

Independent Auditors' Report

To the Members of
The Oudh Sugar Mills Limited

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of The Oudh Sugar Mills Limited ("the Company"), which comprise the Balance Sheet as at March 31, 2016, 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

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 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 accounting principles generally accepted in India, including the Accounting Standards specified under section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of 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 the design, implementation and maintenance of adequate internal financial control 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our 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 thereunder. We conducted our audit in accordance with the Standards on Auditing, issued by the Institute of Chartered Accountants of India, as 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 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 auditor's 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 financial control relevant to the Company's preparation of the 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 the Company's Directors, 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 on the financial statements.

BASIS FOR QUALIFIED OPINION

As indicated in Note 14 to the financial statements, the Company continues to carry Deferred Tax Asset (DTA) (net) of ₹ 12,810.10 lacs (after reversal of ₹ 94.81 lacs during the year) up to March 31, 2016, based on the future profitability projections made by the management. In our opinion, in the absence of virtual certainty about the above projections, as required in terms of Accounting Standard - 22, had the above impact been considered, there would have been a loss of ₹ 12,186.99 lacs during the year as against the reported profit of ₹ 623.11 lacs and reserves & surplus as at the balance sheet date would have been (-) ₹ 27,288.94 lacs as against the reported figure of (-) ₹ 14,478.84 lacs.

Our audit opinion on the financial statements for the previous year was also qualified in respect of the above matter.

QUALIFIED OPINION

In our opinion and to the best of our information and according to the explanations given to us, except for the effect of the matter stated 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 of the state of affairs of the Company as at March 31, 2016, of its profit, and its cash flows for the year ended on that date.

EMPHASIS OF MATTER

- a) We draw attention to Note 38 to the financial statements regarding erosion of net worth of the Company. The Company has earned profits during

the current year consequent to improved realisation and sugar yields. Further, the Company is also undergoing Business Restructuring as described in Note 37 to the financial statements. Based on above factors, these financial statements have been drawn as per the going concern assumption.

- b) We draw attention to Note 37 to the financial statements in respect of composite scheme of arrangement to re-structure and de-link the Company's multiple businesses into separate entities w.e.f 1st April, 2015 subject to necessary approvals more fully described therein. Pending such approvals, no adjustment has been made in these accounts.

Our opinion is not qualified in respect of above matters.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1. As required by the Companies (Auditor's report) Order, 2016 ("the Order") issued by the Central Government of India in terms of sub-section (11) of section 143 of the Act, we give in the Annexure 1 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 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 of the matter described in the Basis for Qualified Opinion paragraph above, 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 effects of the matter described in the Basis for Qualified Opinion paragraph above, in our opinion, the aforesaid financial statements comply with the Accounting Standards specified under section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014;

- (e) The matter described in the Basis for Qualified Opinion and point (a) of Emphasis of matter paragraph above, in our opinion, may have an adverse effect on the functioning of the Company;
- (f) On the basis of written representations received from the directors as on March 31, 2016, and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2016, from being appointed as a director in terms of section 164 (2) of the Companies Act, 2013;
- (g) The qualification relating to the maintenance of accounts and other matters connected therewith are as stated in the Basis for Qualified Opinion paragraph above.
- (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 2" to this report;
- (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 explanations given to us:
 - i. The Company has disclosed the impact of pending litigations on its financial position in its financial statements – Refer Note 7 & 35 to the financial statements;
 - ii. The Company did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses.
 - iii. There were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Company.

For **S.R.Batliboi & Co. LLP**
Chartered Accountants
Firm registration number : 301003E/E300005

per **Kamal Agarwal**
Partner

Place : Kolkata
Date : May 13, 2016

Membership no.: 58652

Annexure 1 referred to in paragraph 1 under the heading "Report on Other Legal and Regulatory Requirements" of our report of even date to the members of The Oudh Sugar Mills Limited as at and for the year ended March 31, 2016

