

INDEPENDENT AUDITORS' REPORT

To

The Members of JHS Svendgaard Laboratories Limited

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956 ("the Act"). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

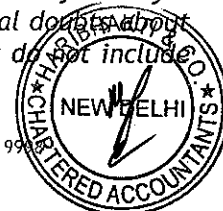
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 fair presentation of the financial statements 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 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 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 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

In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements 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:

- a. in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2014;*
- b. in the case of the Statement of Profit and Loss, of the loss for the year ended on that date; and*
- c. in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.*

Emphasis of Matter

- 1. We draw attention to Note 40 of the 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 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 financial statements, wherein the management has explained the basis for write-back of certain liabilities and provisions.*



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Report on Other Legal and Regulatory Requirements

1. As required by the Companies (Auditors' Report) Order, 2003 ("the Order") issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Act, we give in the Annexure, a statement on the matters specified in paragraphs 4 and 5 of the Order.
2. As required by Section 227(3) of the Act, 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 purpose of our audit *except for the matters described in the Basis for Qualified Opinion paragraph*;
 - 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 Balance Sheet, Statement of Profit and Loss and Cash Flow Statement dealt with by this Report are in agreement with the books of account;
 - d. *except for the possible effect of the matter described in the Basis for Qualified Opinion paragraph*, in our opinion, the Balance Sheet, Statement of Profit and Loss, and Cash Flow Statement comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Act;
 - e. on the basis of written representations received from the directors as on March 31, 2014, and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2014, from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act.

For Haribhakti & Co.

Chartered Accountants

Firm Registration No. 103523W



Raj Kumar Agarwal

Partner

Membership No. 074715



Place: New Delhi

Date: May 30, 2014

ANNEXURE TO INDEPENDENT AUDITORS' REPORT

[Referred to in paragraph 1 under 'Report on Other Legal and Regulatory Requirements' in the Independent Auditors' Report of even date to the members of JHS Svendgaard Laboratories Limited on the financial statements for the year ended March 31, 2014]

- (i) (a) The Company has maintained proper records showing full particulars, including quantitative details *except for situation of fixed assets*.
- (b) The fixed assets are physically verified by the management according to phased program designed to cover all the items over a period of 3 years, which in our opinion is reasonable having regard to the size of the Company and nature of its assets. Pursuant to the programme, a portion of the fixed assets has been physically verified by the Management during the year and no material discrepancies have been noticed on such verification.
- (c) In our opinion and according to the information and explanations given to us, a substantial part of fixed assets has not been disposed of by the Company during the year.
- (ii) (a) The management has conducted physical verification of inventory at reasonable intervals during the year. 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 carried out at the end of the year.
- (iii) (a) The Company has granted interest free unsecured loans to three parties covered under section 301 of the Act. The maximum amount outstanding during the year and the year end balance of such loans are as follows:

Name of the party	Maximum balance outstanding during the year (Amount in Rs.)	Year end balance (Amount in Rs.)
JHS Svendgaard Dental Care Limited	403,445	403,445
JHS Svendgaard Mechanical and Warehouse Private Limited	129,581,453	129,581,453
Number One Real Estate Private Limited	18,174,541	16,784,158

- (b) In our opinion and according to the information and explanation given to us, the rate of interest and others terms and conditions for loans granted to Number One Real Estate Private Limited and JHS Svendgaard Dental Care Limited (fully provided for in books of Company) are prejudicial to the interest of the Company. The rate of interest and others terms and conditions of loans granted to JHS Svendgaard Mechanical and Warehouse Private Limited and are *prima facie* not prejudicial to the interest of the Company.



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- (c) In our opinion and according to the information and explanation given to us, in respect of the interest free loan granted to JHS Svendgaard Dental Care Limited and Number One Real Estate Private Limited, the terms of repayment of principal are not stipulated. Accordingly, we are unable to comment on regularity of the same. The interest free loan granted to JHS Svendgaard Mechanical and Warehouse Private Limited is not yet due for receipt as per the terms of agreement.
- (d) In the absence of repayment schedule for JHS Svendgaard Dental Care Limited and Number One Real Estate Private Limited, we are unable to comment on whether the amount is overdue as at the Balance Sheet date. In case of loan granted to JHS Svendgaard Mechanical and Warehouse Private Limited no amount is overdue on the Balance Sheet date.
- (e) The Company has taken loan from three parties covered in the register maintained under section 301 of the Companies Act, 1956. The maximum amount outstanding during the year and the year end balance of such loans are as follows:

Name of the party	Maximum balance outstanding during the year (Amount in Rs.)	Year end balance (Amount in Rs.)
Nikhil Nanda	149,443,525	138,183,525
Sushma Nanda	1,284,323	1,234,333
Apogee Manufacturing Private Limited	49,109,270	-

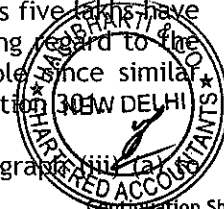
- (f) In our opinion, the rate of interest and other terms and conditions for loan taken from Nikhil Nanda are not, *prima facie*, prejudicial to the interest of the Company. In the absence of any agreement with other two parties, we are unable to comment whether the rate of interest and other terms and conditions for such loans are *prima facie*, prejudicial to the interest of the Company.
- (g) In our opinion, loan taken from Nikhil Nanda is interest free and as explained, repayment of loan has not been demanded. In the absence of any agreement with the other two parties, we are unable to comment on the regularity of repayment of principal amounts and interest thereon.
- (iv) In our opinion and according to the information and explanations given to us, there exists an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to purchase fixed assets and with regard to the sale of goods and services. In our opinion and according to the information and explanations given to us, the internal control system with regard to purchase of inventory needs to be strengthened to be commensurate with the size of the Company and the nature of its business.

