

INDEPENDENT AUDITORS' REPORT

To the Members of
Hindustan Dorr Oliver Limited

1. Corporate Insolvency Proceedings as per Insolvency and Bankruptcy Code, 2016 (IBC)

The Hon'ble Company Law Tribunal, Mumbai ("NCLT") admitted an insolvency and bankruptcy petition filed by a financial creditor against **Hindustan Dorr Oliver Limited** ("the Company") and appointed Mr. Amit Gupta as Interim Resolution Professional (IRP) in terms of the Insolvency and bankruptcy Code, 2016 (the Code") to carry out the functions of the Company as mentioned under the code.

2. Report on the Standalone Financial Statements

We have audited the accompanying standalone financial statements of Hindustan Dorr Oliver Limited ("the Company"), which comprise the Balance Sheet as at March 31, 2017, the Statement of Profit and Loss (including other comprehensive income), the Statement of Cash Flow and the Statement of Changes in Equity for the year then ended, and a summary of significant accounting policies and other explanatory information for the year then ended.

3. Management's Responsibility for the Standalone Financial Statements

The Company's Board of Directors is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation and presentation of these standalone financial statements that give a true and fair view of the financial position, financial performance (including other comprehensive income), cash flows and changes in equity of the Company in accordance with the accounting principles generally accepted in India, including the Indian Accounting Standards specified under Section 133 of the Act, read with relevant Rules issued thereunder. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, 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.

Further, as per section 134 of the Companies Act, 2013, the standalone financial statements of a Company are required to be authenticated by the Chairperson of the Board of Directors, where authorized by the Board or at least two Directors, of which one shall be the Managing Director or the CEO (being a Director), the CFO and the Company Secretary where they are appointed. In view of the pendency of Corporate Insolvency Resolution Process (CIRP), these powers are, including aforementioned responsibility for the standalone financial statements, in terms of the code, now vested with Mr. Amit Gupta as Interim Resolution Professional (IRP) to carry out the functions of the Company in his capacity as the IRP from April 21, 2017. Further, pursuant to the order of NCLT, a public announcement of CIRP was made on May 05, 2017 and a Committee of Creditors (COC) was formed pursuant to the provisions of the code and COC held their first meeting on June 01, 2017 and inter alia confirmed Interim Resolution Professional as Resolution professional (RP) for the Company.

4. Auditors' Responsibility

Our responsibility is to express an opinion on these standalone financial statements based on our audit. While conducting the audit, we have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made there under.

We conducted our audit in accordance with the Standards on Auditing specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the standalone financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the standalone financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the standalone financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Company's preparation of the standalone 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 the accounting policies used and the reasonableness of the accounting estimates, made by the Company's Directors, as well as evaluating the overall presentation of the standalone financial statements. However, in view of the pendency of Corporate Insolvency Resolution Process (CIRP), these powers are vested with Mr. Amit Gupta as Resolution Professional.

AUDITORS' REPORT (Contd.)

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

5. Basis for Qualified Opinion

We refer to the following notes to the standalone financial statement;

