

To the Members of
TORRENT POWER LIMITED

1. We have audited the attached Balance Sheet of TORRENT POWER LIMITED as at 30th September, 2006 and also the Profit and Loss Account and the Cash Flow Statement for the period of eighteen months ended on that date, annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with Auditing Standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraph 4 and 5 of the said Order.
4. 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 account as required by law have been kept by the Company so far as it appears from our examination of those books;
 - c. The Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - d. As explained in Note – 4 of Schedule 15, in accordance with the Scheme of Amalgamation approved by the Hon'ble High Court of Gujarat, the difference arising on account of Amalgamation is recorded as General Reserve.
Having regard to this, in our opinion, the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;
 - e. On the basis of written representations received from the directors as on 30th September, 2006 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 30th September, 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956;
 - f. In our opinion and to the best of our information and according to the explanations given to us, the said accounts read with Significant Accounting Policies and other notes thereon, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - (i) in the case of the Balance Sheet of the state of affairs of the Company as at 30th September, 2006;
 - (ii) in the case of the Profit and Loss Account, of the profit for the period of eighteen months ended on that date; and
 - (iii) in the case of the Cash Flow Statement, of the cash flows for the period of eighteen months ended on that date.

For **C.C. CHOKSHI & CO.**
Chartered Accountants

Gaurav J. Shah
Partner

Membership No. 35701

Ahmedabad
7th November, 2006

ANNEXURE TO THE AUDITORS' REPORT

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

1. The nature of the Company's business / activities during the period is such that the requirements of clause (xiii) and (xiv) of paragraph 4 of the Order are not applicable to the Company.
2. (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
(b) The Company has a programme of physical verification of its fixed assets over a period of three years, which in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. In accordance with this programme, certain fixed assets have been physically verified by the management during the period and according to the information and explanations given to us, no material discrepancies have been noticed on such verification.
(c) The Company has not disposed of a substantial part of fixed assets during the period.
3. (a) As explained to us, inventories were physically verified during the period by the management at reasonable intervals.
(b) In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventories followed by the management were reasonable and adequate in relation to the size of the Company and the nature of its business.
(c) In our opinion and according to the information and explanations given to us, the Company has maintained proper records of its inventories and no material discrepancies were noticed on physical verification.
4. (a) The Company has not granted any loans secured / unsecured , to companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.
(b) The Company had taken unsecured interest free loan, repayable on demand, from a company covered in the register maintained under section 301 of the Companies Act, 1956. The maximum amount involved during the period was Rs. 257.59 lacs and there was no balance outstanding as at the end of the period. In our opinion and according to the information and explanations given to us, the terms and conditions of the loan were not prima facie prejudicial to the interest of the Company.
5. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business for the purchase of inventory and fixed assets and for the sale of goods and services and we have not observed any continuing failure to correct major weaknesses in such internal controls.
6. In respect of transactions that need to be entered in the register maintained in pursuance of section 301 of the Companies Act, 1956 :
 - (a) the particulars of contracts or arrangements referred to in section 301 of the Companies Act 1956, have been so entered ; and
 - (b) the transactions have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time. No such transactions have been recorded in the said register in respect of sale of electricity as the company is of the view that such transactions being for cash at prevailing market prices do not require to be entered in the register maintained under Section 301 of the Companies Act, 1956.
7. The company has not accepted any deposits from the public during the period under review.
8. In our opinion, the Company has an adequate internal audit system commensurate with its size and nature of its business.
9. We have broadly reviewed the books of account maintained by the Company pursuant to the rules made by the Central Government for maintenance of cost records under Section 209 (1) (d) of the Companies Act, 1956 in respect of generation and distribution of electricity and are of the opinion that prima facie the prescribed accounts and records have been maintained. We have not, however, made a detailed examination of the said records.
10. (a) According the information and explanations given to us, the Company is generally regular in depositing with appropriate authorities undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income-tax, sales-tax, wealth-tax, service tax, custom duty, excise-duty, cess and other material statutory dues applicable to it.

- (b) According to the information and explanations given to us, no undisputed amounts payable in respect of income tax, wealth tax, sales tax, customs duty and excise duty were outstanding, as at 30th September, 2006 for a period of more than six months from the date they became payable.
- (c) According to the information and explanations given to us, there are no dues of, wealth-tax, excise duty and cess which have not been deposited on account of any dispute. In respect of the custom duty, sales tax and income tax, the following dues have not been deposited on account of any dispute.

Description	Amount (Rs. in Lakhs)	Forum where dispute is pending
Custom Duty on Higher Assessment Value	15.97	The Custom, Excise and Service tax Appellate Tribunal, Mumbai
Custom Duty on Higher Assessment Value	28.06	Supreme Court of India, New Delhi
Sales Tax on Work Contracts	53.61	Appellate Assistant Commissioner, Calicut
Sales Tax on Work Contracts	10.64	Appellate Tribunal, Cuttak
Sales Tax on Work Contracts	28.83	Andhra Pradesh High Court
Sales Tax on Work Contracts	15.41	Sales Tax Appellate Tribunal, Andhra Pradesh
Sales Tax on Work Contracts	8.94	Sales Tax Tribunal, Orissa
Income Tax Act, 1961	149.16	Commissioner of Income Tax Appeals , Ahmedabad
Income Tax Act, 1961	298.00	Commissioner of Income Tax Appeals, Surat
Sales Tax Matter	21.34	Assistant Sales Tax Commissioner Surat

11. The Company has been registered for a period less than five years and neither it has any accumulated losses nor cash losses during the financial period covered by our audit and during the immediately preceding financial period.
12. In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to financial institutions or banks. The Company has not issued any debentures.
13. The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
14. The Company has given a guarantee to a financial institution for housing loans taken by the employees of the Company. According to the information and explanations given to us, the terms and conditions whereof are not prejudicial to the interest of the Company.
15. In our opinion, the term loans have been applied for the purpose for which they were raised.
16. According to the information and explanations given to us, and on an overall examination of the balance sheet of the Company, funds raised on short term basis have, prima facie, not been used during the period for long term investment.
17. The Company has not made preferential allotment of shares to parties and companies covered in the register maintained under section 301 of the Companies Act, 1956.
18. The Company has not issued any debentures during the period.
19. The Company has not raised money by public issue during the period.
20. To the best of our knowledge and belief and according to the information and explanations given to us, no material fraud on or by the Company was noticed or reported during the period except in case of theft of electricity reported by the vigilance department of the Company, the amount for which is not ascertainable.

For **C.C. CHOKSHI & CO.**
Chartered Accountants

Gaurav J. Shah
Partner

Membership No. 35701

Ahmedabad
7th November, 2006