# HMT WATCHES LIMITED

## CONTENTS

## BOARD OF DIRECTORS

| | |
|---|---|
| Shri S.G. Sridhar | *Chairman* |
| Dr. G. Venkatesh | *Director* |
| Shri S. Paulraj | Managing Director |
| Shri M. Chandrabhan Singh | *Dy. Manager (Finance)* |

## AUDITORS

**M/s. P.V.R. & Co.**
*Chartered Accountants,*
*Bangalore*

## REGISTERED OFFICE

"HMT Bhavan"
59, Bellary Road
Bangalore - 560 032

## PERFORMANCE HIGHLIGHTS

(` in Lakhs)

| | **2011-12** | 2010-11 | 2009-10 | 2008-09 | 2007-08 | 2006-07 | 2005-06 | 2004-05 | 2003-04 | 2002-03 |
|---|---|---|---|---|---|---|---|---|---|---|
| **OPERATING STATISTICS** | | | | | | | | | | |
| Sales | **1024** | 882 | 1054 | 1352 | 1514 | 3688 | 2184 | 2354 | 2692 | 4535 |
| Other Income * | **975** | 790 | 1087 | 371 | 618 | 3498 | 7710 | 306 | 939 | 1039 |
| Materials | **353** | 253 | 434 | 357 | 551 | 1288 | 926 | 653 | 891 | 918 |
| Employee Costs | **7406** | 12503 | 5599 | 5343 | 5426 | 4934 | 5793 | 4285 | 4274 | 5746 |
| Other Costs | **873** | 1379 | 1539 | 1995 | 1952 | 11968 | 3622 | 3872 | 5858 | 4642 |
| Depreciation | **83** | 92 | 109 | 123 | 155 | 195 | 245 | 252 | 352 | 331 |
| Earnings before Interest | **-6716** | -12576 | -5774 | -6401 | -5816 | -11405 | -314 | -7309 | -8102 | -7429 |
| Interest | **15688** | 12798 | 11061 | 9982 | 8864 | 8161 | 7269 | 6144 | 5379 | 3863 |
| Earnings/(Loss) before Tax | **-22404** | -25374 | -16835 | -16383 | -14680 | -19566 | -7583 | -13453 | -13481 | -11292 |
| Taxation | **-** | - | - | 22 | 15 | 15 | 17 | | | |
| Net Earnings | **-22404** | -25374 | -16835 | -16405 | -14695 | -19581 | -7600 | -13453 | -13481 | -11292 |
| **FINANCIAL POSITION** | | | | | | | | | | |
| Net Fixed Assets | **939** | 1021 | 1135 | 1243 | 1337 | 1220 | 1412 | 1647 | 1900 | 2183 |
| Current Assets | **5278** | 5284 | 5772 | 6448 | 7769 | 9796 | 8600 | 8376 | 9609 | 12919 |
| Current Liabilities & Provisions | **18788** | 25338 | 22875 | 21318 | 20106 | 18360 | 18586 | 16506 | 17520 | 22392 |
| Working Capital | **-13510** | -20054 | -17103 | -14870 | -12338 | -8563 | -9986 | -8130 | -7911 | -9473 |
| Capital Employed | **-12571** | -19033 | -15968 | -13627 | -11001 | -7343 | -8574 | -6483 | -6011 | -7290 |
| Investments | **-** | - | - | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Miscellaneous Expenditure | **-** | - | - | - | 63 | 290 | 9733 | 11587 | 13125 | 14131 |
| Borrowings | **158915** | 135581 | 113273 | 98780 | 85064 | 74253 | 62984 | 59298 | 53375 | 34102 |
| Net Worth | **-177000** | -154614 | -129240 | -112405 | -96063 | -81595 | -71557 | -65780 | -53865 | -41391 |
| | **-12571** | -19033 | -15968 | -13627 | -11001 | -7343 | -8574 | -6483 | -6011 | -7290 |
| **OTHER STATISTICS** | | | | | | | | | | |
| Capital Expenditure | **0** | 0 | - | 27 | 195 | 1 | 18 | - | 4 | - |
| Internal Resources Generated | **-22321** | -25282 | -16726 | -16282 | -14540 | -19386 | -7355 | -13201 | -13129 | -10961 |
| Working Capital Turnover Ratio | **-0.08** | -0.04 | -0.06 | -0.09 | -0.12 | -0.43 | -0.22 | -0.29 | -0.34 | -0.48 |
| Current Ratio | **0.28** | 0.21 | 0.25 | 0.3 | 0.39 | 0.53 | 0.46 | 0.51 | 0.55 | 0.58 |
| Return on Capital(%) | **-42.50** | -71.86 | -39.02 | -51.98 | -63.41 | -143.31 | -4.17 | -117 | -121.83 | -203.81 |
| Employees (Nos) | **1219** | 1417 | 1976 | 2050 | 2126 | 2145 | 2162 | 2180 | 2226 | 2333 |
| Per Capita Sales | **0.84** | 0.62 | 0.53 | 0.66 | 0.71 | 1.72 | 1.01 | 1.08 | 1.21 | 1.94 |

*** Includes Extra Ordinary Items**

# DIRECTORS' REPORT

To
The Members,
HMT Watches Limited,

Your Directors have pleasure in presenting the Thirteenth Annual Report together with the Audited Accounts of the Company for the year 2011-12, Report of Statutory Auditors and comments thereon by the Comptroller & Auditor General of India.

***PERFORMANCE***

Your Company registered a growth of 15.42 % by achieving a Gross Sales (Inclusive of Excise Duty) of ` 10.18 Crores (previous year ` 8.82 Crore) during the year under review. In terms of production, your Company achieved a level of ` 13.04 Crores (previous year ` 10.62 Crore) resulting a growth of 23 %.

The improvement in the performance both in terms of Production & Sales during the current year 2011-12 was made possible by adopting innovative marketing strategy, frequent introduction of new models and also by having synergy with other marketing organizations and optimizing the available resources.

Institutional sales contributed 40% of total sales. Major orders executed are from Messrs. Ordinance Factory, Itarsi, Ambarnath & Shajhahanpur, Indian Bank, Chennai, GRSE, Kolkata, Ministry of Defence, New Delhi, Rifle Factory, Inshapore, Kolkatta, Neyveli Lignite Corporation, Chennai.

***OPERATING RESULTS***

The operations of your Company being the Thirteenth financial year after restructuring of HMT Limited, the Holding Company, vide which separate subsidiaries were formed including HMT Watches Ltd. The company incurred a net loss of ` 224.04 Crore during the year. The financial Highlights are as follows:

**FINANCIAL HIGHLIGHTS**

**(` in Crore)**

| | |
|---|---|
| Gross Profit/(Loss) | - 66.33 |
| Depreciation | 0.83 |
| Interest | 156.88 |
| Net Profit/(Loss) | - 224.04 |
| Balance carried to Balance Sheet | - 1776.67 |

(Includes VRS expenditure of ` 26.29 Cr. & Sale of NPA of ` 4.92 Cr.)

In view of the losses incurred during the year, your Directors are not in a position to recommend any Dividend on the Equity Share Capital, for the year 2011-12. Your Directors have considered and drawn up the accounts for the year ended March 31, 2012, on a going concern basis in spite of the negative Net Worth as on that date.

***SHARE CAPITAL***

The Authorised Share Capital of the Company is ` 7,00,00,000/- divided into 70,00,000 Equity Shares of ` 10/- each. Issued, Subscribed and Paid-up Share Capital of your Company stood at ` 6,49,01,000/- divided into 64,90,100 Equity Shares of ` 10/- each fully paid-up. All shares are held by HMT Limited, the Holding Company.

***NET WORTH***

The operations of the Company during the year 2011-12 resulted in a net loss of ` 224.04 Crore. As a result of increase in the losses incurred during the year, the accumulated losses of the Company increased to ` 1776.67 Crore and as a result of which the Net worth of the Company as at March 31, 2012 is showing a negative position of ` 1770.18 Crore.

***REVIVAL PLAN***

The Company has drawn various strategies and action plan to improve the performance of the company during 2012-13.

The Hon'ble Minister for Heavy Industries, while reviewing the performance of the Company advised for appointment of a Consultant to study all the Subsidiaries of HMT Ltd., the Holding Company, which require revival. Accordingly, M/s. Price Waterhouse Coopers (P) Ltd. has been appointed as consultants. The consultants have prepared and submitted their report to the Company. Based on the Consultants' report, the Company has prepared a Revival Plan for the Company and submitted to DHI. The Revival Plan of the Company is under the active consideration of GOI.

***THE YEAR AHEAD***

The current year has turned out to be far more difficult than was originally envisaged because of various reasons cited above. Nevertheless, your Company expects to increase both turnover and market shares in its businesses during the remainder of the year through innovative strategies & by putting best efforts. The details are as under :-

- Rationalization of man power through VRS
- Reduction in inventory.
- Increasing the volume in Production and Sale of high-end watches
- Strengthening marketing network by appointment of territory dealers.
- Adoption of innovative and aggressive marketing policies.
- Focusing on cost reduction.
- Focus on institutional Sale & Sales through Canteen Stores Department (CSD).
- Thrust on introduction of New Models to enhance the marketability of watches.
- Emphasis on Non-watch operations for additional revenue generation.

***AUDITORS***

M/s. P N R & Company, Bangalore, were appointed as Statutory Auditors of the Company for the year 2011-12 and four other firms of Chartered Accountants were also appointed as Branch Auditors for the various Units / Division of the Company.

Replies to the observations by the Auditors in their Report is given by way of an Addendum to this Report. The replies to the Comments by the Comptroller and Auditor General of India on the Accounts are given separately.

***VIGILANCE ACTIVITIES***

The Vigilance Cell functioning in the Holding Company is keeping watch on the overall activities of the Company. The Vigilance Officers of each of the units are carrying out the surprise checks and inspections in various departments.

**INFORMATION REGARDING CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO**

Particulars with respect to conservation of energy, technology absorption and foreign exchange earnings and outgo, as required under the Companies (Disclosures of Particulars) Rules, 1988, are Annexed to this Report.

***PERSONNEL***

The employee strength of the Company as on March 31, 2012 was 1219 as compared to 1417 as at the end of the previous year.

The number of employees on the rolls of the Company as on March 31, 2012 in SC / ST, Ex-servicemen and Physically Handicapped categories are as follows :

| | |
|---|---|
| Scheduled Castes | 228 |
| Scheduled Tribes | 42 |
| Ex-Servicemen | 4 |
| Physically Handicapped | 31 |

***PARTICULARS OF EMPLOYEES***

Information in accordance with the Provision of Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, as amended is NIL for the year 2011-12.

***EMPLOYEE RELATIONS***

Industrial Relations situation in the Company during the year remained cordial despite the difficulties faced during the year in the timely payment of salaries and wages to the employees by various Units.

***IMPLEMENTATION OF OFFICIAL LANGUAGE***

The Company continued to pursue its efforts in implementing the official language policy of the Government. Hindi Diwas and Saptah were observed in your Company during September 2011 by organizing Hindi Workshops, Debates, Elocution Competitions in Hindi.

***DIRECTORS RESPONSIBILITY STATEMENT***

**Pursuant to the requirements under Section 217(2AA) of the Companies Act, 1956, the Board of Directors of the Company confirm that :**

I. In the preparation of the annual accounts for the financial year ended 31st March 2012, the applicable accounting standards have been followed and there has been no material departure;

II. The selected accounting policies were applied consistently and the directors made judgments and estimates that are reasonable and prudent as to give a true and fair view of the state of the affairs of the company as at March 31, 2012 and of the profit / (loss) of the company for the year ended as on date;

III. Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;

IV. The annual accounts have been prepared on a 'going concern' basis.

### *AUDIT COMMITTEE*

The Audit Committee of the Board could not be reconstituted to conduct the meetings in the absence of Independent Directors on the Board of the Company. The Company has requested the administrative Ministry through the Holding Company, to appoint independent Directors on the Board of the Company.

### *DIRECTORS*

Vide Presidential Order F.No.5(8)/2010-P.E.X dated July 25, 2011, Dr. G. Venkatesh, Deputy Secretary, Department of Heavy Industry, Ministry of Heavy Industries & Public Enterprises, has been appointed as part time Official Director on the Board of Directors of the Company, with immediate effect.

The Board of Directors have approved his appointment as Part-time Official Director with effect from July 25, 2011. It is proposed to re-appoint Dr. G. Venkatesh, as a Director in terms of Section 257 read with sections 255, 260 and 262 of the Companies Act, 1956 in the ensuing Annual General Meeting.

*Shri S.G. Sridhar, Director, who retires by rotation and being eligible offers himself for re-appointment in the ensuing Annual General Meeting.*

### *ACKNOWLEDGEMENTS*

The Directors are thankful to HMT Limited, the Holding Company, the various Departments and Ministries in the Government of India, particularly the Department of Heavy Industry, Department of Company Affairs, Comptroller & Auditor General of India, Principal Director-Commercial Audit, Statutory and Branch Auditors, Director General Supplies & Disposals, Director General, Ordnance Factories, various State Governments, Suppliers and Dealers, and valued customers of the Company both in India and abroad for their continued co-operation and patronage.

Directors also sincerely appreciate the contributions made by the employees at all levels in the operations of the Company during the year, despite the difficult situation faced by the Company.

For and on behalf of the Board of Directors,

**(S.G. Sridhar)**
*Chairman*

Place : Bangalore

## ANNEXURE TO THE DIRECTORS' REPORT

*Section 217 (i) (e) of the Companies Act, 1956*

*Company's (Disclosure of particulars in the Report of Board of Directors) Rules, 1988.*

## CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUT GO

### ENERGY CONSERVATION MEASURES TAKEN :

The Company has given major emphasis for conservation of energy. The energy utilization in our manufacturing Units are monitored constantly in order to achieve effective conservation of energy. The energy conservation measures taken during the year 2011-12 were :-

- Switching off Machines / equipment when not in use and switching off lights in areas not having adequate activity.
- Use of energy efficient lighting systems like mercury vapour lamps, high power sodium vapour lamps and floracent tube lamps.
- Centralized control of coolers and shop lighting.
- Switching off Main Compressor during lunch breaks and running portable Compressor during 'C' Shift instead of Main Compressor.
- Monitoring of utilization of energy in lighting and other auxiliary equipments.
- Use of Power capacitors to improve the power factor.
- Creating awareness among employees about the necessity of energy conservation by celebrating energy conservation week.

Additional investment and Proposals, if any being implemented for reduction of energy consumption :

- Providing energy saving lighting equipments in place of Tube lights and bulbs.
- Usage of sodium vapour lamps for yard lighting.
- Installation of timer switches for yard light control.
- Impact on cost of production of goods :

The above-mentioned measures have resulted in reduced consumption of electrical energy at various load centers and helped in curtailing the energy costs.

Total Energy consumption and energy consumption per unit of production :

Not applicable, as the Company is not covered in the list of Specified Industries.

### TECHNOLGY ABSORPTION:

**FORM B**

(Disclosure of particulars with respect to Technology Absorption)

**Research & Development (R & D)**:

1) **Specific Areas :**

   The Company has established its own R&D facilities for different products to meet its needs. The focus is on progressively achieving self-reliance in product technology. The Company developed and launched 70 new models of new Series of Quartz Watches (32 shaped & 38 round) during the year 2011-12.

2) **Benefits Derived :**

   The benefits derived as a result of above R & D are :

   - Indigenization / Import substitution
   - Cost reduction / Competitive pricing, improved utilization of existing manufacturing facilities, materials & energy.
   - Enhancement in quality and service to the customers.