- a. Note 36 and note 37 in respect of initiation of Corporate Insolvency Resolution Process (CIRP) and preparation of financial statements of the Company on going concern basis for the reasons stated therein. The accumulated losses of the Company as at March 31, 2017 amounting to ₹15,214.25 million have exceeded its net worth. Further, the Company's current liabilities exceed current assets. The Company has obligations towards borrowings aggregating to ₹16,683.44 million which include working capital loan and outstanding bank guarantees from banks. The Company has also obligations pertaining to operations including unpaid creditors and statutory dues. These matters require the Company to generate additional cash flows to fund the operations as well as other statutory obligations notwithstanding the current level of low operating activities. This indicates the existence of a material uncertainty that cast significant doubt on the Company's ability to continue as going concern and therefore the Company may be unable to realize its assets and discharge its liabilities in the normal course of business. The standalone financial statement does not include any adjustment in this respect;
- b. Note 38 in respect of various claims, submitted by the financial creditors, operational creditors, workmen or employee and authorized representative of workmen and employees of the Company to Resolution Professional pursuant to the Insolvency and Bankruptcy Board of India (Insolvency Resolution Process for Corporate Persons) Regulation 2016 that are currently under consideration/ reconciliation. Pending reconciliation/admission of such claims by the RP, we are unable to comment on the consequential impact, if any, on the accompanying statement;
- c. Note 39 in respect of invocation of corporate guarantees aggregating to ₹2,309.85 million and initiation of recovery actions against the company in earlier year in respect of such guarantees extended / executed for its one Indian subsidiary (HDO Technologiess Limited) in favour of the lenders. In view of the ongoing Corporate Insolvency Resolution Process (CIRP), we are unable to determine the impact on the standalone financial statement pending conclusion of CIRP;
- d. Note 40 regarding investments in one of the Indian subsidiary (HDO Technologiess Limited) that is incurring losses and its net worth is eroded, having book value aggregating to ₹1,538.00 million as at March 31, 2017 and subsequent to year end corporate insolvency resolution process has been initiated. In view of above, Company may not be able to realize such investment. Had the loss allowance in respect of such investment been recognized, the loss after tax would have been higher by ₹1,538.00 million and total assets and net worth would have been lower by ₹1,538.00 million respectively;
- e. Note 41 in respect of overdue trade receivables aggregating to ₹283.12 million pertaining to certain projects wherein the Management of the Company is yet to assess loss allowance/expected credit loss on such trade receivables. Had the loss allowance in respect of such trade receivables been recognized, the loss after tax would have been higher by ₹283.12 million and total assets and net worth would have been lower by ₹283.12 million respectively;
- f. Note 42 wherein external confirmation are not available in respect of trade receivables including retention money, certain bank balances aggregating to ₹1.99 million and trade payables/ mobilization advances. The Company is yet to assess loss allowance/expected credit loss on such trade receivables. Accordingly, we are unable to quantify the impact, if any, arising from the confirmation of balances/ loss assessment;
- g. Note 43 and 44 in respect of corporate guarantee extended by the company, in earlier year and disclosed during the year, in favor of security trustee of the CDR Lenders of the holding company, corporate guarantee and financial guarantees extended to contractee/clients by the company and by the lenders respectively. The Company is yet to assess the changes in risk / expected cash shortfall to determine expected credit loss allowance/ impairment to be recognized in respect of these financial guarantees. The loss allowance in respect of these guarantees is indeterminable; accordingly, we are unable to comment on the consequential impact, if any, on the standalone financial statements;
- h. Note 45 in respect of balances available with statutory authorities and input credits aggregating to ₹121.31 million that are subject to reconciliation, filing of return and admission by the respective statutory authorities and no provision has been made thus, we are unable to comment whether any provision for impairment in the value of advances is required;

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- i. Note 46 in respect of write back of various trade payable, provisions and advances from customers aggregating to ₹ 1,076.45 million for the reasons stated therein. Had the various trade payable, provisions and advances from customers not been written back, total liabilities and the loss after tax would have been higher by ₹ 1,076.45 million and net worth would have been lower by ₹ 1,076.45 million respectively.

6. 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 matters described under paragraph 4(d), 4(e) and 4(i) and possible effects of the matters described under paragraph 4(a), 4(b), 4(c), 4(f), 4(g) & 4 (h) in the basis for qualified opinion, the aforesaid standalone 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 including the Indian Accounting Standards notified under Section 133 of the Act, of the state of affairs of the Company as at March 31, 2017, and its losses (including other comprehensive income), its cash flows and the changes in equity for the year ended on that date.

