recoverable shown in its books and considers that no provision towards such amounts recoverable is necessary at this stage.

## SCHEDULES

### 22. Notes on Accounts (Contd.)

7. Land, Buildings and major Plant and Machinery as at 31st May 1984 are stated as per valuation made by a Chartered Engineer and Registered Valuer at the then market value. Subsequently, Land, Buildings and Plant and Machinery located at Kumardhubi Factory have been revalued by Registered Valuers at the Net Replacement Cost on 31st December, 2002 and on 28th February 2006, resulting in a further increase in value of these assets by Rs.16,15,87,228/ and Rs.11,16,32,970 respectively.
8. The Company has leasing arrangements in respect of operating leases for premises (residential, office, etc.). These leasing arrangements which are not non-cancellable are for a period of 3 years, or longer, and are usually renewable by mutual consent on mutually agreeable terms. The aggregate lease rentals payable are charged as Rent under Schedule 19.
9. During the year, the Company has acquired and sold the following investments :

<u>Name of Investment</u>	<u>No. of Unit ('000)</u>	<u>Cost (Rs. '000)</u>
Grindlays Floating Rate Fund – Short term Plan – Growth	10,322	123,684
	As at 31st March, 2007 (Rs.'000)	As at 31st March, 2006 (Rs.'000)

10. Other money for which the Company is contingently liable :

a) Excise Duty matters pending in appeal related to issues of applicability and classification	21,954	21,502
b) Sales Tax matters pending in appeal relating to disputes regarding assessable value and exemptions claimed	5,473	4,469
c) Income Tax matters pending in appeal before tax authorities	531	488
d) Bank Guarantee	—	2,761
e) Advance License	—	324

The probable cash outflow in respect of the above matters is not determinable at this stage.

11. Information in respect of contracts in progress :

	2006-07 (Rs. '000)	2005-06 (Rs. '000)
Contract costs incurred	6,151,498	4,845,713
Add : Recognised profits net of recognised losses	416,935	77,487
Contract Revenues	6,568,433	4,923,200
Less : Progress billing	6,616,169	4,859,169
Due from customers	202,114	250,662
Due to customers	249,850	186,631
Advance payments received	549,904	437,425
Amount of retentions	1,076,799	701,628

## SCHEDULES

### 22. Notes on Accounts (Contd.)

12. Related party disclosures as required by AS-18 "Related Party Disclosures" are given below :

1. Relationships :  
Key Management Personnel :  
Mr. Srinivash Singh – Managing Director
2. The following transactions were carried out with the related parties in the ordinary course of business :  

Remuneration	–	7,929
		(4,299)
Advance paid	–	35
		(–)

Figures in bracket are for the year ended 31st March 2006.

13. During the year, the Company issued 4.5% Foreign Currency Convertible Bond worth US\$ 10 million, which is convertible at Rs.143/- per share at the option of the bondholders, within the tenure of the bonds. Out of the above issue an amount of US\$ 1 million have been converted by the bondholders on 5th February, 2007 vide notice dated 30-01-2007 issued by Bank of New York, the paying and issuing agent.

14. The Company has issued 14,53,000 Convertible Warrants during the year to certain Promoters, Associates and Senior Management of the Company at the rate of Rs.143 per warrant. An amount of 10% of the Warrant value was paid on application and such amount has been disclosed as Share Warrant application money in the Balance Sheet. On payment of the Balance 90% within a period of 18 months from the date of application, one Equity Share will be allotted for each Warrant held.

### 15. Earning Per Share

	As at 31st March, 2007	As at 31st March, 2006
Basic		
Number of Equity Shares at the beginning of the year	26,461,798	19,783,196
Number of Equity Shares at the end of the year	26,779,700	26,461,798
Weighted average number of Equity Shares outstanding during the year	26,508,830	23,233,234
Face Value of each Equity Share (Rs)	10	10
Profit after Tax available for Equity Shareholders		
Profit after Taxation (Rs. in '000)	168,132	53,333
Basic Earning per Shares (Rs)	6.34	2.30
Diluted		
Diluted Potential Equity Shares (Refer Note Below)		
Diluted Earning per Shares (Rs)	6.34	2.30

### Note :

In view of the average market price (fair value) of Equity Shares of the Company being less than the applicable conversion price, the conversion option embedded in 4.95% Convertible Bonds of USD 9000000 as indicated in Schedule 4, is considered as anti-dilutive and accordingly has not been taken into account for computation of diluted earning per shares.

