

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, 2004, 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 the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As required by The Companies (Auditors 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 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 maintained by the Company.

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, 2004 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2004 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, 2004;
- (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 case of the Cash Flow Statement, of the cash flows for the year ended on that date.

EC-13, Inderpuri,
New Delhi.

May 20, 2004

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

Kamal Ahluwalia
Partner
Membership no. 093812

ANNEXURE TO AUDITOR'S REPORT

(referred to in our report of even date)

- 1) a) The Company has maintained proper records showing full particulars, including quantitative details and situation of all fixed assets.
b) The fixed assets were physically verified by the management at reasonable intervals during the year and no material discrepancy was noticed on such verification as compared to book records.
c) The Company has not disposed off any of its fixed assets during the year. Accordingly, there is no effect on the going concern status of the Company.
- 2) a) The inventories have been physically verified by the management at reasonable intervals during the year.
b) 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.
c) The Company is maintaining proper records of inventories. No material discrepancy was noticed on physical verification of inventories as compared to the book records.
- 3) a) The Company has neither granted nor taken any loans, secured or unsecured, to or from companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956.
b) The Company has neither granted nor taken any loans during the year. Accordingly, clause 4(iii)(b) of the Order is not applicable.
c) The Company has not taken any loans, secured or unsecured during the year. Accordingly, clause 4(iii)(c) of the Order is not applicable.
d) There is no overdue amount of more than Rs. 100,000.00 recoverable or payable by the Company. Accordingly, clause 4(iii)(d) of the Order is not applicable.
- 4) 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 with regard to purchase of inventories and fixed assets and with regard to sale of goods. During the course of our audit, we have not observed any continuing failure to correct major weaknesses in internal controls.
- 5) a) In our opinion and according to the information and explanations given to us, transaction that need to be entered in the register maintained under section 301 of the Companies Act, 1956 have been so entered.
b) There was no transaction with any company, firm or other party required to be entered in the register maintained under section 301 of the Companies Act, 1956, the value whereof, exceeded Rs. 500,000.00 in the aggregate during the year.
The Company has not accepted any deposits from the public. Accordingly, clause 4(vi) of the Order is not applicable.
- 7) In our opinion, the Company has an internal audit system commensurate with its size and nature of its business.
- 8) According to the information and explanations given to us, the Central Government has not prescribed the maintenance of cost records under clause (d) of sub-section (1) of section 209 of the Companies Act, 1956 in respect of activities carried out by the Company. Accordingly, clause 4(viii) of the Order is not applicable.
- 9) a) According to the information and explanations given to us and on the basis of our examination of the books of account, the Company has been regular, *excepting some minor delays in case of deposits relating provident fund and employees' state insurance*, in depositing with appropriate authorities undisputed statutory dues including provident fund, investor education protection fund, employees' state insurance, income tax, sales tax, wealth tax, custom duty, excise duty, cess and other 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, custom duty, excise duty and cess were in arrears, as at March 31, 2004 for a period of more than six months from the date they became payable. Accordingly, clause 4(ix)(b) of the Order is not applicable.
c) According to the information and explanations given to us, there are no dues of sales tax, income tax, custom duty, wealth tax, excise duty and cess which have not been deposited with the appropriate authorities on account of any dispute.
- 10) The Company does not have any accumulated losses at the end of the financial year and has not incurred cash losses during the financial year covered by our audit and in the financial year immediately preceding such financial year.
- 11) The Company has neither taken any loans, secured or unsecured, from any financial institution or bank nor issued any debentures. Accordingly, clause 4(xi) of the Order is not applicable.
- 12) The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities. Accordingly, clause 4(xii) of the Order is not applicable.
- 13) The Company is not a chit fund or a nidhi mutual benefit fund/society. Accordingly, clause 4(xiii) of the Order is not applicable.
- 14) The Company has maintained proper records of transactions for dealing in or trading in securities and timely entries have been made in the records maintained for the purposes. The securities were/are being held by the Company in its own name.
- 15) According to the information and explanations given to us, the Company has not given guarantee for loans taken by others from banks or financial institutions. Accordingly, clause 4(xv) of the Order is not applicable.
- 16) The Company has not obtained any term loans. Accordingly, clause 4(xvi) of the Order is not applicable.
- 17) According to the information and explanations given to us, the Company has not raised any funds on short term basis. Accordingly, clause 4(xvii) is not applicable.
- 18) The Company has not made preferential allotment of shares to parties and companies listed in the register maintained under section 301 of the Companies Act, 1956. Accordingly, clause 4(xviii) of the Order is not applicable.
- 19) The company has not issued any debentures. Accordingly, clause 4(xix) of the Order is not applicable.
- 20) The Company has not raised money through public issues during the year. Accordingly, clause 4(xx) of the Order is not applicable.
- 21) To the best of our knowledge and belief, and according to the information and explanations given to us, no fraud on or by the Company was noticed or reported during the year. Accordingly, clause 4(xxi) of the Order is not applicable.

EC-13, Inderpuri,
New Delhi.

May 20, 2004

B.Bhushan & Co.
Chartered Accountants
By the hand of
Kamal Ahluwalia
Partner
Membership no. 093812