- Meet the market for lower & higher-end watches.
- Reducing manufacturing/delivery time.

**3) Future Plan of Action :**

- Continuation of the present work in R&D for introduction of new models of watches and processes, improvement in the existing models
- Faster introduction of new models of watches for catering to changing needs of customers.
- Strengthening infrastructure for R&D.
- Improving interaction with research / education institutions.

**4) Expenditure on R&D :**

During the year 2011-12 ` 30 Lakh were expended towards R&D work.

**5) Technology Absorption Adaptation and Innovation :**

Efforts in brief, made towards technology absorption, adaptation and innovation:

- Participation in conferences, seminars and exhibitions in India.
- Imparting training to personnel in various manufacturing techniques.
- Collaborative efforts with Indian education institutions for technology up-gradation.
- Analysing feedback from users to improve products.

Benefits derived as a result of the above efforts, viz. product improvement, cost reduction, product development etc;

- Improvement in existing processes and product quality.
- Cost reduction
- Competitive pricing
- Introduction of new models indigenously.
- Better accuracy, appearances

The Company is engaged in manufacture of various types of Quartz, Mechanical and ADD watches that involves high level of technology. The manufacturing process being constantly upgraded resulting in reduction in costs.

**FOREIGN EXCHANGE EARNINGS & OUTGO**

Activities relating to Export.

Efforts are being made to increase the export of products of the Company through HMT (International) Ltd; a Subsidiary of our Holding Company (HMT Limited).

Total Foreign Exchange used and earned :

| | | | |
|---|---|---|---|
| 1) | Foreign Exchange earned | : | Nil. |
| 2) | Outgo of Foreign Exchange | : | Nil. |

All exports of the Company are routed through HMT (International) Limited, the Wholly owned Subsidiary Company of HMT Limited, the Holding Company.

## ADDENDUM TO DIRECTORS' REPORT IN RESPECT OF OBSERVATIONS MADE BY STATUTORY AUDITORS ON THE ACCOUNTS OF HMT WATCHES LIMITED FOR THE YEAR ENDED 31ST MARCH 2012.

| Sl. No. | Statutory Auditor's observation | Company's Reply |
|---|---|---|
| 5. d) | In our opinion, the Balance Sheet, Statement of Profit and Loss and the Cash Flow Statement dealt with by this report are in compliance with the Accounting Standards (AS) referred to in sub-section (3C) of Section 211 of the Companies Act, 1956, to the extent applicable, except in the following cases: | |
| | o AS 01 – Disclosure of Accounting Policies | |
| | The accounts having been drawn as 'on going' concern basis despite substantial operation losses continually being incurred and company's operations are negligible compared to its installed capacity of working as detailed in Para (f) (I) (i) below. | The Company has been receiving salary support from the Govt. of India periodically. Further, the Revival Plans of the Company is under the consideration of GOI and study is being conducted with the help of a leading Consultancy Firm to prepare a business plan in respect of the Company and their report is under finalization. |
| | o AS 02 – Valuation of Inventories | |
| i) | Valuation of inventories not being in accordance with the AS - 02 on valuation of inventories with regard to Valuation of components of finished goods as detailed in paragraph (f) (V) below ; | As per AS-2 (Revised) the actual capacity utilisation is to be compared with the normal capacity which is defined as production expected to be achieved on an average over a number of periods or seasons under normal circumstances. The Units have not achieved the installed capacity during the last more than ten (10) years. Hence, the method of computation by adopting planned production for the year 2010-11 V/s Actual production achieved during the year is in order. A similar practice has been followed in the earlier years. |
| ii) | Recovery of overheads on the basis of actual production instead of normal capacity as detailed in Paragraph (f) (XI) (e) (i) below. | |
| iii) | Valuation of work in progress as detailed in Paragraph (f) (XI) (e) (ii) and (iii) below; | |
| | o AS 06 – Depreciation Accounting | |
| | Depreciation has been charged from the accounting year 2000-2001 and onwards on the original cost of the assets on straight line basis, keeping in view the estimated life of the asset in respect of Fixed assets transferred from the Holding Company to the Subsidiary at the Gross values, Reserve for Depreciation and Net values as on 1.4.2000 as detailed in Paragraph (f) (I) (iv) below. | |
| | Charging of depreciation on Plant and Machinery on double shift basis although none of the Manufacturing Divisions have worked in double shift as detailed in Para (f) (I) (xx) below; | The Units are working on double shifts on need based basis. |

| Sl. No. | Statutory Auditor's observation | Company's Reply |
|---|---|---|
| | The Company has not complied with the requirements of charging depreciation on additions to fixed assets during the year on prorata basis as detailed in Paragraph (f) (III) below. | The additions during the year in WMD books is Rs.0.78 lakh. The depreciation worked out to Rs.0.06 lakh. However, the actual depreciation on prorata basis will be less by Rs.0.03 lakh. The amount is not material. |
| | The Company has not complied with the requirements of amortizing the value of lease hold land over the period of lease as detailed in Para f (I) (xv) below. | This is the practice consistently followed by the company. |
| | o AS 09 – Revenue Recognition | |
| | Though the Company has executed an Agreement to Sell and possession of land (including Building) given to the Purchaser, the transaction has not been recognized as sale pending approval from the concerned authorities for the execution of sale deed as detailed below in Para (f) (I) (xiii) below. | The sale consideration of Rs.890 lakhs received from Raman Research Institute, Bangalore, a Govt. of India sponsored body, will be regularized upon handing over of possession and registration of sale deed. |
| | o AS 10 – Accounting for Fixed Assets | |
| | Fixed assets not having been recorded at the original cost to the HMT Watches Limited but at historical cost to HMT Limited, the holding company, from whom such assets were transferred to the company under the scheme of transfer effective from 01st April 2000 as detailed in Para (f) (I) (iv) below. | |
| | Inclusion of the cost of land (including building) in the gross block of fixed assets in so far as it is related to land (including building) for which the company has executed an agreement and possession thereof given to the purchaser as detailed in Para (f) (I) (xiii) below. | The sale consideration of Rs.890 lakhs received from Raman Research Institute, Bangalore, a Govt. of India sponsored body, will be regularized upon handing over of possession and registration of sale deed. |
| | o AS 28 – Impairment of Assets | |
| | The Company has not identified, measured, quantified and disclosed the impairment of assets and its impact in the current financial statement in line with the Accounting Standard 28. | In the absence of valuation of the assets, it has not been possible for the Company to certify with regard to the impairment losses of assets as required under AS-28. |
| e) | In our opinion, based on the Notification No. GSR 829(E) dt. 21.10.2003 issued by the Department of Company Affairs, Govt. of India, the requirements under clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956 does not apply to the Company, being a Government Company. | Noted. |

| Sl. No. | Statutory Auditor's observation | Company's Reply |
|---|---|---|
| f) | In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the significant accounting policies and notes thereon give the information required by the Companies Act , 1956 in the manner so required except | |
| I. | Attention is invited to the following | |
| i) | Note No. 2.1 regarding preparation of accompanying financial statements as 'on going' concern basis notwithstanding the fact that its networth is completely eroded. The Company has suffered recurring losses from operations and has net capital deficiency. The accumulated losses as at the close of 31st March 2012 is Rs. 177667.49 Lacs against which the paid up share capital is Rs. 649 Lacs. The Current Liabilities exceed the Current Assets. The Company has defaulted in payment of statutory dues. There has been substantial reduction in the manpower in the key functional areas. All these factors along with other operational difficulties raise substantial doubt about the Company's ability to continue as a Going Concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. In our opinion, the appropriateness of the said basis is critically dependent on the Company's ability to infuse requisite funds and generate cash surpluses from its operations for meeting its obligations. | The statutory dues are not due for more than six months. |
| ii) | Note No. 8.0 regarding balances carried under short term borrowings – from Holding Company also includes interest accrued and due. As per the requirements of Schedule VI (Revised) of the Companies Act, 1956, disclosure of interest accrued and due should have been shown distinctly under Other Current Liabilities. | This is the practice of the Holding Company and all the Subsidiary companies are following the same. |
| iii) | Note No. 9.1 regarding non-disclosure of dues relating to Micro, Small and Medium Enterprises. In the absence ascertaining the relevant details, the Company has not complied with the requirements of Micro, Small and Medium Enterprises Development Act, 2006. Impact of non-provision of interest for delayed payments, if any, beyond the prescribed period as per the provisions of the said Act cannot be ascertained and quantified. | The Company has made provision for this liability towards interest payable under MSMED Act, to the extent of confirmations received from vendors. |

| Sl. No. | Statutory Auditor's observation | Company's Reply |
|---|---|---|
| iv) | Note No. 12.1 regarding accounting of Fixed assets transferred from the Holding Company to the Subsidiary at the Gross values, Reserve for Depreciation and Net values as on 1.4.2000 in line with Para 10(J) and Annexure 13 of the Scheme of Arrangement approved by the Department of Company Affairs. Depreciation has been charged from the accounting year 2000-2001 and onwards on the original cost of the assets on straight line basis, keeping in view the estimated life of the asset. In our opinion Fixed Assets should have been recorded at the original cost to Company instead of at Historical cost to HMT Limited, the Holding Company from whom such assets were transferred to the Company under the scheme of transfer and the consequent overstatement of gross block of Fixed by Rs. 32.21 Crores. Also, depreciation having been charged on fixed assets at historical cost to HMT Limited and such excess not having been quantified and the consequent effect on losses and understatement of net block of fixed assets not ascertainable. | |
| v) | Note No. 12.2 regarding inclusion of immovable properties in gross block of the fixed assets, vested under the Scheme of Arrangement approved by Government of India and non-carrying of the mutation of title deeds in the revenue records to that effect. In the absence carrying out mutation of title deeds in the revenue records, the title to the immovable properties could not be ensured. | |
| vi) | Note No. 12.5 regarding non identification of equivalent value of land sold and transferred during 2003-04 based on a MOU entered into between HMT Ltd and the Company. Certain lands were sold and the profit on sale of such lands amounting to Rs.1421 lacs were accounted in books of account of HMT Limited, holding company and equivalent value of the land has not yet been identified and transferred to the company. The impact on losses of the Company and the value of land - fixed assets not ascertainable. | Necessary disclosure has been made under item 12.5 of Fixed Assets schedule. |
| vii) | Note No. 15.1 regarding Provision for Doubtful Trade Receivables of Rs.4605.54 Lacs (previous year Rs.4608.40 Lacs) which is inclusive of sundry creditors for discount amounting to Rs.422.40 Lacs (previous year Rs.422.40 Lacs) and Isolation Watches Rs.366.56 Lacs (previous year Rs.366.56 | The adjustments will be made at the time of final settlement by the parties. |

| Sl. No. | Statutory Auditor's observation | Company's Reply |
|---|---|---|
| | Lacs). The Company has not obtained confirmation of balances or carried out reconciliation of trade receivables and trade payables and in the absence of the same, the impact on losses and trade receivables and trade liabilities not ascertainable. | |
| viii) | Note No. 19.0 disclosing Contingent Liabilities and Commitments to the extent not provided for in the accounts aggregating Rs. 6118.97 lacs. Company has neither ascertained nor provided for further liabilities if any, towards interest, penal interest and / or damages in respect of these contingent liabilities. | The penalty/damages for delayed remittances have not been provided as there was no demand from the concerned authorities in this regard. |
| ix) | Note No. 19.1 regarding pendency of sales tax assessments since 2008-09 and liability, if any, not provided for in the accounts. The impact of the same on the financial statements is not ascertainable. | Provision if necessary will be made based on the assessment orders / demands if any, from the concerned Sales Tax authorities. |
| x) | Note No.19.2 regarding pendency of Income Tax Assessments and non ascertainment of liability, if any. The impact of the same on the financial statements is not ascertainable. | Provision if necessary will be made based on the assessment orders / demands if any, from the Income Tax authorities. |
| xi) | Note No. 19.3 in respect of suits filed by 36 Employees (Previous year 28 employees) for the reinstatement against the company and non ascertainment of liabilities thereon. The impact of the same on the financial statements is not ascertainable. | Based on verdict of the court, the liabilities will be assessed and accounted. |
| xii) | Note No. 19.5 regarding non ascertainment of Liability, if any, relating to sale of land by the company to Canara Bank and subsequent claim by third party vide Miscellaneous Petition No. 621/ 622, pending adjudication. The impact of the same on the financial statements is not ascertainable. | |
| xiii) | Note No. 19.7 regarding accounting of Advances received against sale of land (including building) amounting to Rs.889.62 lacs under Other Current Liabilities. The value of land (including building) has been included in the respective head under fixed assets though there are no future economic benefits flowing to the Company. Also, the Company has executed an Agreement to Sell and possession of land (including Building) given to the Purchaser, the transaction has not been recognized as sale pending approval from the concerned authorities for the execution of sale deed. In our opinion, the | The sale consideration of Rs.890 lakhs received from Raman Research Institute, Bangalore, a Govt. of India sponsored body, will be regularized upon handing over of possession and registration of sale deed. |

| Sl. No. | Statutory Auditor's observation | Company's Reply |
|---|---|---|
| | accounting treatment and presentation in financial statements of a transaction should have been governed by their substance and not merely by the legal form. This accounting treatment is not in accordance with Accounting Standards 9, AS 10 read with AS 1 issued by the ICAI. The consequential impact on the losses, depreciation and taxes are not ascertained. | |
| xiv) | Note No. 22.1 regarding raw material consumption in Watch Factory, Bangalore Division physical verification of raw materials was not conducted. Also raw material consumption is not commensurate with the production during the year as compared to the corresponding previous year. We do not express an independent opinion on the value of Raw Material consumed and inventory of Raw Materials and consumables as at Balance Sheet Date. | The unit has sold raw materials to our other units / subsidiaries. Therefore, the consumption of raw materials is not in proportionate with the production. |
| xv) | Note 26.0 regarding depreciation. In Watch Marketing Division, the Company has depreciated Leasehold land by applying SLM rates of depreciation as applicable to building instead of amortizing the value of leasehold land over the period of lease. The impact of the same on the Net Loss of the Company and also carrying cost of tangible assets is not ascertained. This is contrary to AS 06 prescribed by ICAI. | This is the practice followed by the company since many years. The necessary changes will be made in 2012-13 accounts. |
| xvi) | Note No. 29.0 regarding VRS Compensation of Rs. 2628.57 Lacs which includes gratuity, Earned Leave and settlement allowances paid to employees during the year. As required by Revised Schedule VI, the gratuity, earned leave and settlement allowances should have been included under Employee Benefits Expenses and accordingly should have been included in Note No. 24.0. | The entire amount of VRS compensation, gratuity, earned leave encashment & settlement allowance is claimed from GOI. Therefore, the same is accounted under VRS expenditure. |
| xvii) | Note No. 35.0 regarding non-obtention of confirmation of balances relating to balances under other long term liabilities, trade payables, advance received against sales, other liabilities, long term loans and advances (Non-current Assets), trade receivables and short term loans and advances (Current Assets). These balances as on Balance Sheet date are subject to reconciliation. Show room's bank balance confirmation as at the close of the year have not been received in Watch Marketing Division except Coimbatore, Kolkatta and New Delhi showrooms. Bank reconciliation statements in | We have written to all the concerned partiers & Banks to confirm the balances. However, bank statements are available at respective showrooms which are already audited by external chartered accountant firms and audit report submitted. |