## SCHEDULES

### 22. Notes on Accounts (Contd.)

16. Advances recoverable in cash or in kind or for value to be received in Schedule 11 includes an amount due from Director of Rs.35,000 (2005-06 – Rs.Nil).

17. Previous year's figures have been regrouped and/or rearranged wherever necessary.

#### 18. Significant Accounting Policies :

i. The financial statements have been prepared in accordance with applicable Accounting Standards (AS) specified by the Institute of Chartered Accountants of India (ICAI). A summary of important accounting policies, which have been applied consistently, is set out below. Financial statements have also been prepared in accordance with relevant presentational requirements of the Companies Act, 1956.

#### ii. BASIS OF ACCOUNTING.

The financial statements are prepared in accordance with the historical cost convention modified by the revaluation of certain fixed assets.

#### iii. FIXED ASSETS.

a) Fixed Assets other than those revalued are stated at their cost. Cost includes Inward Freight, Duties and Taxes and Expenses incidental to acquisition and installation.

b) Depreciation.

Depreciation on assets is provided on Straight Line Method as below :

(i) In respect of assets acquired prior to 1st June 1987 at rates specified in Income Tax Act 1961 and rules made thereunder and in terms of section 205(2)(b) of the Companies Act, 1956 prevailing at the time of acquisition of the assets.

(ii) For assets acquired on or after 1st June 1987 at rates specified in Schedule XIV to the Companies Act, 1956 as prevailing on the date of acquisition of the assets except as follows :

Certain items of plant and machinery 7.07%, 11.31%

(iii) Freehold Land and Leasehold Land on perpetual lease are not depreciated. Other Leasehold Land are amortised over the period of Lease.

In respect of revalued assets, depreciation on amount added on revaluation is recouped from revaluation reserve.

c) Profit & Loss on disposal of Fixed Assets is recognized in Profit & Loss Account.

d) Intangible Assets represents technologies for pumps and mineral processing equipments (acquired on amalgamation) and technical know-how for vibrating screens and granulators which are amortized over a period of ten years and five years respectively under straight line method. Intangible assets also include computer software which are amortized over a period of five years.

e) Amortizations of revalued intangible assets are recouped from Revaluation Reserve, wherein the credit was given on its valuation.

f) The excess / deficit of the cost to the Company of its Investments over its share in equity of the subsidiary companies as on date (or as near to the date as practicable) of takeover is recognised in the consolidated financial statements as goodwill / capital reserve.

g) An impairment loss is recognized where applicable when the carrying value of the Fixed Assets exceeds its market value or value in use, whichever is higher.

#### iv. GOVERNMENT GRANTS.

Grants / Subsidies that relate to Capital Expenditure are deducted from the cost of the assets. Other grants / subsidies are credited to the Profit and Loss Account.

## SCHEDULES

### 22. Notes on Accounts (Contd.)

#### v. INVESTMENTS

Investments that are readily realizable and intended to be held for not more than one year are classified as current investments. All other investments are classified as long term investments. Current investments are carried at lower of cost and fair value determined on an individual investment basis. Long term investments are carried at cost. However provision for diminution in value is made to recognize a decline other than temporary in the value of such investments.

#### vi. STOCK & JOBS-IN PROGRESS.

Inventories including Jobs-in-Progress are stated at cost or Net Realizable Value, whichever is lower.

In case of raw materials and stores and spares, such cost is arrived on Weighted Average Basis. Cost comprises of expenditure incurred in the normal course of business in bringing Stocks and Jobs-in-Progress to their location and condition (including appropriate overheads in case of Jobs-in-Progress, calculated on a basis appropriate to the business carried on by the Company). Where the current estimate of total cost and revenue in respect of Jobs-in-Progress covered by customers' orders indicate a loss, provision is made for entire loss.

Loose tools are written off over a period of ten years.

Obsolete, slow moving and defective stocks are identified at the time of physical verification of stocks and where necessary, provision is made for such stocks.

#### vii. REVENUE RECOGNITION

Revenue on contracts is recognized on percentage of completion method wherein the stage of completion is determined with reference to the ratio of the contract cost incurred for work performed upto the reporting date to the estimated total contract cost. In the case of unit rate contracts the stage of completion is determined with reference to the valuation of the actual amount of work completed as per the contracted rates. In cases where the current estimate of total contract cost and revenue indicate a loss, such loss is recognized as an expense.