7. Other Matter

The comparative financial information of the Company for the year ended March 31, 2016 and the transition date opening balance sheet as at April 01, 2015 included in the financial statements, are based on the previously issued audited financial statements for the years ended March 31, 2016 and March 31, 2015 prepared in accordance with the Companies (Accounting Standards) Rules, 2006 (as amended) on which we issued auditors' report to the shareholders of the company dated May 30, 2016 and May 30, 2015 respectively expressing modified opinion on those standalone financial statements. The differences in the accounting principles adopted by the Company on transition to the Ind AS have been audited by us. Our opinion is not qualified in respect of this matter.

8. Report on Other Legal and Regulatory Requirements

1. As required by the Companies (Auditor's Report) Order, 2016 ("the Order"), as amended, issued by the Central Government of India in terms of section 143 (11) of the Act, we give in the "**Annexure A**" a statement on the matters specified in paragraphs 3 and 4 of the Order.
2. As required by section 143 (3) of the Act, we report that:
 - a) We have sought and except for the matters described under "Basis for qualified opinion" paragraph and paragraph 2(i)(iv), of Report on Other Legal and Regulatory Requirements have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
 - b) Except for the effects/possible effects of matters described in the "Basis for qualified opinion" paragraph, in our opinion proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books.
 - c) The Balance Sheet, the Statement of Profit and Loss (including other comprehensive income), the Statement of Cash Flow and the Statement of Changes in Equity dealt with by this Report are in agreement with the books of account.
 - d) in our opinion, except for the effects/possible effects of matters described in the "Basis for qualified opinion" paragraph, the aforesaid standalone financial statements comply with the Indian Accounting Standards specified under section 133 of the Act, read with relevant Rules issued thereunder.
 - e) The matters described under "Basis for Qualified Opinion" above and in **Annexure 'A'** and **Annexure 'B'** of the Report, in our opinion, have an adverse effect on the functioning of the Company;
 - f) The company has received the written representations from the directors as on March 31, 2017. These written representations have, however, not been taken on record by the Board of Directors. Therefore, we are unable to comment whether any of the directors is disqualified as on March 31, 2017 from being appointed as a director in terms of Section 164 (2) of the Act.
 - g) The qualification relating to the maintenance of accounts and other matters connected there with are as stated in the Basis for Qualified Opinion paragraph and in **Annexure 'A'** and **Annexure 'B'** of the Report;
 - h) With respect to the adequacy of the internal financial controls over financial reporting of the Company and the operating effectiveness of such controls, refer to our separate Report in "**Annexure B**". Our report expresses a disclaimer of opinion on the adequacy and operating effectiveness of the Company's internal financial control over financial reporting.
 - i) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the information and explanations given to us:

AUDITORS' REPORT (Contd.)

- i. The Company has disclosed the impact of pending litigations on its financial position in its standalone financial statements (Refer Note 35);
- ii. Except for the effects/possible effects of matters described under basis of qualified opinion paragraph, the Company has made provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts and derivative contracts if any.
- iii. There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company during the year ended March 31, 2017;
- iv. The Company has not provided certain requisite disclosures in the financial statements as to holdings as well as dealings in Specified Bank Notes during the period from November 08, 2016 to December 30, 2016. Consequently, we are unable to obtain sufficient and appropriate audit evidence to report whether the disclosures to the extent stated in the notes are in accordance with books of account maintained by the Company and as produced to us by the Management (Refer note 54).

For CHATURVEDI & PARTNERS
Chartered Accountant
Firm Registration No. 307068E

ANUJ MAHANSARIA
Partner
Membership No. 500819

Mumbai
July 26, 2017

Annexure 'A' to the Independent Auditors' Report

Referred to in paragraph 1 under the heading 'Report on Other Legal and Regulatory Requirement' of our report of even date to the standalone financial statements of the Company for the year ended March 31, 2017:

- (i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets;
 - (b) Fixed assets were not physically verified by the management during the year. Hence, we are unable to comment whether there are any material discrepancies and any adjustment is required in the books of account.
 - (c) The title deeds of immovable properties are held in the name of the Company. According to the information and explanation given to us, the original title deeds are held by the lenders.
- (ii) The company did not have any inventory as at the year end. Physical verification of inventories has not been conducted at reasonable intervals by the management. Accordingly, we are unable to comment whether any material discrepancies existed and their treatment in the books of account.
- (iii) The Company had in earlier year, granted interest free unsecured loans and advances of ₹1422.37 million to one of its wholly own subsidiary company.
 - (a) In our opinion, the terms and conditions of the loans granted by the company having regard to the cost of funds to the company are prejudicial to the interest of the company;
 - (b) The schedule of the repayment of the principal has not been stipulated; hence we are unable to comment as to whether repayments are regular.
 - (c) As the schedule of repayment has not been stipulated and considering the provision for such loans, we are unable to comment whether any amount is overdue and whether reasonable steps have been taken by the company for recovery of the principal.
- (iv) In our opinion and according to the information and explanation given to us, the Company has not given loans, investment, guarantees and security during the year within Section 185 of the Companies Act, 2013. The company has complied with section 186 of the Companies Act, 2013 in respect of guarantee and investment during the year.
- (v) According to the information and explanations given to us, the Company has not accepted any deposits within the meaning of Sections 73 to 76 of the Companies Act, 2013, and the rules framed there under to the extent notified.
- (vi) We have broadly reviewed the cost records maintained by the Company pursuant to the Rules made by the Central Government under sub-section (1) of Section 148 of the Companies Act, 2013 and 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 these records with a view to determining whether they are accurate or complete.

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- (vii) (a) According to information and explanations given to us and records of the Company examined by us, the Company has not been depositing undisputed statutory dues in respect of provident fund, employee's state insurance, income-tax, sales tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues with the appropriate authorities. There have been significant delays in a large number of cases in depositing these dues with the appropriate authorities. Further, the effect of pending reconciliation of service tax and VAT from previous year cannot be ascertained. The amounts payable in respect of these statutory dues which were outstanding as on March 31, 2017 for a period of more than six months from the date they became payable are given in **Appendix-I** to this report.
- (b) According to the information and explanations given to us and records of the Company examined by us, particulars of dues outstanding in respect of income tax, sales tax, service tax, duty of customs, duty of excise and value added tax which have not been deposited on account of any dispute are given in **Appendix-II** to this report.
- (viii) According to the information and explanations given to us, there are no loans or borrowings payable to the Government, financial institutions and debenture holders. The Company has defaulted in repayment of loans or borrowing, including interest thereon, from banks. The details of such defaults are given in **Appendix-III**.
- (ix) According to the information and explanations given to us, the Company has not raised moneys by way of initial public offer or further public offer (including debt instruments) and the company has not taken any term loans during the year. Therefore, the provisions of Para 3 (ix) of the Order are not applicable to the Company.
- (x) According to the information and explanations given to us, no fraud by the Company or on the Company by its officers or employees have been noticed or reported during the year.
- (xi) According to the information and explanations given to us and based on the audit procedures conducted by us, during the year, no managerial remuneration has been paid. Therefore, the provisions of Para 3 (xi) of the Order are not applicable to the Company.
- (xii) In our opinion and according to the information and explanation given to us, the Company is not a Nidhi Company. Therefore, the provisions of Para 3 (xii) of the Order are not applicable to the Company.
- (xiii) In our opinion and according to the information and explanations given to us, the company has not complied with section 177 and 188 of Companies Act, 2013, where applicable in relation to the transactions with the related parties. The details in relation to the transactions with the related parties have been disclosed in the Financial Statements as required by the applicable accounting standards. The detail of non-compliance of section 177 and 188 of Companies Act, 2013 are as follows:

Nature of the related party relationship	Nature of Transaction	Amount (₹million)	Remarks
Subsidiary	Purchase/Services	106.15	No Approval
Subsidiary	Payment made by the Company for expenses	0.12	No Approval
Subsidiary	Payment made for the company for expenses	10.65	No Approval
Company under common control	Rent Expenses	2.65	No Approval
Key Managerial Personnel	Loan Received	3.00	No Approval

- (xiv) According to the information and explanations given to us, the Company has not made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year. Accordingly, the provisions of Para 3 (xiv) of the order are not applicable to the Company.
- (xv) According to the information and explanations given to us, the company has not entered into any non-cash transactions with directors or persons connected with them. The provisions of clause 3 (xv) of the Order are not applicable to the company.
- (xvi) In our opinion, the Company is not required to be registered under section 45 IA of the Reserve Bank of India Act, 1934.