| Sl. No. | Statutory Auditor's observation | Company's Reply |
|---|---|---|
| | respect of show room bank balances in Watch Marketing Division were not made available. In the absence of obtention of confirmation of said balances, pending reconciliation, the impact of difference if any on financial statements of the company is not ascertainable. | |
| xviii) | Note No. 36.0 regarding non refund of Rs.100 Lacs to GOI out of Rs.200 Lacs Plan Assistance received during March 2007 for meeting capital expenditure. | Necessary action is being taken. Further instruction from GOI is awaited. |
| xix) | Note No. 39.0 regarding inclusion of Rs.17.73 Lacs continuously over years in other liabilities relating to unspecified / excess credit in bank account pending reconciliation. The impact if any on financial statements of the company is not ascertainable. | We have requested the bank to furnish necessary details, which is awaited. |
| xx) | Note No. 42.4 regarding calculation of depreciation on plant & machinery on double shift basis although none of the manufacturing divisions have worked in double shift which is not in accordance with Para 6, under Notes to Schedule XIV of the Companies Act, 1956 and AS 06 prescribed by ICAI. | The Units are working on double shifts on need based basis. |
| II. | Gross block value of fixed assets as on 01.04.2011 in Watch Marketing Division, Bangalore is Rs.5,10,53,289 as against Rs.3,21,45,198 as per Fixed Asset Register. The difference of Rs.1,89,08,091 has not been reconciled. In the absence of reconciliation, net effect of the same on the financial results of the Company is not ascertainable. | The gross block of WMD is Rs.5,10,53,289/- which is considered in the depreciation schedule. However, after considering the fully depreciated amount, Rs.3,21,45,198/- is considered for calculating depreciation amount for the year. |
| III. | Depreciation on additions to fixed assets has been computed for the full year instead of computing the depreciation on prorata. This has resulted in overstatement of depreciation charged for the year and consequential overstatement of Loss for the year to that extent. Net effect of the same on the financial result of the company is not ascertainable. | Noted and necessary action will be taken during the year 2012-13. |
| IV. | PF Trust Loss for the year amounting to Rs.70.80 Lacs includes Rs.27.31 Lacs in respect of Watch Marketing Division, Bangalore. The PF Trust loss relating to Watch Marketing Division as intimated by HMTL Corporate Office and Divisions Provident Fund is Rs.11.99 Lacs. This has resulted in overstatement of PF Loss of the company by Rs.15.32 Lacs and corresponding over statement of Net Loss for the year and Reserves and Surplus to that extent. | Necessary entries will be passed during the current FY 2012-13. |

| Sl. No. | Statutory Auditor's observation | Company's Reply |
|---|---|---|
| V. | The Company has valued its components and finished goods at NRV being the lower of cost and NRV. In respect of stock of watches and components at Show Room, the valuation include Excise Duty element of Rs. 76.54 Lacs. In our opinion, such valuation is contrary to the Accounting Policy and as such the inventories are over valued and losses are understated to the extent of Excise duty on such inventories. | The net realization is calculated without considering the excise duty & sales tax. |
| VI. | We were unable to obtain direct confirmation of balances from Trade Receivables, Trade Payables, Loans and Advances due to restrictions placed by the Management as many of the trade receivables, trade payables, etc., are state to be due to litigations/process of negotiation. Also, the Management has not obtained confirmation of balances. | We have written to all the concerned partiers & Banks to confirm the balances. However, bank statements are available at respective showrooms which are already audited by external chartered accountant firms and audit report submitted. |
| VII. | The company does not have a qualified Company Secretary as required under the provisions of Section 2(45) and 383(A) of the Companies Act, 1956 | The Company has not been able to attract suitable candidates to the post of Company Secretary and further efforts are being made in this regard. |
| VIII. | Company has not constituted an Audit committee as required under the provisions of Section 292 A of the Companies Act, 1956 | In the absence of the full complement of Directors especially non whole-time /Independent Directors, the Audit Committee of the Board could not be properly constituted. The matter has been taken up with the Government for appointment of Directors on the Board for ensuring necessary compliance in this regard. |
| IX. | In one of the Divisions of the Company provision towards obsolescence on inventories lying for more than five years has been made. The provision for obsolescence towards inventory which have not moved for more than five years as reported by the Division is about Rs. 883.39 Lacs. For the year provision amounting to Rs. 130.84 lacs has been written back and is included in other income. In the absence of details of slow moving, non-moving and regular component, we do not express an independent opinion on the correctness of provision for slow and non moving inventory items. | The inventories are used during 2011-12 for the materials already in provision. |
| X. | Inventories include Watch Components valued at Rs. 343.30 Lacs taken into custody in the earlier years by the Customs Authorities, on which an additional duty redemption fine and penalty of Rs. 150.00 Lacs is levied. The Company had filed an | The appeal is pending before the CEGAT. Necessary action will be taken after the decision is taken by CEGAT on our appeal. |

| Sl. No. | Statutory Auditor's observation | Company's Reply |
|---|---|---|
| | appeal before the Central Excise and Gold Appellate Tribunal (CEGAT) which has been returned to Central Excise Commissioner for fresh hearing. No provision has been made towards the redemption fine and penalty of Rs. 150.00 Lacs, but treated as Contingent Liability. Consequently, the losses and Current Liabilities are understated to that extent. | |
| XI. | The impact of the following qualifications on financial statement is not quantifiable :- | |
| a) | Other liabilities include a sum of Rs.39.73 Lacs representing Suspense Account Outward Bills Section and Rs.1.11 Lacs representing Suspense Account Bills. Individual details of such credits are not ascertainable. They are subject to reconciliation. | Noted. Efforts will be made to reconcile these accounts. |
| b) | Short Term Loans and Advances – Advance recoverable in cash or in kind includes a sum of Rs.11.28 Lacs being Suspense Account – Outward Bills Section (Debit balance). Individual details of such debits are not ascertainable. They are subject to reconciliation. | Noted. Efforts will be made to reconcile these accounts. |
| c) | The Company has neither assessed nor provided for interest and penal damages payable due to delay in remittance of statutory dues like sales tax, provident fund etc. | The penalty/damages for delayed remittances have not been provided as there was no demand from the concerned authorities in this regard. |
| d) | Liability towards arrears of wages/pay/dearness allowances, etc., due to employees pursuant to a revision of pay scale with effect from 1st January 1997 not having been determined. | As no negotiations have commenced for revision in the wages/pay etc., the dues have not been determined. |
| e) i) | The valuation inventories is not in accordance with the AS 2-Valuation of Inventories, as overheads have been recovered on the basis actual production instead of normal capacity. | The valuation of Work-in-Progress has all along been done on cost basis, which is invariably lower than that of the Net Realisable Value. |
| ii) | The Company values its work-in-progress at cost and the Finished Goods is valued at NRV. In our opinion, work in progress should have been valued on the basis of percentage of completion basis taking into consideration the NRV of finished goods. | As per AS-2 (Revised) the actual capacity utilisation is to be compared with the normal capacity which is defined as production expected to be achieved on an average over a number of periods or seasons under normal circumstances. The Unit has not achieved the installed capacity during the last 10-11 years. Hence, the method of computation by adopting planned production for the year 2011-12 V/s Actual production achieved during the year is in order. A similar practice was followed during earlier years. |

| Sl. No. | Statutory Auditor's observation | Company's Reply |
|---|---|---|
| iii) | The Company has made provision towards obsolescence considering the accretion to the Work-in-progress instead of considering the accretion to the Work-in-progress over a period of time and due to technological changes. Work in Progress is valued at Cost instead of lower of Cost and NRV. | |
| f) | The accounting of the following are as per Holding company's (HMT Limited) directions which are not verified by us:<br>§ Leave encashment provisions<br>§ Gratuity provisions<br>§ Settlement allowance<br>§ Interest on loan from Holding company<br>§ Interest subsidy on loan from Holding company<br>give a true and fair view in conformity with accounting principles generally accepted in India: | This is as per the Holding Company's guidelines. |
| i) | In the case of the Balance Sheet, of the State of Affairs of the Company as at 31st March, 2012 ; | |
| ii) | In the case of the Statement of Profit and Loss, of the LOSS of the company for the year ended on that date; and | |
| iii) | In the case of the Cash Flow Statement, of the cash flows of the company for the year ended on that date. | |

For and on behalf of the Board of Directors,

**(S.G. Sridhar)**
*Chairman*

Place : Bangalore

## CORPORATE GOVERNANCE

In compliance with the Guidelines on Corporate Governance for Central Public Enterprises, framed by the Department of public Enterprises, GOI, as applicable to Government Companies and as per the applicable provisions of the Companies Act 1956, your Company hereby submit the report on Corporate Governance. The Company is committed to maintain the highest standards of Corporate Governance and initiated appropriate action for compliance of the Guidelines on Corporate Governance.

### Board of Directors

As on March 31, 2012, the Board of Directors comprised of Non Executive Chairman, Managing Director and one part-time Official Director. Currently the position of 2 part-time Non Official (Independent) Directors are vacant.

The day-to-day Management of the Company is conducted by the Managing Director under the supervision and control of the Chairman and Board of Directors.

During the year 2011-12, Four (4) Board Meetings were held on June 29, Sept. 17, Dec. 26, in the calendar year 2011 and on Mar. 29 in the calendar year 2012.

The compositions of Directors and their attendance at the Board Meetings and at other Meetings during the year are:

| Name | Category | Attendance particulars | | No. of other Directorships and Committee Member /Chairmanship held | | |
|---|---|---|---|---|---|---|
| | | Board Meetings | General Meeting | Directorship | Committee | |
| | | | | | Membership | Chairmanship |
| S.G. Sridhar | NENI | 4 | Yes | 7 | - | - |
| S. Paulraj | ENI | 4 | Yes | 2 | - | - |
| Dr. G. Venkatesh | NENI | 3 | - | 1 | - | - |

**C:** Chairman & Managing Director, **ENI:** Executive & Non Independent, **NENI:** Non Executive & Non Independent, **NEI:** Non Executive & Independent, **NA:** Not Applicable

### Brief Resume of Directors appointed during the year 2011-12

**Shri S G Sridhar is the Chairman and Managing Director of HMT Limited.** He was Director (Operations) of HMT Limited prior to his posting as the Chairman & Managing Director.

Shri S.G. Sridhar, a Mechanical Engineering Graduate with MBA in Marketing, joined HMT as an Engineer Trainee in 1977 after a brief stint at Kirloskar Electric Ltd. He also has completed specialized Marketing Management Course from IIM, Ahmedabad.

He has rich experience in Manufacturing, Sales & Marketing Management, Business Planning and Development as well as in the development of Corporate Strategies, Business Alliances and formation of Joint Ventures. He has held several functional responsibilities and rose to the level of General Manager heading the Machine Tool manufacturing Units at Bangalore and Pinjore. Just before taking over as CEO of the Company, he held the post of Director, Operations, responsible for overall business operations of the Company including strategic planning, implementation, management, supervision and evaluation of all the subsidiary companies operations as well as functional control over all the activities of Corporate Planning & Implementation, Strategic Alliance and Joint Ventures, Projects and Technology, Marketing policy, Systems and MIS. He has also served in HLL Life care Limited as General Manager (Marketing).

Shri Sridhar has attended number of Advanced Management Programs in the areas of Marketing and General Management in various institutes of repute in India and abroad. He has widely travelled on business to USA, Europe and South Asia.

Dr. G. Venkatesh, has been appointed as Director of HMT Watches Ltd., a wholly owned subsidiary of Govt. of India Public Sector Undertaking HMT Limited, during July, 2011. He is working as Deputy Secretary, in the Department of Heavy Industry.

## Committees of the Board

The Audit Committee of the Company has to be reconstituted and the Remuneration Committee of the Company to be constituted after the induction of the Independent directors on the Board of the Company by the Government. The Company has requested to the Administrative Ministry for the same.

## Remuneration of Directors

An amount of Rs.1,500/- is payable only to independent Directors for attending each meetings of the Board and Committees.

## General Body Meetings

The last three Annual General Meetings of the Company were held as under:

| Financial year | Date | Time | Venue |
|---|---|---|---|
| 2008-09 | 17.08.2009 | 11.00 A.M | Registered Office of HMT LTD. |
| 2009-10 | 07.09.2010 | 11.30 A.M | ———do——— |
| 2010-11 | 17.09.2011 | 11.00 A.M | ———do——— |

## Special Resolution if any

Annual General Meeting for the current year is scheduled to be held in the month of September 2012 at the Registered Office of the Company.

## Disclosures

There were no transactions of material nature with its Promoters, the Directors or the Management or their relatives which may have the potential conflict with the interest of the Company at large.

There are outstanding Statutory Dues payables by some of the units of the Company which have approached / are approaching the Provident Fund Authorities for settlement in monthly installments.

There were no other instances of non-compliance by the Company, penalties, strictures imposed on the Company by statutory authority, or any matter related to any guidelines issued by Government, during the last three years.

The Company has not established a whistle Blower Policy for the employees.

## Means of Communication

Being a wholly owned subsidiary, Company submits financial results periodically to M/s. HMT Limited, the Holding Company. Annual results are also updated on the Company's website www.hmtindia.com.

* * *

## Auditors' Report

**To the Members of HMT Watches Ltd.,**
**Bangalore**

1. We have audited the attached Balance Sheet of HMT Watches Limited ("the Company") as at March 31, 2012 and the Statement of Profit and Loss and the Cash Flow Statement of the Company for the year ended on that date annexed thereto, in which are incorporated the audited financial statements of Watch Marketing Division and Watch Directorate audited by us and audited financial statements of Watch Factories at Bangalore, Tumkur, Ranibagh and Specialized Watch Case Division, audited by other Branch Auditors appointed by the Comptroller & Auditor General of India under Section 619(2) of the Companies Act, 1956. 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 whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The procedures selected depend on auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As required by the Companies (Auditors' Report) Order, 2003 ('the Order'), issued by the Central Government of India in terms of sub section (4A) of Section 227 of the Companies Act, 1956 and on the basis of such checks of the books and records of the Company as we considered appropriate and according to the information and explanations given to us, we enclose in the Annexure a statement on the matters specified in paragraph 4 and 5 of the Order.

4. The reports on the Financial Statements of the Divisions/Units of the Company audited by the Branch Auditors appointed under sub section (2) of Section 619 of the Companies Act, 1956, have been considered by us in preparing our report and adjustment in the Financial Statements of the Divisions/Units have been made to the extent necessary on the basis of information made available to us.