#### viii. FOREIGN CURRENCIES

Transactions in foreign currency are recorded in Rupees by applying the rate of exchange ruling at the time of transactions. Exchange differences arising on the settlement of transactions are recognized as income or as expense in the period in which they arise, except in respect of fixed assets acquired from outside India, where exchange variance is adjusted to the carrying amount of respective fixed assets.

Monetary current assets and monetary current liabilities denominated in foreign currency are translated at the exchange rate prevalent at the date of the balance sheet. The resulting difference is also recorded in the profit and loss account. Non monetary items at the balance sheet date are stated at historical cost.

The Company uses foreign exchange forward contracts to hedge its exposure to movements in foreign exchange rates. The premium or discount arising at the inception of a forward exchange contract is amortised as expense or income over the life of the contract. Exchange differences on such a contract are recognized in the profit and loss account in the reporting period in which the exchange rates change. Any profit or loss arising on cancellation or renewal of such a forward exchange contract is recognized as income or as expense for the period.

All exchange differences related to translation of assets/liabilities and income/expenses of operations of foreign subsidiaries are recorded in a foreign currency translation reserve.



## SCHEDULES

### 23. Notes on Accounts (Contd.)

#### ix. SALES

Sales represent the invoiced value of goods and services supplied and exclude Sales Tax. Agency commission is recognized in terms of agency agreement.

#### x. INCOME FROM INVESTMENTS

Income from Investment is included, together with related tax credit, in the Profit and Loss Account on an accrual basis.

#### xi. RETIREMENT BENEFITS

##### a) Provident Fund :

Contribution to Provident Fund, which is administered by an independent Trust / Fund maintained by the Regional Fund Commissioner, is charged to the Profit and Loss Account.

##### b) Pension :

The Company operates a superannuation fund scheme for some of its employees towards which the Company contributes upto a maximum of 15% of the employees' current salary, which is charged to the Profit and Loss Account. The scheme, which is fully funded, is administered by Trustees and is independent of the Company's finance.

##### c) Gratuities and Leave Encashment :

The Company operates a Gratuity Fund Scheme for its employees. The liability in respect of such scheme is ascertained on the basis of actuarial valuation at the year-end and provided for. The scheme, which is funded is administered by Life Insurance Corporation of India (LIC). Accrued liability towards leave encashment benefits payable to employees is also ascertained on the basis of actuarial valuation at the end of the year and recognized as a charge in the accounts.

#### xii BORROWING COSTS

Borrowing costs attributable to the acquisition, construction or production of qualifying assets (i.e. assets that necessarily take substantial period of time to get ready for its intended use or sale) are capitalized as part of the cost of such asset upto the date when such asset is ready for its intended use or sale. Other borrowing costs are recognized as an expense in the period in which they are incurred.

#### xiii TAXES ON INCOME

Current tax represents the amount that would be payable based on computation of tax as per prevailing taxation laws under the Income Tax Act, 1961.

Deferred Tax is recognized, subject to the consideration of prudence, on timing differences, being the difference between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods. Deferred Tax assets are not recognized unless there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized.

Fringe Benefit Tax is accounted for based on the estimated value of Fringe Benefits for the period as per the related provisions of the Income tax Act, 1961.

DEEPAK KHAITAN – *Chairman*  
 SRINIVASH SINGH – *Managing Director*  
 P.K. GHOSH – *Chief Financial Officer*  
 D. CHATTERJEE – *Company Secretary*