- (i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) Fixed assets were physically verified by the management during the year in accordance with a planned programme of verifying all of them once in three years which, in our opinion, 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) According to information and explanations given by the management, the title deeds of immovable properties, included in Fixed Assets are held in the name of the Company except in respect of land aggregating ₹ 433.26 lacs where the title deeds are yet to be executed in favour of the Company. Further, in respect of land aggregating ₹ 1,731.82 lacs as at March 31, 2016, original title deeds were not available with the Company since as explained, the title deeds thereof are lying with the banks as security towards various credit facilities and hence we are unable to comment on the same.
- (ii) The management has conducted physical verification of inventory at reasonable intervals during the year and no material discrepancies were noticed on such physical verification.
- (iii) According to the information and explanations given to us, the Company has not granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 189 of the Companies Act, 2013. Accordingly, the provisions of clause 3(iii) (a), (b) and (c) of the Order are not applicable to the Company and hence not commented upon.
- (iv) In our opinion and according to the information and explanations given to us, there are no loans, investments, guarantees and securities granted in respect of which provisions of section 185 and 186 of the Companies Act 2013 are applicable and hence not commented upon.
- (v) The Company has not accepted any deposits from the public.
- (vi) We have broadly reviewed the books of account maintained by the Company pursuant to the rules made by the Central Government for the maintenance of cost records under section 148(1) of the Companies Act, 2013 in respect of its products and are of the opinion that prima facie, the specified accounts and records have been made and maintained. We have not, however, made a detailed examination of the same.
- (vii) (a) Undisputed statutory dues including provident fund, employees' state insurance, income-tax, sales-tax, service tax, duty of custom, duty of excise, value added tax, cess and other material statutory dues have generally been regularly deposited with the appropriate authorities though there has been a slight delay in a few cases.
- (b) According to the information and explanations given to us, no undisputed amounts payable in respect of provident fund, employees' state insurance, income-tax, , service tax, sales-tax, duty of custom, duty of excise, value added tax, cess and other material statutory dues were outstanding, at the year end, for a period of more than six months from the date they became payable.
- (c) According to the records of the Company, the dues outstanding in respect of sales tax, income tax, custom duty, wealth tax, service tax, excise duty, value added tax & cess on account of any dispute, are as follows:-

Name of the statute	Nature of dues	Amount (₹ in lacs)	Period to which the amount relates	Forum where dispute is pending
Bihar Finance Act, 1981	Tax on sale of Alcohol for non-submission of declaration forms	4.19	1995-96	Appellate Tribunal, Patna
U.P. Tax on Entry of Goods Act, 2007	Interest demand on Entry Tax on Sugar	0.74	2008-09	Joint Commissioner Appeal
Central Sales Tax Act, 1956	Central Sales Tax demand on Stock transfer	5.71	1999-00, 1993-94, 1996-97 to 1997-1998, 2000-2001, 2011-2012 to 2012-2013	Joint Commissioner (Appeals) / High Court, Allahabad
	Taxability on alcohol sale	10.47	1977-78 to 1981-82	Appellate Tribunal, Lucknow
	Demand for Sales Tax due to non-submission of Declaration Forms	9.31	2002-03 to 2003-04, 2006-2007	Appellate Tribunal, Patna/ Lucknow,

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	Demand for Sales Tax due to non-submission of Declaration Forms	9.31	2002-03 to 2003-04, 2006-2007	Appellate Tribunal, Patna/ Lucknow,
	Demand for VAT on sale of denatured spirit and various other matter	319.36	2000-01, 2006-2007, 2009-10, 2010-11, 2011-12, 2012-13, 2014-15	High Court, Lucknow, Tribunal, Lucknow/Bihar, 1st appeal Sitapur/Gorakhpur,
Central Excise Act, 1944	Disallowance of Cenvat Credit on Certain inputs / capital items / input services	4,331.58	1996-97 to 2015-16	Commissioner Appeal / CESTAT / High Court, Allahabad
	Excise Duty on burnt / waste and loss on storage of molasses etc.	28.87	1977-78, 1990-1991 2002-03 to 2004-05 & 2010-11	Commissioner (Appeals) / High Court, Allahabad
	Demand towards differential amount of sugar cess on duty paid stock	43.47	2007-08	CESTAT
State Act	Administration Charges on Molasses	116.29	1995-96 to 1999-00	Supreme court of India
	Demand of Electricity Duty on Sale of Electricity	162.02	2010-11 to 2012-13	High Court, Patna