5. Further to our comments in the Annexure referred to in paragraph 3 above, we report that :

   a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

   b) In our opinion, proper books of accounts, as required by law, have been kept by the Company so far as appears from our examination of those books ;

   c) The Balance Sheet, Statement of Profit and Loss and the Cash Flow Statement dealt with by this report are in agreement with the books of account;

d) In our opinion, the Balance Sheet, Statement of Profit and Loss and the Cash Flow Statement dealt with by this report are in compliance with the Accounting Standards (AS) referred to in sub section (3C) of Section 211 of the Companies Act, 1956, to the extent applicable, except in the following cases:

**AS 01 Disclosure of Accounting Policies**

**The accounts having been drawn as 'on going' concern basis despite substantial operation losses continually being incurred and company's operations are negligible compared to its installed capacity of working as detailed in Para (f) (I) (i) below**:

**AS 02 Valuation of Inventories**

**Valuation of inventories not being in accordance with the AS 02 on valuatio of inventories with regard to**

(i) **Valuation of components of finished goods as detailed in paragraph (f) (V) below ;**

(ii) **Recovery of overheads on the basis of actual production instead of normal capacity as detailed in Paragraph (f) (XI) (e) (i) below.**

(iii) **Valuation of work in progress as detailed in Paragraph (f) (XI) (e) (ii) and (iii) below;**

**AS 06 Depreciation Accounting**

- **Depreciation has been charged from the accounting year 2000-2001 and onwards on the original cost of the assets on straight line basis, keeping in view the estimated life of the asset in respect of Fixed assets transferred from the Holding Company to the Subsidiary at the Gross values, Reserve for Depreciation and Net values as on 1.4.2000 as detailed in Paragraph (f) (I) (iv) below**.
- **Charging of depreciation on Plant and Machinery on double shift basis although none of the Manufacturing Divisions have worked in double shift as detailed in Para (f) (I) (xx) below;**
- **The Company has not complied with the requirements of charging depreciation on additions to fixed assets during the year on prorata basis as detailed in Paragraph (f) (III) below.**
- **The Company has not complied with the requirements of amortizing the value of lease hold land over the period of lease as detailed in Para f (I) (xv) below.**

**AS 09 Revenue Recognition**

**Though the Company has executed an Agreement to Sell and possession of land (including Building) given to the Purchaser, the transaction has not been recognized as sale pending approval from the concerned authorities for the execution of sale deed as detailed below in Para (f) (I) (xiii) below.**

**AS 10 – Accounting for Fixed Assets**

**• Fixed assets not having been recorded at the original cost to the HMT Watches Limited but at historical cost to HMT Limited, the holding company, from whom such assets were transferred to the company under the scheme of transfer effective from 01st April 2000 as detailed in Para (f) (I) (iv) below.**

**• Inclusion of the cost of land (including building) in the gross block of fixed assets in so far as it is related to land (including building) for which the company has executed an agreement and possession**

**thereof given to the purchaser as detailed in Para (f) (I) (xiii) below.**

**AS 28 Impairment of Assets**

**The Company has not identified, measured, quantified and disclosed the impairment of assets and its impact in the current financial statement in line with the Accounting Standard 28.**

e) In our opinion, based on the Notification No. GSR 829(E) dt. 21.10.2003 issued by the Department of Company Affairs, Govt. of India, the requirements under clause (g) of subsection (1) of Section 274 of the Companies Act, 1956 does not apply to the Company, being a Government Company.

f) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the significant accounting policies and notes thereon give the information required by the Companies Act , 1956 in the manner so required except

**I. Attention is invited to the following**

**i) Note No. 2.1 regarding preparation of accompanying financial statements as 'on going' concern basis notwithstanding the fact that its networth is completely eroded. The Company has suffered recurring losses from operations and has net capital deficiency. The accumulated losses as at the close of 31st March 2012 is `. 177667.49 Lacs against which the paid up share capital is Rs. 649 Lacs. The Current Liabilities exceed the Current Assets. The Company has defaulted in payment of statutory dues. There has been substantial reduction in the manpower in the key functional areas. All these factors along with other operational difficulties raise substantial doubt about the Company's ability to continue as a Going Concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. In our opinion, the appropriateness of the said basis is critically dependent on the Company's ability to infuse requisite funds and generate cash surpluses from its operations for meeting its obligations.**

**ii) Note No. 8.0 regarding balances carried under short term borrowings from Holding Company also includes interest accrued and due. As per the requirements of Schedule VI (Revised) of the Companies Act, 1956, disclosure of interest accrued and due should have been shown distinctly under Other Current Liabilities.**

**iii) Note No. 9.1 regarding non disclosure of dues relating to Micro, Small and Medium Enterprises. In the absence ascertaining the relevant details, the Company has not complied with the requirements of Micro, Small and Medium Enterprises Development Act, 2006. Impact of non provision of interest for delayed payments, if any, beyond the prescribed period as per the provisions of the said Act cannot be ascertained and quantified.**

**iv) Note No. 12.1 regarding accounting of Fixed assets transferred from the Holding Company to the Subsidiary at the Gross values, Reserve for Depreciation and Net values as on 1.4.2000 in line with Para 10(J) and Annexure 13 of the Scheme of Arrangement approved by the Department of Company Affairs. Depreciation has been charged from the accounting year 2000-2001 and onwards on the original cost of the assets on straight line basis, keeping in view the estimated life of the asset. In our opinion Fixed Assets should have been**

recorded at the original cost to Company instead of at Historical cost to HMT Limited, the Holding Company from whom such assets were transferred to the Company under the scheme of transfer and the consequent overstatement of gross block of Fixed by ` 32.21 Crores. Also, depreciation having been charged on fixed assets at historical cost to HMT Limited and such excess not having been quantified and the consequent effect on losses and understatement of net block of fixed assets not ascertainable.

v) Note No. 12.2 regarding inclusion of immovable properties in gross block of the fixed assets, vested under the Scheme of Arrangement approved by Government of India and non carrying of the mutation of title deeds in the revenue records to that effect. In the absence carrying out mutation of title deeds in the revenue records, the title to the immovable properties could not be ensured.

vi) Note No. 12.5 regarding non identification of equivalent value of land sold and transferred during 2003-04 based on a MOU entered into between HMT Ltd and the Company. Certain lands were sold and the profit on sale of such lands amounting to ` 1421 lacs were accounted in books of account of HMT Limited, holding company and equivalent value of the land has not yet been identified and transferred to the company. The impact on losses of the Company and the value of land-fixed assets not ascertainable.

vii) Note No. 15.1 regarding Provision for Doubtful Trade Receivables of ` 4605.54 Lacs (previous year ` 4608.40 Lacs) which is inclusive of sundry creditors for discount amounting to ` 422.40 Lacs (previous year ` 422.40 Lacs) and Isolation Watches ` 366.56 Lacs (previous year ` 366.56 Lacs). The Company has not obtained confirmation of balances or carried out reconciliation of trade receivables and trade payables and in the absence of the same, the impact on losses and trade receivables and trade liabilities not ascertainable.

viii) Note No. 19.0 disclosing Contingent Liabilities and Commitments to the extent not provided for in the accounts aggregating ` 6118.97 lacs. Company has neither ascertained nor provided for further liabilities if any, towards interest, penal interest and / or damages in respect of these contingent liabilities.

ix) Note No. 19.1 regarding pendency of sales tax assessments since 2008 09 and liability, if any, not provided for in the accounts. The impact of the same on the financial statements is not ascertainable.

x) Note No.19.2 regarding pendency of Income Tax Assessments and non ascertainment of liability, if any. The impact of the same on the financial statements is not ascertainable.

xi) Note No. 19.3 in respect of suits filed by 36 Employees (Previous year 28 employees) for the reinstatement against the company and non ascertainment of liabilities thereon. The impact of the same on the financial statements is not ascertainable.

xii) Note No. 19.5 regarding non ascertainment of Liability, if any, relating to sale of land by the company to Canara Bank and subsequent claim by third party vide Miscellaneous Petition No. 621/622, pending adjudication. The impact of the same on the financial statements is not ascertainable.

xiii) Note No. 19.7 regarding accounting of Advances received against sale of land (including building) amounting to ` 889.62

lacs under Other Current Liabilities. The value of land (including building) has been included in the respective head under fixed assets though there are no future economic benefits flowing to the Company. Also, the Company has executed an Agreement to Sell and possession of land (including Building) given to the Purchaser, the transaction has not been recognized as sale pending approval from the concerned authorities for the execution of sale deed. In our opinion, the accounting treatment and presentation in financial statements of a transaction should have been governed by their substance and not merely by the legal form. This accounting treatment is not in accordance with Accounting Standards 9, AS 10 read with AS 1 issued by the ICAI. The consequential impact on the losses, depreciation and taxes are not ascertained.

xiv) Note No. 22.1 regarding raw material consumption in Watch Factory, Bangalore Division physical verification of raw materials was not conducted. Also raw material consumption is not commensurate with the production during the year as compared to the corresponding previous year. We do not express an independent opinion on the value of Raw Material consumed and inventory of Raw Materials and consumables as at Balance Sheet Date.

xv) Note 26.0 regarding depreciation. In Watch Marketing Division, the Company has depreciated Leasehold land by applying SLM rates of depreciation as applicable to building instead of amortizing the value of leasehold land over the period of lease. The impact of the same on the Net Loss of the Company and also carrying cost of tangible assets is not ascertained. This is contrary to AS 06 prescribed by ICAI.

xvi) Note No.29.0 regarding VRS Compensation of ` 2628.57 Lacs which includes gratuity, Earned Leave and settlement allowances paid to employees during the year. As required by Revised Schedule VI, the gratuity, earned leave and settlement allowances should have been included under Employee Benefits Expenses and accordingly should have been included in Note No. 24.0.

xvii) Note No. 35.0 regarding non obtention of confirmation of balances relating to balances under other long term liabilities, trade payables, advance received against sales, other liabilities, long term loans and advances (Non current Assets), trade receivables and short term loans and advances (Current Assets). These balances as on Balance Sheet date are subject to reconciliation. Show room's bank balance confirmation as at the close of the year have not been received in Watch Marketing Division except Coimbatore, Kolkatta and New Delhi showrooms. Bank reconciliation statements in respect of show room bank balances in Watch Marketing Division were not made available. In the absence of obtention of confirmation of said balances, pending reconciliation, the impact of difference if any on financial statements of the company is not ascertainable.

xviii) Note No. 36.0 regarding non refund of ` 100 Lacs to GOI out of ` 200 Lacs Plan Assistance received during March 2007 for meeting capital expenditure.

xix) Note No. 39.0 regarding inclusion of ` 17.73 Lacs continuously over years in other liabilities relating to unspecified / excess credit in bank account pending reconciliation. The impact if any on financial statements of the company is not ascertainable.

xx) Note No. 42.4 regarding calculation of depreciation on plant & machinery on double shift basis although none of the manufacturing divisions have worked in double shift which is not in accordance with Para 6, under Notes to Schedule XIV of the Companies Act, 1956 and AS 06 prescribed by ICAI.

II. Gross block value of fixed assets as on 01.04.2011 in Watch Marketing Division, Bangalore is ` 5,10,53,289 as against ` 3,21,45,198 as per Fixed Asset Register. The difference of ` 1,89,08,091 has not been reconciled. In the absence of reconciliation, net effect of the same on the financial results of the Company is not ascertainable.

III. Depreciation on additions to fixed assets has been computed for the full year instead of computing the depreciation on prorata. This has resulted in overstatement of depreciation charged for the year and consequential overstatement of Loss for the year to that extent. Net effect of the same on the financial result of the company is not ascertainable.

IV. PF Trust Loss for the year amounting to ` 70.80 Lacs includes ` 27.31 Lacs in respect of Watch Marketing Division, Bangalore. The PF Trust loss relating to Watch Marketing Division as intimated by HMTL Corporate Office and Divisions Provident Fund is ` 11.99 Lacs. This has resulted in overstatement of PF Loss of the company by ` 15.32 Lacs and corresponding over statement of Net Loss for the year and Reserves and Surplus to that extent.

V. The Company has valued its components and finished goods at NRV being the lower of cost and NRV. In respect of stock of watches and components at Show Room, the valuation include Excise Duty element of ` 76.54 Lacs. In our opinion, such valuation is contrary to the Accounting Policy and as such the inventories are over valued and losses are understated to the extent of Excise duty on such inventories.

VI. We were unable to obtain direct confirmation of balances from Trade Receivables, Trade Payables, Loans and Advances due to restrictions placed by the Management as many of the trade receivables, trade payables, etc., are state to be due to litigations/process of negotiation. Also, the Management has not obtained confirmation of balances.

VII. The company does not have a qualified Company Secretary as required under the provisions of Section 2(45) and 383(A) of the Companies Act, 1956

VIII. Company has not constituted an Audit committee as required under the provisions of Section 292 A of the Companies Act, 1956

IX. In one of the Divisions of the Company provision towards obsolescence on inventories lying for more than five years has been made. The provision for obsolescence towards inventory which have not moved for more than five years as reported by the Division is about ` 883.39 Lacs. For the year provision amounting to ` 130.84 lacs has been written back and is included in other income. In the absence of details of slow moving, non moving and regular component, we do not express an independent opinion on the correctness of provision for slow and non moving inventory items.

X. Inventories include Watch Components valued at ` 343.30 Lacs taken into custody in

**the earlier years by the Customs Authorities, on which an additional duty redemption fine and penalty of ` 150.00 Lacs is levied. The Company had filed an appeal before the Central Excise and Gold Appellate Tribunal (CEGAT) which has been returned to Central Excise Commissioner for fresh hearing. No provision has been made towards the redemption fine and penalty of ` 150.00 Lacs, but treated as Contingent Liability. Consequently, the losses and Current Liabilities are understated to that extent.**

**XI. The impact of the following qualifications on financial statement is not quantifiable :**

**(a) Other liabilities include a sum of ` 39.73 Lacs representing Suspense Account Outward Bills Section and ` 1.11 Lacs representing Suspense Account Bills. Individual details of such credits are not ascertainable. They are subject to reconciliation.**

**(b) Short Term Loans and Advances – Advance recoverable in cash or in kind includes a sum of ` 11.28 Lacs being Suspense Account – Outward Bills Section (Debit balance). Individual details of such debits are not ascertainable. They are subject to reconciliation.**

**(c) The Company has neither assessed nor provided for interest and penal damages payable due to delay in remittance of statutory dues like sales tax, provident fund etc.**

**(d) Liability towards arrears of wages/pay/dearness allowances, etc., due to employees pursuant to a revision of pay scale with effect from 1st January 1997 not having been determined.**

**(e) (i) The valuation inventories is not in accordance with the AS 2 Valuation of Inventories, as overheads have been recovered on the basis actual production instead of normal capacity.**

**(ii) The Company values its work in progress at cost and the Finished Goods is valued at NRV. In our opinion, work in progress should have been valued on the basis of percentage of completion basis taking into consideration the NRV of finished goods.**

**(iii) The Company has made provision towards obsolescence considering the accretion to the Work in progress instead of considering the accretion to the Work in progress over a period of time and due to technological changes. Work in Progress is valued at Cost instead of lower of Cost and NRV.**

**(f) The accounting of the following are as per Holding company's (HMT Limited) directions which are not verified by us:**

- **Leave encashment provisions**
- **Gratuity provisions**
- **Settlement allowance**
- **Interest on loan from Holding company**
- **Interest subsidy on loan from Holding**
- **company**

give a true and fair view in conformity with 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, 2012 ;

ii) In the case of the Statement of Profit and Loss, of the **LOSS** of the company for the year ended on that date; and

iii) In the case of the Cash Flow Statement, of the cash flows of the company for the year ended on that date

**for** P.N.R & Co.,
**Chartered Accountants,**
( Firm Registration No.002495S)

**P.N. Rajashekar)**
**Partner**
Membership No.022647

Place : Bangalore
Date : 05.07.2012

# Annexure to the Auditors' Report

(Referred in paragraph 3 of our report of even date)

1. In respect of its Fixed Assets

   a. The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets except in one of the Divisions wherein **the Fixed Asset Register maintained has not been updated and does not give the situation of fixed assets.**

   b. According to information and explanation given to us, the management has a program for physical verification of fixed assets once in three years and fixed assets were physically verified except in **one of the Divisions, no physical verification of fixed assets was carried out and in the absence of such physical verification, we are unable to comment on material discrepancies if any and its treatment in the books of account**.

   c. The fixed assets disposed off during the year, in our opinion do not constitute a substantial part of the fixed assets of the Company and such disposal in our opinion has not affected the going concern status of the Company.

2. In respect of its Inventories

   a. As explained to us and on the basis of records made available to us:

      **i)** The management has carried out physical verification of inventory at reasonable intervals **except in one of the Divisions wherein the inventory of raw materials,consumables, stores, work in progress and finished Goods have not been physically verified. The Inventories with Customs Warehouses, Clearing and Shipping Agents and inventories lying with third parties were not physically verified.**

      **ii)** The procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the company and nature of its business **except in one of the divisions**.