Kolkata, 21 June, 2007

**CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31st MARCH, 2007**

	For the year ended 31st March 2007 Rs'000      Rs'000		For the year ended 31st March 2006 Rs.'000      Rs.'000	
<b>A. Cash Flow from Operating activities</b>				
Net profit before tax		193,961		67,692
Adjustments for:				
1. Depreciation	17,771		30,381	
2. Interest charged	93,784		82,535	
3. Interest Income	(15,919)		(1,869)	
4. Loss/(Profit) on Sale of Fixed Assets (net)	31,408		970	
5. Loss/(Profit) on Sale of Investment (Net)	(46,270)		(1,186)	
6. Bad Debts Written off	1,954		18,614	
7. Advance written off	12,941		26,864	
8. Provision for bad and doubtful debts	873		671	
9. Liabilities no longer required written back	(3,009)		(16,133)	
10. Provision for investment/interest accrued on investments	—		49	
11. Provision for leave encashment	3,364		1,460	
12. Inventories written off	4,000		15,238	
13. Assets written off	—		419	
14. Unrealised (gain)/loss on exchange - net	(11,039)		—	
15. Foreign exchange (gain)/loss on consolidation	339		257	
16. Provision no longer required written back	(350)	89,847	(22,580)	135,690
Operating Profit before Working Capital Changes		283,808		203,382
Adjustments for:				
1. Trade and Other Receivables	(783,441)		(725,076)	
2. Inventories	(74,147)		2,187	
3. Trade Payables	742,995	(114,593)	203,450	(519,439)
Cash Generated from Operations		169,215		(316,056)
1. Direct Taxes Paid (net of refund received)	(1,058)		(43,314)	
		(1,058)		(43,314)
Net Cash Flow in Operating Activities		168,157		(359,371)
<b>B. Cash Flow from Investing Activities</b>				
Purchase of Fixed Assets	(144,196)		(34,543)	
Sale of Fixed Assets	34,580		388	
Interest received	11,833		1,898	
Purchase of Investments	(149,722)		(149,450)	
Sale of Investments	133,516	(113,989)	130,732	(50,975)
Net Cash used in Investing Activities		(113,989)		(50,975)



Cash Flow Statement (Contd.)

	For the year ended 31st March 2007 Rs.'000      Rs.'000		For the year ended 31st March 2006 Rs.'000      Rs.'000	
C. Cash Flow from Financing Activities				
Interest Paid	(88,110)		(83,340)	
Proceeds from issue of Share Capital	45,460		308,231	
Proceeds from share warrants application money	20,777		—	
Expenses on issue of Share Capital	(17,437)		(13,411)	
Proceeds from Long Term Borrowings	80,137		140,646	
Proceeds from issue of Foreign Currency Convertible Bonds (Net of amount converted during the year)	409,950		—	
Repayment of Long Term Borrowings	(241,844)		(8,064)	
Proceeds from Other Borrowings	148,255		60,248	
Repayment of Other Borrowings	—		(9,900)	
Dividend paid (including tax thereon)	(15,249)	341,939	(5,017)	389,393
Net Cash from Financing Activities		<u>341,939</u>		<u>389,393</u>
Net Increase/(Decrease) in Cash and Cash Equivalents		396,107		(20,953)
Cash and Cash Equivalents (Opening Balance)		161,804		182,757
Less : Share of Joint Venture disposed off during the year		(2,414)		—
Cash and Cash Equivalents (Closing Balance)		555,497		161,804

Notes to the Cash Flow Statement for the  
year ended 31st March 2007

1. Cash and Cash Equivalents :

Cash and Cheques in Hand	90,417	40,520
Remittance in Transit	5,784	4,504
With Scheduled Banks :		
On Current Account	115,026	96,628
On Deposit Account	<u>335,496</u>	<u>20,152</u>
	546,723	161,804
Add : Effect of exchange rate changes	<u>8,774</u>	<u>—</u>
Cash and cash equivalent as restated	<u>555,497</u>	<u>161,804</u>

- The above Cash Flow Statement has been prepared under the 'Indirect Method' as set out in the Accounting Standard - 3 on Cash Flow Statement issued by The Institute of Chartered Accountants of India.
- Cash and Cash Equivalents include Rs.31,02,226 (2005-06 Rs.1,77,56,056) which are not available for use at the year end by the Group.
- Previous year's figure have been rearranged and/or regrouped wherever necessary.

This is the Cash Flow Statement referred to in our report of even date.

PRABAL KR SARKAR  
Partner  
Membership No. 52340  
For and on behalf of  
LOVELOCK & LEWES  
Chartered Accountants  
Kolkata, 21 June, 2007

DEEPAK KHAITAN – Chairman  
SRINIVASH SINGH – Managing Director  
P.K. GHOSH – Chief Financial Officer  
D. CHATTERJEE – Company Secretary



**McNally Bharat  
Engineering Co Limited**

4, Mangoe Lane, 4th, 5th & 7th Floor, Kolkata 700001  
Phone : 91-033-65500725-39/22138905-08/22480847/0919  
Fax : 91-033-2248 0340/5016, e-mail : mbecl@mbecol.co.in  
Website : [www.mcnallybharat.com](http://www.mcnallybharat.com)