For CHATURVEDI & PARTNERS
Chartered Accountant
Firm Registration No. 307068E

ANUJ MAHANSARIA
Partner
Membership No. 500819

Mumbai
July 26, 2017

AUDITORS' REPORT (Contd.)

Annexure 'B' to the Independent Auditors' Report of even date on the Standalone Financial Statements of HINDUSTAN DORR OLIVER LIMITED

Report on the Internal Financial Controls under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 ("the Act")

We have audited the internal financial controls over financial reporting of **HINDUSTAN DORR OLIVER LIMITED** ("the Company") as of March 31, 2017 in conjunction with our audit of the standalone financial statements of the Company for the year ended on that date.

Management's Responsibility for Internal Financial Controls

The Company's management is responsible for establishing and maintaining internal financial controls based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India. These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013.

Auditors' Responsibility

Our responsibility is to express an opinion on the Company's internal financial controls over financial reporting based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (the "Guidance Note") and the Standards on Auditing, to the extent applicable to an audit of internal financial controls, both issued by the Institute of Chartered Accountants of India.

Because of the matter described in Disclaimer of Opinion paragraph below, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on internal financial controls system over financial reporting of the Company.

Meaning of Internal Financial Controls Over Financial Reporting

A company's internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal financial control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Financial Controls Over Financial Reporting

Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Basis for Disclaimer of Opinion

The Company did not have any internal audit system during the year as required as per section 138 of Indian Companies Act, 2013 read with Rule 13 of Companies (Accounts) Rules, 2014. Further, the Company did have material weakness in the following areas of internal financial controls over (a) Assessment of provision required in respect of invocation of corporate guarantees and initiation of recovery actions against the Company in respect of such guarantees extended / executed for its subsidiary in favour of the lenders; (b) Assessment of "Fair Valuation" of long term equity investment and assessment of recoverability of loans and advances to subsidiary company whose net worth has eroded and continues to incur losses as on March 31, 2017; (c) Assessment of loss allowance/ expected credit loss on past due trade receivables and obtaining external balance confirmation for trade receivables/trade payables and bank balances; (d) assessment of loss allowance



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that may be required in respect corporate guarantee given to the lenders of the Parent Company; (e) Control over reconciliation of subcontractors work bills with the work bills submitted to the clients and physical progress of works completed, which could potentially result into inaccurate estimation of percentage of work completed and consequently delay in the realization of unbilled revenue/ receivables; (f) Controls over projects costs estimation and review of balance costs to complete in respect of work projects, which could potentially result into inaccurate estimation of foreseeable losses on works contracts; (g) reconciliation of VAT/service tax and assessment of recoverability of advances appearing against such statutory authorities.

Disclaimer of Opinion

According to the information and explanation given to us and as stated in "basis of disclaimer of opinion" paragraph above, the Company does not have adequate internal financial control over financial reporting on criteria based on or considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India. Because of this reason, we are unable to obtain sufficient appropriate audit evidence to provide a basis for our opinion whether the Company had adequate internal financial controls over financial reporting and whether such internal financial controls were operating effectively as at March 31, 2017.

We have considered the disclaimer reported above in determining the nature, timing, and extent of audit tests applied in our audit of the standalone financial statements of the Company, and the disclaimer has affected our opinion on the standalone financial statements of the Company and we have issued qualified opinion on the standalone financial statement.

Mumbai
July 26, 2017

For CHATURVEDI & PARTNERS
Chartered Accountant
Firm Registration No. 307068E

ANUJ MAHANSARIA
Partner
Membership No. 500819