

INDEPENDENT AUDITORS' REPORT

ON THE CONSOLIDATED FINANCIAL STATEMENTS OF JHS SVENDGAARD LABORATORIES LIMITED

To the Board of Directors of JHS Svendgaard laboratories Limited

We have audited the accompanying consolidated financial statements of JHS Svendgaard laboratories Limited ("the Company") and its subsidiaries (the Company and its subsidiaries constitute "the Group") which comprise the Consolidated Balance Sheet as at March 31, 2014, the Consolidated Statement of Profit and Loss and the Consolidated Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

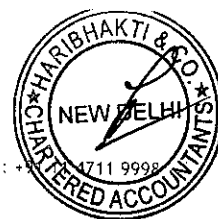
Management is responsible for the preparation of these consolidated financial statements on the basis of separate financial statements and other financial information regarding components that give a true and fair view of the consolidated financial position, consolidated financial performance and consolidated cash flows of the Group in accordance with accounting principles generally accepted in India. This includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the consolidated financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and presentation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.



Basis for qualified opinion

(a) Going Concern

The accompanying consolidated financial statements for the year ended March 31, 2014 have been prepared assuming that the Company will continue as a going concern. However, the Company has been incurring operating and cash losses, has defaulted in repayment of loans and interest due to banks, there have been delays in payment of statutory dues, salaries to employees and payment to vendors and has negative working capital. Further, there has been termination of contract by a major customer of the Company resulting in idle fixed assets. Such factors create substantial doubts about the ability of the Company to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of such uncertainty.

(b) Impairment of assets- AS 28

During earlier years, the Company had acquired substantial tangible fixed assets to carry out contract manufacturing for a major customer. Such major customer has terminated the contract resulting in some idle fixed assets. This and other internal factors indicate that the part of tangible fixed assets comprising plant & machinery which are being carried in the books at a written down value of Rs. 354,387,177 (Previous year Rs. 388,169,870) may be impaired. However, the management has not carried out any testing for impairment as required by Accounting Standard 28. Accordingly we are unable to comment on the necessity or otherwise to provide for an impairment loss in respect of these tangible assets as required by Accounting Standard 28. The effect of the non-provision of the impairment loss on assets, if any, cannot be quantified.

(c) Confirmations

The confirmations from the some of the legal counsels engaged by the Company in connection with matters related to Indirect tax and other matters including cases filed against the Company were not available for our verification. Accordingly, we are unable to comment on outcome of such matters and the consequential impact, if any, on the reported amounts of contingent liabilities and necessity of any provision required to be recorded.

Trade payables balance amounting to Rs. 23,978,283 due to nine parties are subject to confirmation and reconciliation, if any and accordingly we were unable to confirm or verify by alternative means such trade payables included in the Balance Sheet as at March 31, 2014.

Qualified Opinion

We report that the consolidated financial statements have been prepared by the Company's Management in accordance with the requirements of Accounting Standard (AS) 21 "Consolidated Financial Statements" as notified pursuant to the Companies (Accounting Standards) Rules, 2006 and on the basis of the separate financial statements of JHS Svendgaard laboratories Limited and its subsidiaries. In our opinion and to the best of our information and according to the explanations given to us and based on the consideration of the reports of the other auditors on the financial statements of the two subsidiaries and management accounts for one subsidiary as mentioned in the 'Other Matter' paragraph below, *except for the effects of the matter described in the Basis for Qualified Opinion paragraph*, the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

- (a) in the case of the Consolidated Balance Sheet, of the state of affairs of the Group as at March 31, 2014;
- (b) in the case of the Consolidated Statement of Profit and Loss, of the loss for the year ended on that date; and



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Chartered Accountants

- (c) in the case of the Consolidated Cash Flow Statement, of the cash flows for the year ended on that date.

Emphasis of Matter

1. We draw attention to Note 32 of the consolidated financial statements, wherein the management believes that in view of the profile of its vendors, there are no dues whatsoever to parties covered under the Micro Small Medium Enterprise Development Act, 2006
2. We draw attention to Note 29(a) of the consolidated financial statements, wherein the management has explained the basis for recording provision for doubtful debts in respect of certain trade receivables.
3. We draw attention to Note 29(b) of the financial statements, wherein the management has explained the basis for recording provision for doubtful advances in respect of certain loans & advances and recoverability of other long outstanding advances.
4. We draw attention to Note 29(c) of the consolidated financial statements, wherein the management has explained the basis for write-back of certain liabilities and provisions.

Other Matter

We did not audit the financial statements of two subsidiaries, whose financial statements reflect total assets of Rs. 1,272.25 Lakhs as at March 31, 2014, total revenues of Rs. Nil and net cash inflows amounting to Rs. 0.10 Lakhs for the year then ended. The financial statements of these two subsidiaries have been audited by other auditors whose reports have been furnished to us by the Management and our opinion is based solely on the reports of the other auditors. Further, financial statements of one subsidiary whose financial statements reflect total assets of Rs. 1,744.24 Lakhs as at March 31, 2014, total revenues of Rs. Nil and net cash outflow amounting to Rs. 151.52 Lakhs for the year then ended which has not been subjected to Audit. Our opinion is not qualified in respect of this matter.

For Haribhakti & Co.

Chartered Accountants

Firm Registration No. 103523

Raj Kumar Agarwal

Partner

Membership No. 074715



Place: New Delhi

Date: May 30, 2014