

# AUDITOR'S REPORT

To the members of KLG Systel Limited

We have audited the attached Balance Sheet of KLG Systel Limited as at March 31, 2003, and also the Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the generally accepted auditing standards in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As required by the Manufacturing and Other Companies (Auditors Report) Order, 1988, 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 hereto a statement on the matters specified in paragraphs 4 and 5 of the said Order.

We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit.

The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with books of account.

In our opinion, proper books of account as required by law have been maintained by the Company so far as appears from our examination of the those books and proper returns adequate for the purposes of our audit have been received from branches not visited by us.

In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement referred to in this report comply with the applicable accounting standards referred in sub-section (3C) of section 211 of the Companies Act, 1956.

On the basis of written representations received from the directors, as on March 31, 2003 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2003 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.

In our opinion and to the best of our information and according to the explanations given to us, the said accounts, read together with the notes and accounting policies thereto, 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 case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2003;
- (ii) in case of the Profit and Loss Account, of the profit earned by the Company for the year ended on that date; and
- (iii) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

EC-13, Inderpuri  
New Delhi.

June 23, 2003

B.Bhushan & Co.  
Chartered Accountant  
By the hand of

Kamal Ahluwalia  
Partner  
Membership no. 81

# ANNEXURE TO AUDITOR'S REPORT

In respect of manufacturing activities of the Company:

In our opinion the Company has maintained proper records showing full particulars, including quantitative details and situation of all fixed assets. The fixed assets were physically verified by the management at reasonable intervals during the year and no discrepancy was noticed on such verification as compared to book records.

The fixed assets were not revalued during the year.

Physical verification has been conducted by the management in respect of inventories at reasonable intervals during the year.

In our opinion, the procedures for physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and nature of its business.

- v) In accordance with the information and explanations given to us, no material discrepancy was noticed on physical verification of inventories as compared to the book records.
- vi) In our opinion, the valuation of inventories is fair and proper and in accordance with normally accepted accounting principles. The basis of valuation of inventories is the same as that followed in the preceding year.
- vii) The Company has not taken any loans, secured or unsecured, from companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956, or from companies under the same management.
- viii) The Company has not granted any loans, secured or unsecured, to companies, firms or other parties listed in the registers maintained under section 301 of the Companies Act, 1956 or to companies under the same management.
- ix) The Company has given advances to employees and parties who are repaying the same as per terms and conditions of repayment.
- x) In our opinion and according to the information and explanations given to us, there is an adequate internal control procedure commensurate with the size of the Company and nature of its business, with respect to purchase of stores, raw materials including components, plant and machinery, equipment, and other assets and for the sale of goods.
- xi) According to the information and explanations given to us, there are no transactions of purchase of goods and materials and of sale of goods, material and services made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the Companies Act, 1956 and aggregating during the year to Rs.50,000.00 or more in respect of each party.

- xii) As explained to us, the Company has a regular procedure for the determination of unserviceable or damaged stores, raw materials and finished goods.
- xiii) The Company has not accepted any deposits from the public.
- xiv) The Company has maintained reasonable records for the disposal of scrap. As informed to us, there are no by products.
- xv) In our opinion, the Company has an internal audit system commensurate with its size and nature of its business.
- xvi) The maintenance of cost records has not been prescribed by the Central Government under Section 209(1) (d) of the Companies Act, 1956.
- xvii) The Company has been regular in depositing its dues under Employees Provident Fund Act, 1952, and Employees State Insurance Act, 1948, with the appropriate authorities.
- xviii) According to the information and explanations given to us, no undisputed amounts payable in respect of income tax, wealth tax, sales tax, custom duty and excise duty were outstanding as at March 31, 2003, for a period of more than six months from the date they became payable.
- xix) According to the information and explanations given to us, no personal expenses of employees or directors have been charged to revenue account, other than those payable under contractual obligations or in accordance with generally accepted business practice.
- xx) The Company is not a Sick industrial Company within the meaning of Section 3(1)(o) of the Sick Industrial Companies (Special Provisions) Act, 1985.

In respect of service activities of the Company:

- xxi) The Company has a reasonable system of allocating man-hours to the relative jobs, and the system is commensurate with its size and nature of its business.
- xxii) There is a reasonable system of authorisation at proper levels and there exists an adequate system of internal control commensurate with the size of the Company and the nature of its business with regard to issue and allocation of stores and man-hours of relative jobs.

EC-13, Inderpun,  
New Delhi.

B. Bhushan & Co.  
Chartered Accountants  
By the hand of

June 23, 2003

Kamal Ahluwalia  
Partner  
Membership no. 093812