      **iii)** The company has maintained proper records of inventories **except in one of the Divisions wherein proper records for stock in trade (Watches and Spares) were not maintained. Material discrepancies noticed if any have been properly dealt with in the books of account except as stated in para 2 (a)(i) above.**

3. The Company has neither granted nor taken any loans, secured or unsecured to companies, firm or other parties covered in the register maintained under Section 301 of the Act. The Company has taken unsecured loans from its Holding Company.

4. In our opinion, and according to the information and explanations given to us and having regard to the nature of transactions, there is an adequate internal control systems in respect of purchase of inventory and fixed assets and for sale of goods and services. During the course of our audit, we have not observed any continuing failure to correct major weaknesses in internal control system. **In our opinion, the internal control procedures needs strengthening in the areas of reconciliation of trade receivables, trade payables and advance received against sales.**

5. In our opinion and according to the information and explanations given to us, there were no transactions or arrangements the at need to be entered into the register maintained under Section 301 of the Companies Act, 1956

6. The Company has not accepted any deposits from the public and consequently the directives issued by Reserve Bank of India, provisions of Section 58A, 58AA or any other relevant provisions of the Companies Act, 1956 and rules framed there under are not applicable.

7. In our opinion, the Company has an internal audit system commensurate with the size and nature of its business **except in Watch Marketing Division wherein the existing internal audit system is not adequate considering the size and nature of its business and needs be strengthened.**

8. The Central Government has not prescribed the maintenance of cost records under section 209(1)(d) of the Companies Act, 1956.

9. According to the information and explanations given to us and the records of the Company examined by us in respect of statutory dues:

(a) The Company **has not been** regular in depositing **undisputed statutory dues** including Sales tax, Service tax, Professional Tax, Tax Deducted at source and Provident Fund with the appropriate authorities and there have been delays in a number of cases. The undisputed amounts payable in respect of aforesaid dues which are **outstanding for a period of more than six months** as on 31st March 2012 are as under;

| Sl | Name of the Statute | Nature of dues | Amount (`) | Period to which the amount relates | Date of payment |
|---|---|---|---|---|---|
| 1. | Karnataka Sales Tax Act | Sales Tax dues and Interest | 90.85 | 1998-99 | Not paid |
| 2. | The Jammu Kashmir | Sales tax dues | 0.069 | 1.4.2011 Balance as on | Not paid |
| 3. | The Punjab Sales Tax Act | Sales tax dues - Chandigarh Show Room | 5.34 | 1983.84 | Not paid |
| 4. | The Madhya Pradesh General Sales Tax Act, 1958 | Sales Tax dues - Bhopal Show Room | 8.09 | 1999-2000 | Not paid |
| 5. | The Assam General Sales Tax act 1995 | Sales Tax Dues - Guwahati Show Room | 2.54 | 2002-2003 2003-2004 | Not paid |
| 6. | Karnataka Professionals, Trades and Employments Act, 1976 | Professional Tax | 5.75 | Balance as on 1.4.2011 | Not paid |
| 7. | Employees Provident Fund and Misc. Provisions Act, 1952 | Company's contribution to PF | 2.76 | October 2011 | Not paid |
| | | Employees Contribution to PF | 2.24 | October 2011 | Not paid |
| | | Employees Contribution to VPF | 2.84 | October 2011 | Not paid |
| | | Dues to Provident Fund Trust | 252.00 | October 2011 to March 2012 | Not paid |
| | | Contributions to Pension Fund | 18.00 | October 2011 to March 2012 | Not paid |
| 8. | Income Tax Act, 1961 | Tax deducted at source | 58.95 | 1999-2004 | Not paid |
| 9. | Central Excise Act, 1944 | Interest on delayed payment of Excise Duty | 90.10 | 1999-2000 | Not paid |
| 10. | Entry Tax | Interest on Entry tax | 21.51 | 1994-95 | Not paid |

The liability towards default in remitting the same by way of interest, penal interest and damages has neither been ascertained and nor provided in the books of account.

(b) The disputed statutory dues that have not been deposited on account of matters pending before the appropriate authorities are as under :

| Sl | Name of the Statute | Nature of dues | Amount (` in lakhs) | Period to which the amount relates | Forum where the dispute is pending |
|---|---|---|---|---|---|
| 1. | Customs Act, 1962 | Customs Duty, redemption Fine & Penalty | 326.28 | 1990-91 | CEGAT, Karnataka |
| 2. | Central Excise Act, 1944 | Goods Seized | 150.00 | 1990-91 | CEGAT, Delhi |
| 3. | Property Tax | Property Tax & Penalty | 262.93 | 1995-96 to 2010-11 | Commissioner B.B.M.P |
| 4. | Employees Provident Fund and Misc. Provisions Act, 1952 | Interest under Sec. 7Q of PF Act | 258.00 | Nov 2001 to Feb 2009 | PF Tribunal New Delhi |
| | | Penal Interest for demages under Sec. 14B of the PF Act | 743.00 | Nov 2001 to Feb 2009 | Pf Tribunal New Delhi |

10. The Company has accumulated losses of ` 177667.49 Lacs as at the close of 31st March 2012, against which the paid up capital is ` 649 Lacs. The Company has also incurred Cash Losses during the current financial year as well as in the immediately preceding financial year. Company's accumulated losses as at the close of the year is in excess of net worth of the company.

11. In our opinion and according to the information and explanations given to us, the Company has not defaulted in the repayment of dues to banks, financial institutions and debenture holders. In respect of loans obtained by the Company from its Holding Company and from Government of India there is default in repayment of the loans.

12. Based on our examination of the records and the information and explanations given to us, 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. In our opinion, company is not a chit fund or a nidhi / mutual benefit fund / society. Accordingly, the provisions of Clause 4(xiii) (a) to (d) Companies (Auditors' Report) Order, 2003 (as amended) are not applicable to the company.

14. In our opinion, the company is not dealing or trading in shares, securities, debentures and other investments. Accordingly, the provisions of Clause 4(xiv) of the Companies (Auditors' Report) Order, 2003 (as amended) are not applicable.

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. Accordingly, the provisions of clause (xv) of Paragraph 4 of the Companies (Auditors' Report) Order, 2003 (as amended) are not applicable to the Company.

16. In our opinion and according to the information and explanations given to us, the term loans have been applied for the purposes for which they were obtained.

17. According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we are of the opinion that funds raised on short term basis have not been used for long term investment.

18. The Company has not made any preferential allotment of shares to companies/firms/parties covered in the register maintained under Section 301 of the Companies Act, 1956.

19. The Company has not raised any debenture during the year.

20. The Company has not raised any money by public issues during the year.

21. Based upon the audit procedures performed for the purpose of reporting the true and fair view of the financial statements and as per the information and explanations given by the management, we report that no fraud on or by the company has been noticed or reported during the year.

for **P.N.R & Co.,**
**Chartered Accountants,**
Firm Registration No.002495S

Date : 05.07.2012
Place : Bangalore

**(P.N. Rajashekar)**
**Partner**
Membership No.022647

## COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 619 (4) OF THE COMPANIES ACT, 1956 ON THE ACCOUNTS OF HMT WATCHES LIMITED, BANGALORE FOR THE YEAR ENDED 31 MARCH 2012

The preparation of financial statements of HMT Watches Limited, Bangalore for the year ended on 31 March 2012 in accordance with the financial reporting framework prescribed under the Companies Act, 1956 is the responsibility of the management of the company. The Statutory Auditor appointed by the Comptroller and Auditor General of India under Section 619(2) of the Companies Act, 1956 is responsible for expressing opinion on these financial statements under Section 227 of the Companies Act, 1956 based on the independent audit in accordance with the auditing and assurance standards prescribed by their professional body, the Institute of Chartered Accountants of India. This is stated to have been done by them vide their Audit Report dated 5 July 2012.

I, on the behalf of the Comptroller and Auditor General of India, have conducted a supplementary audit under Section 619(3)(b) of the Companies Act, 1956 of the financial statements of HMT Watches Limited, Bangalore for the year ended on 31 March 2012. This supplementary audit has been carried out independently without access to the working papers of the statutory auditors and is limited primarily to inquiries of the statutory auditor and company personnel and a selective examination of some of the accounting records. On the basis of my audit, nothing significant has come to my knowledge, which would give rise to any comment upon or supplement to statutory auditor's report under Section 619(4) of the Companis Act, 1956.

**For and on the behalf of the**
**Comptroller and Auditor General of India**

**Y.N. Thakare**
**Principal Director of Commercial Audit**
**& Ex-Officio Member, Audit Board,**
**Hyderabad.**

**Place: Hyderabad**
**Dated: 4 September 2012.**

## SIGNIFICANT ACCOUNTING POLICIES

**Basis of preparation of financial statements**

The financial statements are prepared as of a going concern, under the historical cost convention, on accrual basis of accounting and in accordance with the provisions of the Companies Act, 1956 and comply with the mandatory Accounting Standards prescribed under Companies (Accounting Standards) Rules, 2006, to the extent applicable.

**Fixed Assets**

Fixed Assets are stated at cost of acquisition or construction, net of Cenvat credit, less accumulated depreciation to date. Cost includes direct costs and financing costs related to borrowing attributable to acquisition that are capitalized until the assets are ready for use.

Land received free of cost from the State Governments has been nominally valued and incidental expenditure incurred thereon has been capitalized.

Expenditure on development of land is included in the cost of land.

Assets taken on **Finance Lease** are capitalized at fair value / NPV / contracted price. Depreciation on the same is charged at the rate applicable to similar type of fixed assets as per Accounting Policy on "Depreciation". If the lease assets are returnable to the lessor on expiry of lease period, the same is depreciated over its useful life or lease period, whichever is shorter.

Lease payments made are apportioned between finance charges and reduction of outstanding liability in relation to assets taken on lease.

Lease payments made for assets taken on **Operating Lease** are recognized as expense over the lease period.

Expenditure incurred on **Reconditioning** of plant, machinery and equipment which increases the future benefits from the existing asset beyond its previously assessed standard of performance is included in the Gross Book Value which results in:

- **(a)** Modification of an item of plant to extend its useful life, including increase in its capacity;
- **(b)** Upgrading machine parts to achieve a substantial improvement in the quality of out put; and
- **(c)** Adoption of new production processes enabling a substantial reduction in previously assessed operating costs.

The cost of an addition or extension to an existing asset which is of a capital nature and which becomes an integral part of the existing asset is added to its gross block value.

The expenditure on **Reconditioning** of plant, machinery & equipment which do not increase the future benefits from the existing asset beyond the previously assessed standard of the performance based on the technical assessment, is charged off to Revenue.

Items of Capital Assets with WDV of Rs.1 lakh and above, which have been retired from active use, are disclosed at lower of book value or net realizable value and shown separately in the Fixed Assets Schedule.

**Depreciation**

Depreciation on fixed assets is provided on straight-line method, at the rates prescribed in Schedule XIV to the Companies Act, 1956, pro-rata with reference to the date of addition or deletion. As and when assets gets fully depreciated, ` 1/- is retained as book value of the asset. Assets costing less than ` 5000/- per asset which is written off to ` 1/- in the year of purchase.

Depreciation on fixed assets is calculated on a pro-rata basis from the date of such addition or as the case may be up to the date on which such asset is sold, discarded or destroyed.

Premium for leasehold land is amortized equally over the period of lease.

**Investments**

Investments are either classified as current or long-term. Current investments are carried at lower of cost and fair value. Long-term investments are carried at cost and any decline, other than temporary, in the carrying value of each investment. Gain or loss is recognized in the year of sale.

**Inventories**

Inventories are valued at the lower of cost and net realizable value. The cost of materials is ascertained by adopting Weighted Average Cost Method.

**Revenue recognition**

Sales are set up based on:

Physical delivery of goods to the customer / customer's carrier /common carrier, duly supported by invoice, excise duty paid challan, gate pass, delivery voucher and LR / GR, in case of ex-works contracts.LR/GR obtained and endorsed in favour of customer (consignee 'self'), in case of FOR destination contracts.Despatches to dealers/ customers in respect of Watches.Sales include Excise Duty but are net of trade discount and exclude sales tax.

**Foreign currency transactions**

Transactions in foreign currency are recorded in Indian rupee by applying to the foreign currency amount the exchange rate existing at the time of the transaction.The outstanding balances of monetary items relating to foreign currency transactions are stated in Indian rupee by adopting the rate of exchange prevailing at the date of Balance Sheet. Exchange differences consequent to reinstatement are credited / charged to revenue.The gain or loss in the conversion and / or settlement of liabilities incurred for acquisition of fixed assets is either credited or charged to revenue during the period such gain or loss arise.In the case of forward exchange contracts, the premium or discount arising at the inception of the contract is accounted for over the life of the contract. Exchange differences on such a contract are recognized in the statement of profit or loss in the reporting period in which the exchange rate changes.

**Borrowing costs**

Borrowing costs are charged to revenue except those which are incurred on acquisition or construction of a qualifying asset that necessarily takes substantial time to be ready and until intended use of the said asset, such costs are capitalized.

**Employee Benefits**

Provident Fund is provided for, under a defined benefit scheme. The contributions are made to the Trust administered by the company.

Leave encashment is provided for under a defined benefit scheme based on actuarial valuation.

Gratuity is provided for, under a defined benefit scheme, to cover the eligible employees, liability being determined on actuarial valuation. Annual contributions are made, to the extent required, to a trust constituted and administered by the Life Insurance Corporation of India under which the coverage is limited to Rs.50,000/- per eligible employee. The balance provision is being retained in the books to meet any additional liability accruing thereon for payment of Gratuity.

Settlement allowance is provided for, under a defined benefit scheme, to cover the eligible employees, liability being determined on actuarial valuation.

Pension is provided for under a defined contribution scheme, contributions are made to the Pension Fund administered by the Government.

**Warranty**

Warranty provision for contractual obligations in respect of Watches sold is set up based on the past experience and is provided in the year of sale.

**Special Tools**

Expenditure on manufactured and bought out special tools are amortized equally over a five year period or earlier, if scrapped. Individual items costing less than ` 750/- are written off fully in the initial year of acquisition / manufacture.

**Income Tax**

Taxes are determined following the tax effect accounting method and a provision therefore is recognized. A deferred tax asset or deferred tax liability is recorded to recognize the tax effect on timing differences arising on reconciliation of profit/loss as per financial statements and profit/loss as per taxation.

**Earnings per share**

Basic earnings per share is determined by considering the net profit after tax, inclusive of the post tax effect on extraordinary items, if any, and the number of shares outstanding on a weighted average basis.

**Government Grants**

Government Grants are accounted when there is a reasonable certainty of their realization. Grants related to revenue, unless received as compensation for expenses / losses, are recognized as revenue over the period to which these are related on the principle of matching costs to revenue. Grants related to depreciable fixed assets are adjusted against the gross cost of the relevant assets while those related to non-depreciable assets are credited to capital reserve.

**Intangible Assets**

Intangible assets are capitalized at cost if

(a) it is probable that the future economic benefits that are attributable to the asset will flow to the Company,

(b) the Company will have control over the assets, and

(c) the cost of these assets can be measured reliably.

Technical Know-how

Expenditure on Technical Know-how is recognized as an Intangible Asset and amortized on straight line method based on technical assessment for a period not exceeding ten years. The amortization commences when the asset is available for use.

