

AUDITOR'S REPORT

To the members of KLG Systel Limited

We have audited the attached Balance Sheet of KLG Systel Limited as on March 31, 2005 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 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 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 Companies (Auditor's Report) (Amendment) Order, 2004 [Order] 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.

Further to our comments in Annexure referred to 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 maintained by the Company so far as appears from our examination of those books and proper returns adequate for the purposes of our audit have been received from branches not visited by us.

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

(d) In our opinion Balance Sheet, Profit and Loss Account and Cash Flow Statement referred to in 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 March 31, 2005 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2005 from being appointed as a director in the 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 together with notes and accounting policies 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 March 31, 2005;

ii) in the 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 110012

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

May 31, 2005

Kamal Ahluwalia
Partner
Membership no. 93812

ANNEXURE TO AUDITOR'S REPORT

(referred to in our report of even date)

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| <p>i) a) The Company is maintaining proper records showing full particulars including quantitative details and situation of fixed assets.</p> <p>b) The fixed assets were physically verified by the management at reasonable intervals during the year and no material discrepancies were noticed on such verification as compared to book records.</p> <p>c) The Company has not disposed off any substantial part of its fixed assets during the year.</p> | <p>b) According to the information and explanations given to us, there are no dues of income tax, sales tax, wealth tax, service tax, custom duty, excise duty and cess which have not been deposited with the appropriate authorities on account of any dispute.</p> |
| <p>ii) a) The inventory has been physically verified by the management at reasonable intervals during the year.</p> <p>b) In our opinion, the procedures for physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.</p> <p>c) The Company is maintaining proper records of inventory. No discrepancies were noticed on physical verification of inventory as compared to the book records.</p> | <p>x) The Company has no accumulated losses as at the end of the financial year and it has not incurred any cash losses in the financial year ended covered by our audit and in the immediately preceding financial year.</p> |
| <p>iii) The Company has neither granted nor taken any loans, secured or unsecured, to/from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.</p> | <p>xi) In our opinion and according to information and explanation given to us, the Company has not defaulted in repayment of dues to a financial institution or bank or debenture holders.</p> |
| <p>iv) In our opinion and according to the information and explanations given to us, there are adequate internal control systems commensurate with the size of the Company and the nature of its business with regard to purchase of inventory, fixed assets and with regard to the sale of goods and services. Further, on the basis of our examination of the books and records of the Company, and according to the information and explanations given to us, we have neither come across nor have been informed of any continuing failure to correct major weaknesses in the aforesaid internal control systems.</p> | <p>xii) The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.</p> |
| <p>v) a) In our opinion and according to the information and explanations given to us, there are no transactions that are required to be entered into the register in pursuance of section 301 of the Companies Act, 1956.</p> <p>b) In our opinion and according to the information and explanations given to us, there are no transactions made in pursuance of contracts or arrangements entered into the register in pursuance of section 301 of the Companies Act, 1956.</p> | <p>xiii) The provisions of any special statute applicable to chit fund/ nidhi/mutual benefit fund/ societies are not applicable to the Company.</p> |
| <p>vi) In our opinion and according to the information and explanations given to us, the Company has not accepted any deposits from the public within the meaning of sections 58A, 58AA or any other relevant provisions of the Companies Act, 1956 and the rules framed thereunder.</p> | <p>xiv) The Company is not dealing or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Order are not applicable to the Company.</p> |
| <p>vii) In our opinion, the Company has an internal audit system commensurate with its size and nature of its business.</p> | <p>xv) According to information and explanation given to us, the Company has not given any guarantees for loans taken by others from banks or financial institutions. Accordingly, the provisions of clause 4(xv) of the Order are not applicable to the Company.</p> |
| <p>viii) 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</p> | <p>xvi) The Company has not obtained any term loans.</p> |
| <p>ix) a) According to the information and explanations given to us and the records of the Company examined by us, in our opinion, the Company is regular in depositing the undisputed statutory dues including provident fund, investor education protection fund, employees' state insurance, income tax, sales tax, wealth tax, service tax, custom duty, excise duty, cess and other statutory dues as applicable with the appropriate authorities.</p> | <p>xvii) According to the information and explanations given to us and on the basis of an overall examination of the Balance Sheet of the Company, there no funds raised on a short term basis which have been used for long term investment.</p> |
| | <p>xviii) The Company has not made any preferential allotment of shares to parties and companies covered in the register maintained under section 301 of the Companies Act, 1956. Accordingly, provisions of clause 4(xviii) of the Order are not applicable to the Company.</p> |
| | <p>xix) The Company has not issued any debenture during the year. Accordingly, the provisions of clause 4(xix) of the Order are not applicable to the Company.</p> |
| | <p>xx) The Company has not raised any money by way of public issue during the year. Accordingly, the provisions of clause 4(xx) of the Order are not applicable to the Company.</p> |
| | <p>xxi) Based upon the audit procedures performed and according to the information and explanations to us, no fraud on or by the Company has been noticed or reported during the course of our audit, that causes the financial statements to be materially misstated.</p> |

EC-13, Inderpuri,
New Delhi.

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

New Delhi
May 31, 2005

Kamal Ahluwalia
Partner
Membership no. 93812