During the course of our audit, we have not observed continuing failure to correct material weakness in internal control system of the company.

- (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 that need to be entered into register maintained under section 301 have been so entered.

(b) We are unable to comment if the transactions made with the parties listed in section 301 of the Act, in pursuance of such contracts or arrangements exceeding value of rupees five lakhs have been entered into during the financial year at prices which are reasonable having regard to the prevailing market prices at the relevant time as the prices are not comparable since similar transactions have not been undertaken with any other party not covered under section 301 of the Act.

Unsecured loans taken from and granted to parties have been dealt with in paragraph (iii)(g) above.



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- (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 and 58AA of the Act and the rules framed there under.
- (vii) *The system of Internal Audit of the Company needs to be strengthened and commensurate to the size and nature of its business.*
- (viii) We have broadly reviewed the books of account relating to the manufacture of Toothpastes, mouthwash and room fresheners pursuant to the Rules made by the Central Government of India, for the maintenance of cost records under clause (d) of sub-section (1) of Section 209 of the Companies Act, 1956 and we are of the opinion that *prima facie*, the prescribed accounts and records have been made and maintained. We have, however, not made a detailed examination of records with a view to determining whether they are accurate or complete. To the best of our knowledge and according to the information and explanations given to us, the Central government has not prescribed maintenance of cost records for any other products of the Company.
- (ix) (a) *Undisputed statutory dues including provident fund, employees' state insurance and tax deducted at source have not been regularly deposited with the appropriate authorities and there have been serious delays in large number of cases.* The Company is regular in depositing with appropriate authorities undisputed statutory dues including Income tax, wealth tax, sales tax and excise duty.

As explained, there is no amount due for deposit with Investor Education and Protection Fund.

According to the information and explanations given to us, custom duty is presently not applicable to the Company.

According to the information and explanations given to us, no undisputed amounts payable in respect of income-tax, wealth-tax, sales-tax, excise duty, tax deducted at source, service tax, tax collected at source, cess and other undisputed statutory dues were outstanding, at the year end, for a period of more than six months from the date they became payable.

According to the information and explanations given to us, undisputed amounts payable in respect of provident fund, employees' state insurance which were outstanding, at the year end for a period of more than six months from the date they became payable are as follows:

Name of the statute	Nature of the dues	Amount in Rs.	Period to which the amount relates	Due Date	Date of Payment
Employees Provident Fund and Miscellaneous Provisions Act, 1952	Provident fund	268,530	September 2013	October 2013 (including 5 days of grace period)	May 19, 2014 and May 27, 2014
Employee State Insurance Act, 1948	Employees' state insurance	14,935	April-September 2013	21st of the following month	May 19, 2014 and May 27, 2014

As explained, there is no amount due for deposit with Investor Education and Protection Fund.

According to the information and explanations given to us, custom duty is presently not applicable to the Company.

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(b) According to the information and explanations given to us, there are no dues of income tax, sales tax, wealth tax, service tax, excise duty and cess on account of any dispute which have not been deposited with the appropriate authorities.

- (x) The accumulated losses of the Company at the year end are not more than fifty percent of its net worth. Further, the Company has incurred cash losses during the financial year, however, it has not incurred cash losses in the immediately preceding financial year. The effects of qualifications described in the Basis of Opinion paragraph in our Audit Report are currently unascertainable and accordingly cash losses have not been adjusted for consequential effect resulting from such qualifications.
- (xi) In our opinion and according to the information and explanations given to us, the Company has defaulted in repayment of dues to financial institutions and banks. Details of such defaults are reported as under. There were no dues to debenture holders.

Name of Bank	Type of facility	Principal Due (Amount in Rs.)	Interest Due (Amount in Rs.)	Period of default	Date of rectifying the default
ICICI and Bank of India	Foreign currency loan from banks - External Commercial Borrowings (ECB)	481,367,332	155,650,408	Various dates in FY 2012-13 and FY 2013-14	Still continuing

- (xii) According to the information and explanations given to us and based on the documents and records produced to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (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 to the Company.
- (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 to the Company.
- (xv) According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions.
- (xvi) In our opinion, the term loans have been applied for the purpose for which the loans were raised.
- (xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that the Company has applied funds raised on short term basis for long term investment amounting to Rs. 507,652,838.
- (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 Act during the year.
- (xix) According to the information and explanations given to us, no debentures have been issued by the Company during the year.



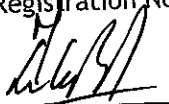
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(xx) The Company has not raised money by way of public issue during the year.

(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.

For Haribhakti & Co.
Chartered Accountants
Firm Registration No.103523W



Raj Kumar Agarwal
Partner
Membership No.074715



Place: New Delhi
Date : May 30, 2014