Software

The cost of software internally generated / purchased for internal use which is not an integral part of the related hardware is recognized as an Intangible Asset and is amortized on straight line method based on technical assessment for a period not exceeding ten years.

Research and Development Expenditure

Research Phase:

Expenditure on research including the expenditure during the research phase of Research & Development Projects is charged to profit and loss account in the year of incurrence.

Development Phase:

Expenditure incurred on Development Costs, which relate to Design, Construction and Testing of a chosen alternative for new or improved material, devices, products, processes, systems or services are recognized as an intangible asset. Such Intangible assets are amortized based on technical assessment over a period not exceeding ten years using straight line method.

**Impairment of Assets**

As at the end of each Balance Sheet date, the carrying amount of assets is assessed as to whether there is any indication of impairment. If the estimated recoverable amount is found less than its carrying amount, the impairment loss is recognized and assets are written down to their recoverable amount.

**Others**

The amount of ` 50000/- per head received/receivable from LIC on account of gratuity claims in respect of employees separated under Voluntary Retirement Scheme during the year is accounted as Other Income.

In respect of employees who are separated other than under Voluntary Retirement Scheme, the Gratuity paid in excess of ` 50000/-, Earned Leave Encashment (ELE), Settlement Allowance (SA) is debited to the respective provision accounts. The provision at the yearend for ELE and SA is restated as per the actuarial valuation done at the year-end. In case of ELE and SA, any short or excess provision is charged as expenditure or treated as provision no longer required.

Gratuity, Earned Leave encashment, Settlement Allowance and Lump sum Compensation paid to employees under Voluntary Retirement Scheme shall be fully written off in the year of disbursement.

Expenses incurred in respect of Bonds issued for raising funds to meet payments made under the Voluntary Retirement Scheme are fully written off in the year of disbursement.

# BALANCE SHEET AS AT MARCH 31, 2012

| Particulars | Note No. | As at 31.03.2012 ` in lacs | | As at 31.03.2011 ` in lacs | |
|---|---|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | | | |
| **Share Capital** | 3.0 | | **649.01** | | 649.01 |
| **Shareholders' funds** | | | | | |
| Reserves and Surplus | 4.0 | | **(177,667.49)** | | (155,263.13) |
| **Non Current Liabilities** | | | | | |
| Long Term borrowings | 5.0 | **60,740.06** | | 42,416.73 | |
| Other Long Term Liabilities | 6.0 | **250.08** | | 243.14 | |
| Long Term Provisions | 7.0 | **5,404.53** | **66,394.67** | 4,654.27 | 47,314.14 |
| **Current Liabilities** | | | | | |
| Short Term Borrowings | 8.0 | **44,373.11** | | 41,839.38 | |
| Trade Payables | 9.0 | **327.71** | | 350.27 | |
| Other Current liabilities | 10.0 | **69,926.52** | | 68,591.48 | |
| Short Term Provisions | 11.0 | **2,336.45** | **116,963.79** | 2,824.14 | 113,605.26 |
| **TOTAL** | | | **6,339.98** | | 6,305.28 |
| **ASSETS** | | | | | |
| **Non-current Assets** | | | | | |
| Fixed Assets | 12.0 | | | | |
| Tangible Assets (Net) | | **939.07** | | 1,021.46 | |
| Intangible Assets (Net) | | - | | - | |
| Long Term Loans and Advances | 13.0 | **123.23** | **1,062.30** | 122.27 | 1,143.73 |
| **Current Assets** | | | | | |
| Inventories | 14.0 | **3,440.06** | | 3,273.65 | |
| Trade Receivables | 15.0 | **244.63** | | 159.86 | |
| Cash and Bank Balances | 16.0 | **314.59** | | 377.10 | |
| Short term Loans & Advances | 17.0 | **1,258.03** | | 1,331.11 | |
| Other Current Assets | 18.0 | **20.37** | **5,277.68** | 19.83 | 5,161.55 |
| **Summary of Significant Accounting Policies** | 2.1 | | | | |
| **Notes on financial Statements** | 1.0 to 45.0 | | | | |
| **TOTAL** | | | **6,339.98** | | 6,305.28 |

For and on behalf of the Board of Directors

To be read with our report of even date
**For P.N.R & CO.,**
Chartered Accountants
Firm Regn No. 002495S

(P.N.Rajashekar)
Partner
M.NO. 022647
Date : 05-07-2012

(S.G Sridhar)
Chairman

(S. Paulraj)
Managing Director

Date : 29.06.2012
Place : Bangalore

# STATEMENT OF PROFIT & LOSS FOR THE YEAR ENDED 31st MARCH 2012

| Particulars | Notes No. | For the Year Ended March 31, 2012 ` in Lacs | For the Year Ended March 31, 2011 ` in Lacs |
|---|---|---|---|
| **INCOME** | | | |
| Revenue from Operations (Gross) | 20.0 | **1,024.26** | 889.58 |
| Less : Excise Duty | | **(106.05)** | (75.80) |
| Revenue from Operations (Net) | | **918.21** | 813.78 |
| Other Income | 21.0 | **482.37** | 1,116.23 |
| **TOTAL REVENUE** | | **1,400.59** | 1,930.01 |
| **EXPENDITURE** | | | |
| Raw materials consumed | 22.0 | **489.81** | 255.31 |
| Changes in Inventory of Stock in Trade | 23.0 | **(136.80)** | 16.92 |
| Employee Benefits Expense | 24.0 | **4,778.24** | 6,105.26 |
| Finance Costs | 25.0 | **15,687.97** | 13,136.06 |
| Depreciation | 26.0 | **83.44** | 92.40 |
| Other Expenses | 27.0 | **822.73** | 1,131.84 |
| **TOTAL EXPENSES** | | **21,725.39** | **20,737.79** |
| **NET LOSS BEFORE PRIOR PERIOD, EXCEPTIONAL AND EXTRAORDINARY ITEMS** | | **20,324.80** | 18,807.78 |
| Prior Period Items | 28.0 | **(56.62)** | 168.18 |
| **NET LOSS BEFORE EXCEPTIONAL AND EXTRAORDINARY ITEMS** | | **20,268.18** | 18,975.96 |
| Exceptional items | 29.0 | **2,628.57** | 6,397.85 |
| **NET LOSS BEFORE EXTRAORDINARY ITEMS** | | **22,896.75** | 25,373.81 |
| Extraordinary items | 30.0 | **492.40** | - |
| **NET LOSS FOR THE YEAR** | | **22,404.35** | **25,373.81** |
| Basic / Diluted earnings per share of Rs.10/ each (amount in `) | | **(345)** | **(391)** |
| **Summary of Significant Accounting Policies** | 2.1 | | |
| **Notes on financial Statements** | 1.0 to 45.0 | | |

For and on behalf of the Board of Directors

To be read with our report of even date
**For P.N.R & CO.,**
Chartered Accountants
Firm Regn No. 002495S

(P.N.Rajashekar)
Partner
M.NO. 022647
Date : 05-07-2012

(S.G Sridhar)
Chairman

(S. Paulraj)
Managing Director

Date : 29.06.2012
Place : Bangalore

# NOTES ON FINANCIAL STATEMENTS

(` In Lacs)

| Note No | | As at 31.03.2012 | As at 31.03.2011 |
|---|---|---|---|
| 3.0 | **SHARE CAPITAL** | | |
| | **Authorized Capital** | | |
| | 7000000 Equity Shares of ` 10 each | **700.00** | 700.00 |
| | (Previous year 7000000 Equity Shares of ` 10 each) | | |
| | **Issued, Subscribed & Paid up** | | |
| | 6490100 Equity Shares of ` 10 each fully paid up | **649.01** | 649.01 |
| | (Previous year 6490100 Equity Shares of ` 10 each) | **649.01** | 649.01 |

3.1 **The reconciliation of No. of Shares outstanding is set out below**

| Particulars | As at 31.3.2012 No. of shares | As at 31.3.2011 No. of shares |
|---|---|---|
| No. of Equity Shares at the beginning of the year | **6490100** | 6490100 |
| Add : No. of Shares issued during the year | **Nil** | Nil |
| No. of Equity Shares at the end of the year | **6490100** | 6490100 |

3.2 **Shares held by Holding Company and nominees**

| Name of the share holder | As at 31.03.2012 In Nos | As at 31.03.2011 In Nos |
|---|---|---|
| HMT Limited - Holding Company | **6,490,100** | 6,490,100 |
| % of holding | **100%** | 100% |

3.3 **Terms / Rights attached to Equity Shares**

The company has only one Class of Equity Shares having a Par value of ` 10 per Share. Each holder of Equity Share is entitled to one vote per share. In the event of liquidation of the company, the holders of Equity Shares will be entitled to receive remaining assets of the company, after distribution of all preferential claims. The distribution will be in proportion to the No. of Equity Shares held by the Share Holders.

3.4 **Details of shares held by shareholders holding more than 5% of the aggregate shares in the company**

| Equity Shares of ` 10 each fully paid -HMT Limited | As at 31.03.2012 In Nos | As at 31.03.2011 In Nos |
|---|---|---|
| - No. of Shares | **6,490,100** | 6,490,100 |
| - % thereof | **100%** | 100% |

| Note No | | As at 31.03.2012 | As at 31.03.2011 |
|---|---|---|---|
| 4.0 | **RESERVES AND SURPLUS** | | |
| | Statement of Profit and Loss | **(155,263.13)** | (129,889.32) |
| | Balance as per last Balance Sheet | **(22,404.35)** | (25,373.81) |
| | Add : Profit / Loss for the year | **(177,667.49)** | (155,263.13) |

# NOTES ON FINANCIAL STATEMENTS

| Note No | | As at 31.03.2012 ` In Lacs | As at 31.03.2011 ` In Lacs |
|---|---|---|---|

| | | Non Current Portion | | Current Maturities | |
|---|---|---|---|---|---|
| | | **31.03.2012 ` in Lacs** | 31.03.2011 ` in Lacs | **31.03.2012 ` in Lacs** | 31.03.2011 ` in Lacs |
| 5.0 | **LONG TERM BORROWINGS** | | | | |
| | **Unsecured Loans** | | | | |
| | Loan from Govt. of India | **60,740.06** | 42,416.73 | **6,502.23** | 16,078.25 |
| | **Total** | **60,740.06** | 42,416.73 | **6,502.23** | 16,078.25 |

5.1 Loan from Govt. of India is carries interest rangingfrom 14.50 % to 17.25% pa.

5.2 The amount of continuing default of GOI principal loan as on Balance Sheet date is ` 28460.33 Lacs (previous year ` 24003.86 Lacs). The earliest date of continuing default is from 09.04.2005.

| Note No | | As at 31.03.2012 ` In Lacs | As at 31.03.2011 ` In Lacs |
|---|---|---|---|
| 6.0 | **OTHER LONG TERM LIABILITIES** | | |
| | **Others** | | |
| | Security Deposit | **228.03** | 221.05 |
| | Retention Deposit | **22.05** | 22.08 |
| | **Total** | **250.08** | 243.14 |
| 7.0 | **LONG TERM PROVISIONS** | | |
| | **Provisions for Employee Benefits** | | |
| | Gratuity | **4,949.38** | 4,122.29 |
| | Earned Leave Encashment | **314.19** | 364.25 |
| | Settlement Allowance | **140.96** | 167.73 |
| | | **5,404.53** | 4,654.27 |
| 8.0 | **SHORT TERM BORROWINGS** | | |
| | **(Unsecured)** | | |
| | From Holding Company | | |
| | HMT Limited | **44,373.11** | 41,839.38 |
| | | **44,373.11** | 41,839.38 |

8.1 The amount of default as on the Balance Sheet date in repayment of loan from Holding Company is ` 44373.11 Lacs (previous year ` 41839.38 Lacs). The period of default is from the year 2002.

| Note No | | As at 31.03.2012 ` In Lacs | As at 31.03.2011 ` In Lacs |
|---|---|---|---|
| 9.0 | **TRADE PAYABLES** | | |
| | - For Supplies | | |
| | -dues to Micro, Small and Medium enterprises | **-** | - |
| | -Others | **327.49** | 350.05 |
| | -Acceptances | **0.22** | 0.22 |
| | | **327.71** | 350.27 |

## NOTES ON FINANCIAL STATEMENTS

| Note No | | As at 31.03.2012 ` In Lacs | As at 31.03.2011 ` In Lacs |
|---|---|---|---|
| | 9.1 Under the Micro, Small and Medium Enterprises Development Act, 2006 certain disclosures are required to be made relating to Micro, Small and Medium Enterprises. Company has not received relevant information from the suppliers. In the absence of relevant information, disclosure regarding dues to MSMED has not been made. | | |
| 10.0 | **OTHER CURRENT LIABILITIES** | | |
| | Current Maturities of Long Term Debts | | |
| | Loan from Govt. of India | **6,502.23** | 16,078.25 |
| | Interest accrued but not due on borrowings | | |
| | Loan from Govt. of India | **7,948.06** | 6,886.53 |
| | Interest accrued and due on borrowings | | |
| | Loan from Govt. of India | **47,300.37** | 35,246.61 |
| | Other payables | | |
| | To Holding Company and its subsidiaries | **-** | - |
| | - HMT (International) Ltd | | |
| | | **27.78** | 44.14 |
| | - HMT Machine Tools Ltd | **943.96** | 939.73 |
| | - HMT Chinar Watches Ltd | **6.81** | 8.15 |
| | - HMT Ltd (Holding Company) | | |
| | | **2,253.81** | 2,204.66 |
| | Advance received against sale of land | **889.62** | 1,379.22 |
| | Advance received against Sales | **374.78** | 261.61 |
| | Unpaid Salaries and Wages | **1,020.48** | 1,756.06 |
| | Statutory Liabilities | **1,301.02** | 1,731.27 |
| | Other Liabilities | **1,357.60** | 2,055.25 |
| | **Total** | **69,926.52** | 68,591.48 |
| 11.0 | **SHORT TERM PROVISIONS** | | |
| | **Provisions for Employee Benefits** | | |
| | Gratuity | **235.60** | 621.20 |
| | Earned Leave Encashment | **80.34** | 105.95 |
| | Settlement Allowance | **17.17** | 24.80 |
| | **Others** | | |
| | Provision for Warranty claims | **11.92** | 9.99 |
| | Provision for Others | **1,991.42** | 2,062.20 |
| | | **2,336.45** | 2,824.14 |

## 12.0 FIXED ASSETS

| Note No. | Depreciation | Gross Block | | | | Depreciation | | | | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | As at 01.04.2011 ` | Additions ` | Deductions / Adjustment ` | As at 31.03.2012 ` | Upto 31.03.2012 ` | Deductions / Adjustment ` | For the year ` | Upto 31.03.2012 ` | As at 31.03.2012 ` | As at 31.03.2011 ` |
| | **TANGIBLE ASSETS** | | | | | | | | | | |
| | Land and Land Development | 367.15 | | | **367.15** | **-** | | - | **-** | **367.15** | 367.15 |
| | Land - Leasehold | 9.80 | | 0.16 | **9.64** | **2.50** | | 0.12 | **2.62** | **7.02** | 7.30 |
| | Buildings | 1,454.72 | | | **1,454.72** | **986.78** | | 26.75 | **1,013.53** | **441.19** | 467.94 |
| | Plant and Machinery | 16,727.50 | 3.03 | 4.78 | **16,725.75** | **16,556.99** | 2.97 | 54.79 | **16,608.81** | **116.94** | 170.52 |
| | Furniture Fixtures & Office Appliances | 341.92 | | 0.87 | **341.05** | **333.36** | 0.86 | 1.78 | **334.28** | **6.77** | 8.56 |
| | Transport Vehicles | 9.18 | | | **9.18** | **9.18** | | - | **9.18** | **-** | - |
| | **Total** | **18,910.27** | **3.03** | **5.81** | **18,907.49** | **17,888.81** | **3.83** | **83.44** | **17,968.42** | **939.07** | 1,021.47 |
| | **PREVIOUS YEAR** | **19,006.32** | **-** | **96.05** | **18,910.27** | **17,878.66** | **(82.25)** | **92.40** | **17,888.81** | **1,021.46** | 1,127.66 |

12.1 Fixed assets have been transferred from the Holding Company to the Subsidiary at the Gross values, Reserve for Depreciation and Net values as on 1.4.2000 in line with Para 10(J) and Annexuture 13 of the Scheme of Arrangement approved by the Department of Company Affairs. Depreciation has been charged for the year 2000-2001 and onwards on the original cost of the assets on straight line basis, keeping in view the estimated life of the asset.