- (viii) According to information and explanations given by the management, we are of the opinion that the Company has not defaulted in repayment of dues to bank or government. The Company did not have any outstanding dues in respect of a financial institutions or debenture holders during the year.
- (ix) According to the information and explanations given by the management, term loans were applied for the purpose for which the loans were obtained. The Company has not raised any money way of initial public offer / further public offer / debt instruments during the year.
- (x) Based upon the audit procedures performed for the purpose of reporting the true and fair view of the financial statements and according to the information and explanations given by the management, we report that no fraud by the Company or no fraud on the Company by the officers and employees of the Company has been noticed or reported during the year.
- (xi) According to the information and explanations given by the management, the provisions of section 197 read with Schedule V of the Act is not applicable to the company and hence reporting under clause 3(xi) are not applicable and hence not commented upon.
- (xii) In our opinion, the Company is not a nidhi company. Therefore, the provisions of clause 3(xii) of the order are not applicable to the Company and hence not commented upon.
- (xiii) According to the information and explanations given by the management, transactions with the related parties are in compliance with section 177 and 188 of Companies Act, 2013 where applicable and the details have been disclosed in the notes to the financial statements, as required by the applicable accounting standards.
- (xiv) According to the information and explanations given to us and on an overall examination of the balance sheet, the Company has not made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year under review and hence not commented upon
- (xv) According to the information and explanations given by the management, the Company has not entered into any non-cash transactions with directors or persons connected with him as referred to in section 192 of Companies Act, 2013.
- (xvi) According to the information and explanations given to us, the provisions of section 45-IA of the Reserve Bank of India Act, 1934 are not applicable to the Company.

For **S.R.Batliboi & Co. LLP**

Chartered Accountants

Firm registration number : 301003E/E300005

per **Kamal Agarwal**

Partner

Membership no.: 58652

Place : Kolkata

Date : May 13, 2016

Annexure 2 to the Independent Auditors' Report (referred to in our report of even date to the members of The Oudh Sugar Mills Limited as at and for the year ended 31st March, 2016)

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 The Oudh Sugar Mills Limited ("the Company") as of March 31, 2016 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 the 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.

AUDITOR'S 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 as specified under section 143(10) of the Companies Act, 2013, to the extent applicable to an audit of internal financial controls, both applicable to an audit of Internal Financial Controls and, both issued by the Institute of Chartered Accountants of India. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting was established and maintained and if such controls operated effectively in all material respects.

Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness. Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the internal financial controls system over financial reporting.

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.

QUALIFIED OPINION

According to the information and explanation given to us and based on our audit, the following material weakness has been identified as at March 31, 2016:

The Company's internal financial controls over recognition of deferred tax asset and controls over assessing virtual certainty in recognition of deferred tax asset, were not operating effectively which has resulted in material misstatement whereby the Company has recognised deferred tax assets without establishing virtual certainty under Accounting Standard 22 – Accounting for Taxes on Income notified under the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014.

A 'material weakness' is a deficiency, or a combination of deficiencies, in internal financial control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

In our opinion, the Company has, in all material respects, maintained adequate internal financial controls over financial reporting as of March 31, 2016, 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, and except for the effects of the material weakness described above on the achievement of the objectives of the control criteria, the Company's internal financial controls over financial reporting were operating effectively as of March 31, 2016.

EXPLANATORY PARAGRAPH

We also have audited, in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, as specified under Section 143(10) of the Act, the standalone financial statements of The Oudh Sugar Mills Limited, which comprise the Balance Sheet as at March 31, 2016, and the related 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. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the March 31, 2016 standalone financial statements of The Oudh Sugar Mills Limited and has affected our opinion on the standalone financial statements of the company and we have issued a modified opinion on the standalone financial statements dated May 13, 2016.

For **S.R.Batliboi & Co. LLP**
Chartered Accountants

Firm registration number : 301003E/E300005

per **Kamal Agarwal**
Partner

Place : Kolkata
Date : May 13, 2016

Membership no.: 58652