

Auditors' Report

To the Members of KDDL Limited

1. We have audited the attached Balance Sheet of KDDL Limited, (the 'Company') as at 31 March 2011, and also the Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto (collectively referred as the 'financial statements'). 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 the 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 (the 'Order') (as amended), issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956 (the 'Act'), we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.
4. Further to our comments in the 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 kept by the Company so far as appears from our examination of those books;
 - c. The financial statements dealt with by this report are in agreement with the books of account;
 - d. On the basis of written representations received from the directors, as on 31 March 2011 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31 March 2011 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Act;
 - e. In our opinion and to the best of our information and according to the explanations given to us, the financial statements dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Act and the Rules framed there under and give the information required by the Act, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, in the case of:
 - i) the Balance Sheet, of the state of affairs of the Company as at 31 March 2011;
 - ii) the Profit and Loss Account, of the profit for the year ended on that date; and
 - iii) the Cash Flow Statement, of the cash flows for the year ended on that date.

For **Walker, Chandio & Co.**
Chartered Accountants
Firm Registration No.: 001076N

per **B.P. Singh**

Partner

Place: New Delhi

Dated: 28 July 2011

Membership No.70116

Annexure to the Auditors' Report of even date to the members of KDDL Limited, on the financial statements for the year ended 31 March 2011

Based on the audit procedures performed for the purpose of reporting a true and fair view on the financial statements of the Company and taking into consideration the information and explanations given to us and the books of account and other records examined by us in the normal course of audit, we report that:

- (i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) The Company has a regular programme of physical verification of its fixed assets by which fixed assets are verified in a phased manner over a period of three years. In our opinion, this periodicity of physical verification is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies were noticed on such verification.
- (c) In our opinion, a substantial part of fixed assets has not been disposed off during the year.
- (ii) (a) The inventory, excluding goods in transit, has been physically verified during the year by the management. In our opinion, the frequency of verification is reasonable.
- (b) The procedures of 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.
- (c) The Company is maintaining proper records of inventory and no material discrepancies were noticed on physical verification.
- (iii) (a) There is one company covered in the register maintained under section 301 of the Act to which the Company has granted unsecured loan. The maximum amount outstanding during the year was Rs. 14,000,000 and the year-end balance was Rs. 14,000,000.
- (b) In our opinion, the rate of interest and other terms and conditions of such loans are not, *prima facie*, prejudicial to the interest of the Company.
- (c) In respect of loans granted, repayment of principal amounts is as stipulated and payment of interest has been regular.
- (d) There is no amount overdue in respect of loans granted to company listed in the register maintained under section 301 of the Act.
- (e) The Company had taken loans from three parties covered in the register maintained under section 301 of the Act. The maximum amount outstanding during the year was Rs. 3,800,000 and the year-end balance was Rs. 1,700,000.
- (f) In our opinion, the rate of interest and other terms and conditions for such loans are not, *prima facie*, prejudicial to the interest of the Company.
- (g) In respect of loans taken, repayment of the principal amount is as stipulated and payment of interest has been regular.
- (iv) In our opinion, there is an adequate internal control system 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.
- (v) (a) In our opinion, the particulars of all contracts or arrangements that need to be entered into the register maintained under section 301 of the Act have been so entered.
- (b) Owing to the unique and specialized nature of the items involved and in the absence of any comparable prices, we are unable to comment as to whether the transactions made in pursuance of such contracts or arrangements have been made at prevailing market prices at the relevant time.
- (vi) In our opinion, the Company has complied with the provisions of sections 58A and 58AA and other relevant provisions of the Act and the Companies (Acceptance of Deposits) Rules, 1975 with regard to the deposits accepted from the public. No order has been passed by the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal.
- (vii) In our opinion, the Company has an internal audit system commensurate with its size and the nature of its business.
- (viii) To the best of our knowledge and belief, the Central Government has not prescribed maintenance of cost records under clause (d) of sub-section (1) of section 209 of the Act, in respect of Company's products. Accordingly, the provisions of clause 4(viii) of the Order are not applicable.
- (ix) (a) 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, as applicable, have generally been regularly deposited with the appropriate authorities, though there has been a delay in a few cases. No undisputed amounts payable in respect thereof were outstanding at the year end for a period of more than six months from the date they became payable.
- (b) The dues outstanding in respect of sales-tax, income-tax, custom duty, wealth-tax, excise duty, cess on account of any dispute, are as follows:

KDDL LIMITED

Name of the statute	Nature of dues	Amount (Rs.)	Period to which the amount relates	Forum where dispute is pending
Finance Act, 1994	Service tax	985,582	January 2005-June 2006	CESTAT, New Delhi
Central Excise Act, 1944	Central Excise	8,164,882	July 2000 - Feb 2003	CESTAT, New Delhi
Central Excise Act, 1944	Central Excise	91,340	July 2002 - June 2004	CESTAT, New Delhi Chandigarh
Finance Act, 1994	Service tax	219,309	July 2004-March 2005	CESTAT, New Delhi
Income-tax Act, 1961	Income tax	2,468,668	AY 2004-05	ITAT, New Delhi
Income-tax Act, 1961	Income tax	2,286,811	AY 2005-06	ITAT, New Delhi
Income-tax Act, 1961	Income tax	10,625,400	AY 2006-07	ITAT, New Delhi
Income-tax Act, 1961	Income tax	13,437,820	AY 2007-08	Commissioner of Income-tax (Appeals), New Delhi

- (x) In our opinion, the Company has no accumulated losses at the end of the financial year and it has not incurred cash losses in the current and the immediately preceding financial year.
- (xi) In our opinion, the Company has not defaulted in repayment of dues to a financial institution or a bank. The Company has no dues payable to debenture holders during the year.
- (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. Accordingly, the provisions of clause 4(xii) of the Order are not applicable.
- (xiii) In our opinion, the Company is not a chit fund or a nidhi/ mutual benefit fund/ society. Accordingly, the provisions of clause 4(xiii) of the Order are not applicable.
- (xiv) In our opinion, the Company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Order are not applicable.
- (xv) In our opinion, the terms and conditions on which the Company has given guarantee for loans taken by others from banks or financial institutions are not, *prima facie*, prejudicial to the interest of the Company.
- (xvi) In our opinion, the Company has applied the term loans for the purpose for which the loans were obtained.
- (xvii) In our opinion, no funds raised on short-term basis have been used for long-term investment.
- (xviii) The Company has made preferential allotment of
- shares to parties and companies covered in the register maintained under section 301 of the Act. In our opinion, the price at which shares have been issued is not prejudicial to the interest of the Company.
- (xix) The Company has neither issued nor had any outstanding debentures during the year. Accordingly, the provisions of clause 4(xix) of the Order are not applicable.
- (xx) The Company has not raised any money by public issues during the year. Accordingly, the provisions of clause 4(xx) of the Order are not applicable.
- (xxi) According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the period covered by our audit, except an instance where in a staff member was involved in embezzlement of funds amounting to Rs. 629,295 (net of recoveries made by the Company till date), which has been reported to us by the management. As further informed to us, the Company has further obtained post dated cheques from such staff member and has taken adequate follow up action, including strengthening of systems.

For Walker, Chandiook & Co.
Chartered Accountants
Firm Registration No.: 001076N

per **B.P. Singh**

Partner

Membership No.70116

Place: New Delhi
Dated: 28 July 2011