

Independent Auditors' Report

To
The Members of Morepen Laboratories Limited

Report on the Financial Statements

We have audited the accompanying financial statements of Morepen Laboratories Limited ("the company"), which comprise the Balance Sheet as at 31st March, 2013, 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 Principles generally accepted in India including 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 the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

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. 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 audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements, **subject to Note no. 37(e) of notes on financial statement regarding remuneration paid to directors of Rs. 304 lacs (including Rs. 50 lacs for the current year) without taking approval of Central Government**, 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 31st March,2013;
- 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 of the year ended on that date.

Report on other Legal and Regulatory Requirements

1. As required by the Companies (Auditor's 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 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 Balance Sheet, the Statement of Profit and Loss and the Cash Flow Statement dealt with by this Report are in agreement with the books of account.
 - d. In our opinion, the Balance Sheet, the Statement of Profit and Loss and the 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 31st March,2013, and taken on record by the Board of Directors, none of the directors is disqualified as on 31st March,2013 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Act.

For M Kamal Mahajan And Co.
Chartered Accountants
Firm Regn. No. 006855N



M Kamal Mahajan

(M K Mahajan)
(Partner)

Membership No.F-17418

Place : New Delhi
Date : 13th May,2013

Annexure to Independent Auditors' Report of Morepen Laboratories Limited

Referred to in Paragraph 1 under the heading of "Report on other Legal and Regulatory Requirements" of our report of even date.

- (i) a) The company has generally maintained proper records showing full particulars including quantitative details and situation of fixed assets except for items like pipe, meter instruments and other similar items.
- b) As explained to us, most of the fixed assets have been physically verified by the management during the year and we have been informed that no material discrepancy was noticed on such verification. In our opinion, the frequency of physical verification is reasonable having regard to the size of the company and nature of its business.
- c) During the year, the company has not disposed off substantial part of the fixed assets.
- (ii) a) As explained to us, the inventory has been physically verified at reasonable intervals by the management.
- b) In our opinion, the procedures of 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 verification between the physical stocks and the book records were not material and have been properly dealt with in the books of account.
- (iii) a) According to the information and explanations furnished to us, the company has not granted secured or unsecured loans to companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956.
- b) According to the information and explanations furnished to us, during the year, the company has not taken any fresh loan from companies, firms or other parties covered in the register maintained under Section 301 of the Act. However, the company has partly paid loan amount of Rs. 430 lacs of the existing loan taken from one company. Balance outstanding loan from the company is Rs. 1074 lacs. In our opinion, the rate of interest and other terms of the loan are prima facie not prejudicial to the interest of the company. **However, interest payment of Rs. 279 lacs is overdue for a period less than a year.** (Refer Note no. 4(II) of notes on financial statements)
- (iv) In our opinion and according to the information and explanations given to us, there is adequate internal control system commensurate with the size of the company and the nature of its business, for the purchases of inventory and fixed assets and for the sale of goods and service. Further during the course of audit, we have not come across any instance of major weakness in internal control.
- (v) a) Based on the audit procedures applied by us and according to the explanations provided by the management, we are of the opinion that the transactions that need



to be entered in the register maintained under section 301 of the act have been so entered.

- b) In our opinion and according to the information and explanations given to us, the transactions which have been entered into pursuant to contract that have been entered in the register maintained under Section 301 of the act have been made at prices which are reasonable having regard to prevailing market prices at the relevant time.
- (vi) With approval of scheme of Arrangement and Compromise u/s 391 of the Companies Act, 1956 for the fixed deposit holders by Hon'ble High Court of Himachal Pradesh at Shimla and issue of equity shares thereafter to the fixed deposit holders, in our opinion there is no default u/s 58A of the Companies Act, 1956.
- (vii) In our opinion and according to the information and explanations given to us, the company has an internal audit system commensurate with the size and nature of its business.
- (viii) We have broadly reviewed the books of accounts maintained by the company pursuant to rules made by the Central Government under section 209(1)(d) of the Companies Act, 1956 for maintenance of Cost records and are of the opinion that, prima facie, the prescribed accounts and records have been maintained. We have not, however, made a detailed examination of the records with a view to determine whether they are accurate or complete;
- (ix) According to the records of the company, the company, in general, is regular in depositing with appropriate authorities undisputed statutory dues including Provident Fund, Employees' State Insurance, Income Tax, Sales-tax, Wealth-tax, Service tax, Custom duty, Excise-duty, Cess and other statutory dues applicable to it and as on 31.3.2013, there are no statutory dues outstanding for a period exceeding six months. There is no amounts payable in respect of Income-tax, Sales-tax, Wealth tax, Service-tax Customs duty, cess were outstanding as at 31st March, 2013 due to any dispute. **According to the information provided to us, an amount of Rs. 1119 Lacs is disputed by the company in respect of excise duty matters under the Central Excise Act, 1944 pertaining to years from 2006-07 to 2012-13 and the matter is pending with Customs and Central Excise Appellate Tribunals- Rs. 469 Lacs and Commissioners of Central Excise- Rs. 650 Lacs.**
- (x) The accumulated losses of the company at the end of the financial year are not more than fifty percent of its net worth. The company has not incurred cash losses during the financial year covered by our audit and in the immediately preceding financial year.
- (xi) **Based on our audit procedures and on the information and explanations given by the management the company has defaulted in repayment of dues to financial institutions amounting to Rs. 261 lacs for a period less than three months. (Refer Note no. 4(l)(e) of notes on financial statements)**



