

# AUDITOR'S REPORT

To the members of KLG Systel Limited

1. We have audited the attached Balance Sheet of KLG Systel Limited (the Company) as on March 31, 2007 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.
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 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, as amended by the Companies (Auditors' 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.
4. 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 and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2007 from being appointed as a director in the 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 accounting policies and 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 March 31, 2007;
- 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.

C-43, Inderpuri,  
New Delhi -110 012.

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

May 7, 2007

Kamal Ahluwalia  
Partner  
Membership no. 93812

# ANNEXURE TO AUDITOR'S REPORT

([Referred to in paragraph 3 of the Auditors' Report of even date to the members of KLG Systel Limited on the financial statements for the year ended March 31, 2007])

- i) a) The Company is maintaining proper records showing full particulars including quantitative details and situation of fixed assets.  
b) The fixed assets were physically verified by the management at reasonable intervals during the previous year and no material discrepancies were noticed on such verification as compared to book records.  
c) In our opinion and according to the information and explanations given to us, a substantial part of fixed assets has not been disposed off by the Company during the year.
- ii) a) The inventory has been physically verified by the management during the year. In our opinion, the frequency of such verification is reasonable.  
b) The procedures for the physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.  
c) The Company is maintaining proper records of inventory. The discrepancies noticed on physical verification of inventory as compared to book records were not material and have been properly dealt with in the books of account.
- iii) The Company has neither granted nor taken any loans, secured or unsecured, to or from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956. Therefore, the provisions of clause 4(iii) (a), (b), (c), (d), (e), (f) and (g) of the Order are not applicable to the Company.
- 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 regards to purchase of inventories, fixed assets and with regard to 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.
- v) a) According to the information and explanations given to us, we are of the opinion that the particulars of contracts or arrangements referred to in section 301 of the Companies Act, 1956 have been entered in the register required to be maintained under that section.  
b) Transactions made in pursuance of such contracts or arrangements have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.
- vi) The Company has not accepted any deposits from public within the meaning of sections 58A, 58AA or any other relevant provisions of the Companies Act, 1956 and the rules framed there under.
- vii) In our opinion, the Company has an internal audit system commensurate with its size and nature of its business.
- 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.
- 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 has been 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.  
b) According to the information and explanations given to us, no undisputed amounts payable in respect of 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 were outstanding, as at March 31, 2007, 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, service tax, custom duty, excise duty and cess that have not been deposited with appropriate authorities on account of dispute. There are dues of income tax that have not been deposited with appropriate authorities on account of dispute and the forum where the disputes are pending given below:

Nature of the Statute	Nature of dues	Amount Rs.	Period to which amount Relates	Forum where dispute is pending	Present status as on date of this Report
Income Tax Act, 1961	Income Tax	895,167	2003-04	Deputy Commissioner of Income Tax, Circle 5(1) New Delhi.	Appeal pending with CIT, Circle 5(1), New Delhi.

\* Amount is net of payments made and without considering interest for the overdue period, if any, as may be levied if demand raised is upheld.

- x) The Company has no accumulated losses as at March 31, 2007 and it has not incurred any cash losses in the financial year ended on that date and in the immediately preceding financial year.
- xi) According to the records of the Company examined by us and the information and explanation given to us, the Company has not defaulted in repayment of dues to a financial institution or bank.
- xii) According to 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.
- xiii) The provisions of any special statute applicable to chit fund/nidhi/mutual benefit fund/ societies are not applicable to the Company.
- xiv) 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.
- xv) According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from bank or financial institutions.
- xvi) In our opinion and according to the information and explanations given to us, term loans were applied for the purpose for which the loans were obtained.
- xvii) On the basis of an overall examination of the Balance Sheet of the Company, in our opinion and according to the information and explanations given to us, there are no funds raised on a short term basis which have been used for long term investment.
- xviii) The Company has made preferential allotment of equity shares to a company and parties covered in the register maintained under section 301 of the Companies Act, 1956. In our opinion, the price at which shares have been issued is not prejudicial to the interest of the Company.
- xix) The Company has not issued any debentures during the year.
- xx) The Company had issued Global Depository Receipts (GDRs) during the year. The management has disclosed the end use of the money raised by such issue of GDRs and the same have been verified by us.
- xxi) During the course of our examination of the books and records of the Company, carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, we have neither come across any instance of fraud on or by the Company, noticed or reported during the year, nor have we been informed of such case by the management.

C-43, Inderpuri  
New Delhi-110 012.

New Delhi.  
May 7, 2007

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

Kamal Ahluwalia  
Partner  
Membership no. 093812