12.2 Fixed Assets includes immovable properties, vested under the Scheme of Arrangement approved by Govt. of India. However, the mutation of title deeds is yet to be carried out in the revenue records to that effect.

12.3 Watch Factory Tumkur is in possession of Plant & Machinery supplied by UNIDO free of cost.

12.4 The Company is in possession of gift land located at Bangalore admeasuring 89.74 acres of which 7.0 acres of land has been encroached upon and the matter has been taken up with the Govt. of Karnataka to shift the un-authorised occupants.

12.5 During 2003-04 based on a MOU entered in to between HMT Ltd and the Company, certain lands were sold and the profit on sale of such lands amounting to ` 1421 lakhs were accounted in HMT Ltd books. Equivalent value of the land is yet to be identified and transferred to the Company.

12.6 The Company is in possession of 119 acres and 26 guntas of land at Tumkur.

12.7 The Company is in possession of 33.2 acres of Lease hold land at Ranibagh, is being amortised pending execution of lease deed.

# NOTES ON FINANCIAL STATEMENTS

| Note No | | As at 31.03.2012 ` In Lacs | As at 31.03.2011 ` In Lacs |
|---|---|---|---|
| **13.0** | **LONG TERM LOANS AND ADVANCES** | | |
| | (Unsecured, considered good) | | |
| | - Capital Advances | **5.70** | 5.70 |
| | - Security Deposits | **117.53** | 116.57 |
| | (Unsecured, considered Doubtful) | | |
| | - Capital Advances | **5.58** | 5.58 |
| | - Less : Provision for Doubtful Advances | **(5.58)** | (5.58) |
| | | **123.23** | 122.27 |
| 14.0 | **INVENTORIES** | | |
| | Raw Materials and components (at cost) | **1,393.08** | 1,498.86 |
| | Goods-in transit (Raw Materials and components ) (at cost) | **71.89** | 50.82 |
| | Stores and Spares (at cost) | **415.20** | 373.06 |
| | Tools and Instruments (at Cost) | **293.21** | 293.68 |
| | Scraps (at realizable value) | **37.95** | 40.71 |
| | Finished Goods (lower of cost and NRV) | **2,300.54** | 2,163.77 |
| | Work in Progress (at cost) | **1,598.63** | 1,595.83 |
| | | **6,110.50** | 6,016.73 |
| | Less : Provision for slow / non-moving inventories | **2,670.45** | 2,743.08 |
| | | **3,440.06** | 3,273.65 |
| 15.0 | **TRADE RECEIVABLES** | | |
| | (unsecured) | | |
| | Trade receivables outstanding for a period exceeding six months from the date the bill is due for payment | | |
| | - Considered Good | **107.20** | 102.90 |
| | - Considered Doubtful | **4,605.54** | 4,608.40 |
| | Other Trade receivables | | |
| | - Considered Good | **137.42** | 56.96 |
| | | **4,850.17** | 4,768.26 |
| | Less: Provision for Doubtful Trade Receivables | **(4,605.54)** | (4,608.40) |
| | | **244.63** | 159.86 |

15.1 Provision for Doubtful Trade Receivables of ` 4605.54 Lacs (previous year ` 4608.40 Lacs) is inclusive of sundry creditors for discount amounting to ` 422.40 Lacs (previous year ` 422.40 Lacs) and Isolation Watches ` 366.56 Lacs (previous year ` 366.56 Lacs)

| Note No | | As at 31.03.2012 ` In Lacs | As at 31.03.2011 ` In Lacs |
|---|---|---|---|
| 16.0 | **CASH AND BANK BALANCES** | | |
| | Cash and Cash equivalents | | |
| | Cash on hand | **9.17** | 46.39 |
| | Cheques , Draft on hand | **12.70** | 40.35 |
| | Balance with Banks | | |
| | - In Current Account with Scheduled Banks | **71.33** | 118.97 |
| | - In Deposit Account with Scheduled Banks (maturity period not exceeding 3 months) | **150.00** | 150.00 |
| | Other Bank balances | | |
| | - In Deposit Account with Scheduled Banks (maturity period exceeding 3 months below 12 months) | **50.00** | |
| | - In Deposit Account - furnished as margin to BG (maturity period beyond 12 months) | **21.39** | 21.39 |
| | | **314.59** | 377.10 |

# NOTES ON FINANCIAL STATEMENTS

| Note No | | As at 31.03.2012 ` In Lacs | As at 31.03.2011 ` In Lacs |
|---|---|---|---|
| 17.0 | **SHORT TERM LOANS AND ADVANCES** | | |
| | Advances recoverable in cash or in kind or for value to be received | | |
| | Secured - considered good | **4.08** | 10.92 |
| | Unsecured - considered good | **1,237.99** | 1,309.63 |
| | Considered Doubtful | **259.71** | 258.20 |
| | | **1,501.77** | 1,578.75 |
| | Less : Provision for Doubtful Advances | **(259.71)** | (258.20) |
| | | **1,242.06** | 1,320.55 |
| | Prepaid Expenses | **6.32** | 5.56 |
| | Loans and Advances to Subsidiary of Holding Company | | |
| | - HMT Bearings Limited | **3.93** | 4.08 |
| | Balance with Central Excise and Customs | **5.73** | 0.92 |
| | | **1,258.03** | 1,331.11 |
| 18.0 | **OTHER CURRENT ASSETS** | | |
| | Special tools | **20.37** | 19.83 |
| | | **20.37** | **19.83** |
| | 18.1 Value of special tools represents net of amortization during the year considering the opening balance and purchases. | | |
| 19.0 | **CONTINGENT LIABILITIES & COMMITMENTS (to the extent not provided for)** | | |
| | **Contingent Liabilities** | | |
| | Claims against the company not acknowledged as debt | | |
| | **a) Tax related claims pending in appeal** | | |
| | - Sales Tax | **189.33** | 274.47 |
| | - Customs Duty | **212.29** | 212.29 |
| | - Property Tax | **262.93** | 262.93 |
| | - Excise duty | **1.97** | 1.97 |
| | - Entry Tax | **0.79** | 0.79 |
| | - Others | **40.11** | 40.11 |
| | **b) Other money for which company is contingently liable** | | |
| | -Employee related claims relating to lockouts, back wages, incentives, annual bonus etc pending adjudication to the extent ascertainable | **287.18** | 136.61 |
| | -Liability towards interest, penalty/damages as per 7Q and14B of the Provident Fund Act | **4,616.09** | 3,403.31 |
| | **c) Others** | | |
| | | **508.30** | 550.63 |
| | | **6,118.97** | **4,883.10** |

19.1 Sales tax assessments are pending since 2008-09. Additional liability if any is not ascertainable

19.2 Income tax assessments are pending. Additional liability if any is not ascertainable

# NOTES ON FINANCIAL STATEMENTS

| Note No | | For the year ended 31.03.2012 | For the year ended 31.03.2011 |
|---|---|---|---|
| | 19.3 36 Employees (Previous year 28 employees) have filed for the reinstatement against the company and amount is not ascertainable. | | |
| | 19.4 185 Ex-employees of one of the Divisions who have opted for VRS have filed case for payment of exgratia. The amount is not quantifiable | | |
| | 19.5 Liability, if any, relating to sale of land by the company to Canara Bank and subsequent claim by third party vide Miscellaneous Petition No. 621/622, pending adjudication has not been made as the same has not been ascertained. | | |
| | 19.6 Estimated amount of contract remaining to be executed on capital account and not provided for in the accounts is ` NIL | | |
| | 19.7 Advances received against sale of land amounting to ` 889.62 lacs represents amount received from Rama Institute of Technologies towards sale of land andbuilding. The value of land and buildings has been included in the respective head under fixed assets. Though the Company has executed an Agreement to Sell and possession of land given to the Purchaser, the transaction has not been recognized as sale pending approval from the concerned authorities for the execution of sale deed. | | |
| 20.0 | **REVENUE FROM OPERATIONS** | | |
| | Sale of Products | | |
| | - Watches | **824.26** | 747.81 |
| | Less : Excise Duty | **(106.05)** | (75.80) |
| | | **718.21** | 672.01 |
| | Sale of Service | | |
| | - Sundry Jobs and Miscellaneous Sales | **145.22** | 88.18 |
| | Other operating Income | | - |
| | - Packing & forwarding | **48.42** | 45.72 |
| | - Servicing Income | **6.36** | 7.87 |
| | Revenue from Operations (Net) | **918.21** | 813.78 |
| 21.0 | **OTHER INCOME** | | |
| | Interest Income (Gross - TDS Rs. Nil) | **15.11** | 15.29 |
| | Interest - Others | **0.86** | 4.24 |
| | Interest subsidy on HC Loan - VRS Funds | **-** | 315.13 |
| | Profit on sale of assets | **5.57** | 20.64 |
| | Staff Recovery | **26.73** | 28.32 |
| | Provision no longer required withdrawn | **195.81** | 192.90 |
| | Miscellaneous Income | **238.29** | 539.71 |
| | | **482.37** | 1,116.23 |

## NOTES ON FINANCIAL STATEMENTS

| Note No | | For the year ended 31.03.2012 | For the year ended 31.03.2011 |
|---|---|---|---|
| 22.0 | **COST OF RAW MATERIALS CONSUMED** | | |
| | Raw materials and Components | | |
| | Opening Stock | **1,498.86** | 1,462.38 |
| | Add : Purchases | **296.51** | 173.37 |
| | Less : Closing Stock | **(1,393.08)** | (1,498.86) |
| | Raw materials Consumed | **402.30** | 136.89 |
| | Consumption of Stores | **87.51** | 118.42 |
| | Raw materials Consumed | **489.81** | 255.31 |

22.1

| Details of raw material consumed | 31.03.2012 ` in Lacs | 31.03.2011 ` in Lacs |
|---|---|---|
| Steels | **27.77** | 8.78 |
| Non Ferrous metal | **14.62** | 50.47 |
| Components and Standard parts | **346.21** | 63.41 |
| Consumption of stores | **87.51** | 118.42 |
| Others | **13.70** | 14.23 |
| | **489.81** | 255.31 |

| Note No | | For the year ended 31.03.2012 | For the year ended 31.03.2011 |
|---|---|---|---|
| 23.0 | **CHANGES IN INVENTORY OF FINISHED GOODS** | | |
| | Work in Progress | | |
| | - Opening Stock | **1,595.83** | 1,601.05 |
| | - Closing Stock | **(1,598.63)** | (1,595.83) |
| | Finished Goods | | |
| | - Opening Stock | **2,163.77** | 2,161.38 |
| | - Closing Stock | **(2,300.54)** | (2,163.77) |
| | Scrap | | |
| | - Opening Stock | **40.71** | 54.80 |
| | - Closing Stock | **(37.95)** | (40.71) |
| | | **(136.80)** | 16.92 |

23.1 **Details of inventory**

| Particulars | For the year ended 31.3.12 | For the year ended 31.3.11 |
|---|---|---|
| Opening Stock | | |
| Watches | | |
| Work in Progress | **1,595.83** | 1,601.05 |
| Finished Goods | **2,163.77** | 2,161.38 |
| Closing Stock | | |
| Watches | | |
| Work in Progress | **1,598.63** | 1,595.83 |
| Finished Goods | **2,300.54** | 2,163.77 |

# NOTES ON FINANCIAL STATEMENTS

| Note No | | For the year ended 31.03.2012 | For the year ended 31.03.2011 |
|---|---|---|---|
| 24.0 | **EMPLOYEE BENEFITS EXPENSE** | | |
| | Salaries,Wages,Bonus and benefits | | |
| | - Salaries & wages | **3,301.46** | 3,874.30 |
| | - House Rent Allowance | **87.94** | 129.75 |
| | Contribution to Provident and other funds | | |
| | - Gratuity | **647.33** | 1,251.40 |
| | - Contribution to PF & FPS | **376.96** | 443.23 |
| | - Company contribution to DLIC | **9.56** | 10.92 |
| | - Contribution to ESI | **0.21** | |
| | Employee welfare and other amenities | | |
| | - Welfare Expenses | **354.78** | 395.66 |
| | | **4,778.24** | 6,105.26 |
| 25.0 | **FINANCE COSTS** | | |
| | Interest expenses | | - |
| | - Interest on loan from holding co. | **2,533.73** | 2,527.55 |
| | - Interest on GOI Loan | **13,115.28** | 10,502.52 |
| | - Interest paid to others | **31.86** | 102.51 |
| | Other Borrowing Cost | | |
| | - Bank / Discounting charges | **7.10** | 3.48 |
| | | **15,687.97** | 13,136.06 |
| 26.0 | **DEPRECIATION** | | |
| | Depreciation on Tangible Assets | **83.44** | 92.40 |
| | | **83.44** | 92.40 |
| 27.0 | **OTHER EXPENSES** | | |
| | Power and Fuel | **104.67** | 100.59 |
| | Rent - Showroom | **42.70** | 40.16 |
| | Insurance | **6.65** | 8.47 |
| | Rates and Taxes | **31.26** | 143.60 |
| | Excise Duty | **32.93** | 36.29 |
| | Water & Electricity | **24.14** | 26.27 |
| | Repairs to Building | **1.67** | 1.27 |
| | Repairs to Machinery | **2.06** | 0.12 |
| | Printing and stationery | **8.58** | 7.58 |
| | Rebate on Sales | **18.81** | 31.07 |
| | Advertisement and Publicity | **5.63** | 3.44 |
| | Payments to auditors as: | | |
| | Auditors | **1.48** | 1.48 |
| | For Tax Audit | **0.55** | 0.55 |
| | For Reimbursement of Expenses | **0.36** | 0.36 |
| | Service Tax reimbursement | **0.21** | 0.14 |
| | Provision for doubtful debts and Advances | **0.73** | 28.66 |
| | Provision for Obsolesce | **57.55** | - |
| | Warranty provision | **11.91** | 9.98 |
| | PF Trust Loss | **70.80** | 323.93 |
| | Loss on assets sold | **-** | 0.04 |
| | Amortization of Special tools | **3.95** | 2.05 |
| | Obsolete Materials W/off | **-** | 73.34 |
| | Carriage Outwards | **8.82** | 8.40 |
| | Travelling expenses | **40.11** | 39.14 |
| | Miscellaneous Expenses | **273.23** | 220.21 |
| | Share of holding company expenses | **73.93** | 24.70 |
| | | **822.73** | 1,131.84 |

## NOTES ON FINANCIAL STATEMENTS

| Note No | | For the year ended 31.03.2012 | For the year ended 31.03.2011 |
|---|---|---|---|
| 28.0 | **PRIOR PERIOD ITEMS** | | |
| | Expenses relating to earlier years | **-** | - |
| | - Relating to materials | **3.55** | 10.30 |
| | - Relating to Employee benefit expenses | **0.73** | - |
| | - Relating to Other expenses | **1.62** | 164.52 |
| | Income relating to earlier years | | |
| | - Income relating to earlier years | **62.52** | 6.64 |
| | | **(56.62)** | 168.18 |
| 29.0 | **EXCEPTIONAL ITEMS** | | |
| | Relating to Expenses | | |
| | VRS Compensation | **2,628.57** | 6,397.85 |
| | | **2,628.57** | 6,397.85 |
| 30.0 | **EXTRA ORDINARY ITEMS** | | |
| | Profit on sale of land | **492.40** | - |
| | | **492.40** | **-** |
| 31.0 | **VALUE OF IMPORTS CALCULATED ON CIF BASIS BY THE COMPANY DURING THE FINANCIAL YEAR** | | |
| | Components and Spare Parts | **93.65** | 92.95 |

32.0 **RAW MATERIAL CONSUMED AND THE PERCENTAGE OF EACH TO TOTAL CONSUMPTION**

| | Current year | | Previous year | |
|---|---|---|---|---|
| | **Amount ‘ in lacs** | **% of total value** | **Amount ‘ in lacs** | **% of total value** |
| Imported | 115.13 | 23.51 | 86.86 | 34.02 |
| Indigenous | 374.68 | 76.49 | 168.45 | 65.98 |
| | **489.81** | **100.00** | **255.31** | **100.00** |

| | | | |
|---|---|---|---|
| 33.0 | **EXPENDITURE IN FOREIGN CURRENCY DURING THE FINANCIAL YEAR** | **Nil** | Nil |
| 34.0 | **EARNINGS IN FOREIGN EXCHANGE** | **Nil** | Nil |

35.0 Balances under trade payables, short term loans and advances, deposits and other current liabilities are subject to confirmation. Bank balance confirmation as at the close of the year have been received from Coimbatore, Kolkatta and New Delhi showrooms. In respect of other show rooms, bank balance is adopted as per books of account. Same are subject to confirmation by the respective banks.