- (xii) Based on our examination of documents and records, we are of the opinion that the company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (xiii) The company is not a chit fund/nidhi/mutual benefit fund/societies.
- (xiv) The company is not dealing or trading in shares, securities, debentures and other investments.
- (xv) In our opinion, and according to the information and explanations given to us and on the basis of our verification of books of accounts of the company and based on our examination of the records, we are of the opinion that the company has not given any guarantee for loans taken by others from bank or financial institutions.
- (xvi) According to the information and explanations given to us and on the basis of our verification of books of accounts of the company, we are of the opinion that the term loans have been applied for the purpose for which they were raised.
- (xvii) According to the information and explanations given to us and on the basis of our verification of books of accounts of the company, we are of the opinion that funds raised from short term basis were not used for long term investment.
- (xviii) During the year, 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.
- (xix) The company has no debentures as on 31.3.2013 and hence this clause is not applicable to the company.
- (xx) During the year covered by our audit report, the company has not raised any money by way of public issue hence provisions of this clause are not applicable to it.
- (xxi) Based upon the audit procedures performed and information and explanations given by the management, we report that no fraud on or by the company has been noticed or reported during the year.

For M Kamal Mahajan And Co.
Chartered Accountants
Firm Regn. No. 006855N



(M K Mahajan)
(Partner)

Membership No.F-17418

Place : New Delhi
Date : 13th May,2013

CHARTERED ACCOUNTANTS

Independent Auditors' Report

To

The Board of Directors of Morepen Laboratories Limited

We have audited the accompanying consolidated financial statements of Morepen Laboratories Limited ("the company") and its subsidiaries (**as per list appearing in Note 1(1)(a) of Financial Statements**), collectively referred to as "Morepen Group", which comprise the Consolidated Balance Sheet as at 31st March, 2013, 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 that give a true and fair view of the consolidated financial position, consolidated financial performance and consolidated cash flows of the companies in accordance with the accounting principles generally accepted in India. This responsibility 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 the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of 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. 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 did not audit the financial statements of the foreign subsidiaries of the company whose financial statements reflect total assets of Rs. 203 Lacs as at 31st March, 2013, total revenues of Rs. 65 lacs and cash flows amounting to Rs. 4 Lacs for the year then ended. These financial statements have not been audited by us in view of which our



opinion on consolidated financial statements is limited to the financial statements of the parent company and its two domestic subsidiary companies only.

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

Opinion

In our opinion and to the best of our information and according to the explanations given to us, and on the consideration of the separate audit reports of the financial statements of the parent company and its two domestic subsidiaries and on the other financial information of the components the aforesaid consolidated financial statements **subject to Note no. 11(b) of the Consolidated Financial Statements regarding dispute in respect of ownership of Trademark "Burnol" and Note no. 34(e) of the Consolidated Financial Statements regarding remuneration paid to directors of Rs. 304 lacs (including Rs. 50 lacs for the current year) without taking approval of Central Government,** 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 Company as at 31st March, 2013;
- b) in the case of the Consolidated Statement of Profit and Loss, of the loss for the year ended on that date; and
- c) in the case of the Consolidated Cash Flow Statement, of the cash flows of the year ended on that date.

For M Kamal Mahajan And Co.
Chartered Accountants
Firm Regn. No. 006855N



Mou Mohan Kamal

(M K Mahajan)
(Partner)

Membership No.F-17418

Place : New Delhi
Date : 13th May, 2013