# NOTES ON FINANCIAL STATEMENTS

| Note No | | For the year ended 31.03.2012 ` In Lacs | For the year ended 31.03.2011 ` In Lacs |
|---|---|---|---|
| 36.0 | The GOI had released a Plan Assistance of ` 2.00 Crore to the Company (HMT Watches Ltd.) during March 2007 through Holding Company (HMT Limited) to meet the Capital Expenditure, in the form of Equity (` 1.00 Crore) & Loan (` 1.00 Crore). In view of the non utilization of the funds by the Company within the stipulated period, GOI had instructed the Holding Co. during December 2009 for refund of the total Plan Assistance of ` 2.00 Crore. Accordingly, the Holding Company has refunded the Loan amount of ` 1.00 Crore to GOI during February 2010. However, with regard to refund of equity portion, since the Company has already issued ` 10,00,000 Equity Shares of ` 10 each (` 1.00 Crore) in favour of Holding Company during the year 2007 08, the same could not be carried out, as it would amount to reduction in share capital requiring the approval of the Share Holders and completion of other statutory formalities as per the Companies Act, 1956 and applicable rules in this regard, and the same has been communicated to GOI. Further instructions are awaited from GOI on the same | | |
| 37.0 | **Inventories** | | |
| | Include Excise Duty paid/payable on Closing Stock of Finished Goods. However, this has no effect on the working results of the Company | **205.67** | 132.90 |
| | Include usable slow/non moving and surplus stores and materials, not provided for Some of the physical verification certificates in respect of stocks at show rooms / exhibition / on consignment are awaited | **110.04** | 25.43 |
| | Includes 19482 Nos.of watches which were dispatched by the unit prior to 1997-98 but its receipt is yet to be confirmed by Marketing Division, Bangalore, towards which provision has been made | **125.04** | 125.04 |
| **39.0** | Trade Receivable include dues from 37 parties (previous year 38 parties) against which cases have been filed before various courts pending adjudication | **3,430.00** | 3,430.00 |
| 38.0 | Short Term Advance includes the following | | |
| | a) Amount recoverable from employees towards Bonus etc pending adjudication / negotiation | **0.35** | 0.35 |
| | b) Amount paid by way of adhoc to employees towards wage / salary / DA / revision arrears if any pending adjustment for which necessary provision has been made in the accounts | **991.03** | 1,087.52 |
| 39.0 | Other liabilities include unspecified / excess credit in bank account pending reconciliation | **17.73** | 17.73 |
| 40.0 | The Deferred Tax Assets has not been recognized in the absence of reasonable certainty that sufficient future taxable Income will be available against which such Deferred Tax Assets can be adjusted | | |

# NOTES ON FINANCIAL STATEMENTS

| Note No | | For the year ended 31.03.2012 ` In Lacs | For the year ended 31.03.2011 ` In Lacs |
|---|---|---|---|
| 41.0 | **Segment reporting as per Accounting Standard AS 17** The Company is carrying on the business of manufacture, sale and servicing of wrist watches. Sale of wrist watches is only the product in which company is engaged. | | |
| 42.0 | **Statement of Profit and Loss** | | |
| | 42.1 **Employees Salaries and benefits include** Provision for Earned Leave encashment , in compliance to AS15, based on actuarial valuation of Earned Leave at credit as at year end | **22.39** | 26.87 |
| | 42.2 Provision for Settlement Allowance as per AS-15, made in compliance with the opinion of the Expert Advisory Committee of the ICAI, based on actuarial valuation | **0.70** | 2.17 |
| | 42.3 Gratuity has been provided /paid under a Group Gratuity Policy with Life Insurance Corporation of India. Additional provision made during the year for full coverage in excess of ` 50000/- per employee based on actuarial valuation by LIC | **647.33** | 1,251.39 |
| | The expenditure on lumpsum compensation including gratuity, EL, and settlement allowance paid to employees relived under VRS has been charged to Statement of Profit and Loss in the year of disbursement. | **2,628.57** | 6,397.85 |
| | 42.4 **Depreciation** Depreciation on plant & machinery has been calculated on double shift basis although none of the manufacturing Divisions have worked in double shift. The excess provision in this regard is not quantifiable | | |
| | 42.5 Expenditure on Research & Development | **29.60** | 33.60 |
| 43.0 | During the year ended 31.03.2012, the revised Schedule VI notified under the Companies Act, 1956, has become applicable to the company, for preparation and presentation of its financial statements. The adoption of revised Schedule VI does not impact recognition and measurement principles followed for preparation of financial statements. However, it has significant impact on presentation and disclosures made in the financial statements The company has also re-classified the previous year figures in accordance with the requirements applicable in the current year. | | |

# NOTES ON FINANCIAL STATEMENTS

| Note No | | **For the year ended 31.03.2012 ` In Lacs** | For the year ended 31.03.2011 ` In Lacs |
|---|---|---|---|

**44.0 DISCLOSURE OF PROVISIONS UNDER AS 29** ` In Lacs

| NATURE OF PROVISION | As on 01.04.2011 | Additions during the year | Used during the year | | **As on 31.03.2012** |
|---|---|---|---|---|---|
| | | | Utilized | Withdrawn | |
| Provision for Gratuity | 4,743.49 | 647.33 | 205.84 | - | **5,184.98** |
| Wage Revision | 1,740.84 | 311.40 | 151.67 | - | **1,900.57** |
| Earned leave Encashmen | 470.20 | 123.77 | 101.39 | 98.05 | **394.53** |
| Settlement Allowance | 192.53 | 0.70 | 15.44 | 19.66 | **158.13** |
| Warranty Claim | 9.99 | 11.91 | | 9.99 | **11.91** |
| Other | 321.37 | | 230.52 | - | **90.85** |
| **TOTAL** | **7,478.42** | **1,095.11** | **704.86** | **127.70** | **7,740.97** |

**45.0 DISCLOSURE REQUIRED AS PER ACCOUNTING STANDARD - 15 (REVISED)**

The Gratuity has been provided by the Company under a Defined Benefit Plan to cover the eligible employees, the liability being determined on actuarial valuation done by LIC using Projected Unit Credit Method. The Company has taken a Policy under Group Gratuity Scheme with LIC and annual contributions are made to the extent required, to the separate Trust constituted and administered by the Life Insurance Corporation of India under which the coverage is limited to ` 50000/- per eligible employee and the balance is being retained in the books to meet any additional liability accruing thereon

The actuarial valuation has been made based on the following assumptions:

| | |
|---|---|
| Retirement Age | 58 years |
| Future Salary escalation | 7% p.a. |
| Rate of discount | 8% p.a. |
| Attrition rate | 1 to 3% depending on age |
| Mortality rate | LIC (1994-96) Ultimate |

The provision for gratuity as on 31-03-12 for the balance amount based on the above assumptions for over and above the amount covered under the LIC policy in respect of the Company is Rs.5184.98 lakhs.

**Defined Benefit Plan**

| Sl. No. | Particulars | Gratuity (Funded) 2011-12 | 2010-11 |
|---|---|---|---|
| 1 | **Reconciliation of changes in respect of obligations** | | |
| | Present value of obligation as at beginning of year | **317.97** | 658.47 |
| | Interest cost | **25.44** | 52.68 |
| | Current Service Cost | **0.86** | 1.85 |
| | Benefits Paid | **110.50** | 276.50 |
| | Acturial (gain)/loss on obligations | **140.10** | (118.52) |
| | Present value of obligation as at end of year | **373.87** | 317.98 |
| 2 | **Reconciliation of changes in the fair value of plan assets** | | |
| | Fair value of plan assets of beginning of year | **516.20** | 476.37 |
| | Expected return on plan assets | **48.41** | 44.33 |
| | Contributions | **117.00** | 272.00 |
| | Benefits paid | **110.50** | 276.50 |
| | Actual Gain / (Loss) on Plan assets | **-** | - |
| | Fair value of plan assets at the end of year | **571.11** | 516.20 |
| 3 | **Reconciliation of fair value of plan assets** | | |
| | Fair value of plan assets at beginning of year | **516.20** | 476.37 |
| | Actual return on plan assets | **48.41** | 44.33 |
| | Contributions | **117.00** | 272.00 |
| | Benefits Paid | **110.50** | 276.50 |
| | Fair value of plan assets at the end of year | **571.11** | 516.20 |
| | Funded status | **(197.24)** | (198.22) |
| | Excess of Actual over estimated return on plan assets (Actual rate of return+Estimated rate of return as ARD falls on 31st Mar.) | **Nil** | Nil |
| 4 | **Acturial Gain/Loss recognized** | | |
| | Actuarial gain/(loss) for the year - Obligation | **(140.10)** | 118.52 |
| | Actuarial gain/(loss) for the year - plan assets | **-** | - |
| | Total (gain)/loss for the year | **140.10** | (118.52) |
| | Actuarial gain/(loss) recognised in the year | **(140.10)** | 118.52 |
| 5 | **Amounts recognised in the Balance Sheet and Profit & Loss A/c** | | |
| | Present value of obligations as at the end of the year | **373.87** | 317.98 |
| | Fair Value of plan assets as at the end of the year | **571.11** | 516.20 |
| | Funded Status | **(197.24)** | (198.22) |
| | Net Asset/(liability) recognised in balance sheet | **197.24** | 198.22 |
| 6 | **Expenses Recognised in statement of Profit & Loss Account** | | |
| | Current Service Cost | **0.86** | 1.85 |
| | Interest Cost | **25.44** | 52.68 |
| | Expected return on plan assets | **48.41** | 44.33 |
| | Net Actuarial (gain)/loss recongnised in the year | **140.10** | (118.52) |
| | Expenses recognised in statement of Profit & Loss | **117.99** | (108.32) |

For and on behalf of the Board of Directors

To be read with our report of even date
**For P.N.R & CO.,**
Chartered Accountants
Firm Regn No. 002495S

(S.G Sridhar)
Chairman

(S. Paulraj)
Managing Director

(P.N.Rajashekar)
Partner
M.NO. 022647
Date : 05-07-2012

Date : 29.06.2012
Place : Bangalore

# CASH FLOW STATEMENT FOR THE YEAR ENDED 31st MARCH,2012

(` in lakhs)

| | | Year Ended March 31, 2012 | | Year Ended March 31, 2011 |
|---|---|---|---|---|
| **A. CASH FLOW FROM OPERATING ACTIVITIES** | | | | |
| **Net Profit Before Tax and Extra-ordinary Items** | | **-22896** | | -25373 |
| Adjustment for: | | | | |
| - Depreciation | **83** | | 93 | |
| - Profit on Sale of Fixed Assets (net) | **-6** | | -21 | |
| - Interest debited (Net) | **15672** | | 12798 | |
| - Deferred Revenue Expenditure (Net) | **0** | | 0 | |
| - Provision for Obsolescence, Doubtful debts, Advances,Investments | **-68** | | 803 | |
| | | **15681** | | 13673 |
| **Operating Profit Before Working Capital Changes** | | **-7215** | | -11700 |
| Adjustment for: | | | | |
| - (Increase)/Decrease in Trade Receivables and Loans and Advances | **-17** | | -512 | |
| - (Increase)/Decrease in Inventories | **-94** | | -30 | |
| - (Increase)/Decrease in Other Current Asset | **-1** | | -9 | |
| - Increase/(Decrease) in Trade payables and Other Current Liabilities | **-1957** | | 1166 | |
| | | **-2069** | | 615 |
| | | **-9284** | | -11085 |
| CASH FLOW | | | | |
| **CASH FLOW BEFORE EXTRA-ORDINARY ITEMS** | | **-9284** | | -11085 |
| Extra-ordinary Items | | **492** | | 0 |
| NET CASH FROM OPERATING ACTIVITIES | | **-8792** | | -11085 |
| **B. CASH FLOW FROM INVESTING ACTIVITIES** | | | | |
| Purchase of Fixed Assets | | **-3** | | 7 |
| Sale proceeds of Fixed Assets | | **8** | | 34 |
| Purchase of Investments | | **0** | | 0 |
| NET CASH USED IN INVESTING ACTIVITIES | | **5** | | 41 |
| **C. CASH FLOW FROM FINANCING ACTIVITIES** | | | | |
| Proceeds from Issue of Share Capital | | **0** | | 0 |
| Proceeds from Long Term Borrowings (net) | | **11281** | | 13733 |
| Proceeds from Short Term Borrowings (net) | | | | |
| Interest Paid | | **-2573** | | -3260 |
| Interest Received | | **16** | | 335 |
| NET CASH USED IN FINANCING ACTIVITIES | | **8724** | | 10808 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **-63** | | -236 |

# CASH FLOW STATEMENT FOR THE YEAR ENDED 31st MARCH,2012

(` in lakhs)

| | **Year Ended March 31, 2012** | Year Ended March 31, 2011 |
|---|---|---|
| **CASH AND CASH EQUIVALENTS AS AT 1ST APRIL** (Opening Balance) | **377** | 613 |
| **CASH AND CASH EQUIVALENTS AS AT 31ST MARCH** (Closing Balance) | **315** | 377 |
| Notes to the Cash Flow Statement | | |
| Components of Cash and Cash equivalents : | | |
| Cash and Bank balances | **315** | 377 |

For and on behalf of the Board of Directors

To be read with our report of even date
**For P.N.R & CO.,**
Chartered Accountants
Firm Regn No. 002495S

(S.G Sridhar)
Chairman

(S. Paulraj)
Managing Director

(P.N.Rajashekar)
Partner
M.NO. 022647
Date : 05-07-2012

Date : 29.06.2012
Place : Bangalore