

INDEPENDENT AUDITORS' REPORT**TO THE MEMBERS OF PENTAMEDIA GRAPHICS LIMITED****REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of Pentamedia Graphics Limited (the Company), which comprise the Balance Sheet as at March 31, 2019, the statement of Profit and Loss the Statement of Changes in Equity 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 Management 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 the Accounting Standards notified under Section 133 of Companies Act, 2013 read with rule 7 of the Companies (Accounts) Rules, 2014 and in accordance with the accounting principles generally accepted in India.

This responsibility includes the 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 control, that were operating effectively 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.

AUDITORS' 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 the matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder and the Order under section 143(11) of the Act.

We conducted our audit of the financial statements 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 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 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 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 audit opinion.

Basis for Qualified Opinion**Attention is invited to:**

1. Product Rights to an extent of Rs.39.12 crores continued for the last 3 years. Whereas in the current year, as per the Management certification and as per an Independent Auditor certification, as the present market value is not ascertainable the Estimated Life of the said Asset is taken as 10 years and leaving a residual value of 20% equivalent to Rs. 7.82 crores, the balance of Rs. 31.28 crores is depreciated @10% over a period of 10 years. How ever since the realizable value is not known, if there is a difference in the realizable value, the same would have impact on the Profit/Loss Statement and hence qualified.
2. Under Intangible assets, Capital Work in Progress to an extent of Rs, 5.05 Crore continued for the last 3 years. As per the Management certification and as per technical report, the present market/realizable value is not ascertainable and hence if there is difference in realizable value, the same would have impact on the Profit/Loss statement and hence qualified.
3. Depreciation on Digital contents is provided @Rs.1.83 crores as decided by the Management in FY 2017-18 and continued in the same manner.
4. Inventories comprising of Work in progress of Rs. Rs2.06 crores and Distribution rights of Rs. 8.07 cores are valued at cost and Market Value not ascertainable as per the Management certification and as per technical report given.
5. Deferred Tax Asset of Rs. 1.15 lacs arises due to change in the rate of Depreciation as per Income Tax Act resulting in impact in the Profit/Loss statement and Balance Sheet,

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 para**, the financial statements:

- (a) Is presented in accordance with the requirement of Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 in this regard;

gives a true view of the net profit ND OTHER Financial Information for the year to date results for the period from April 1, 2018 to March 31, 2019.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1. As required by Section 143(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;
 - 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, the statement of changes in equity 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 Accounting Standards prescribed under section 133 of the Act, as applicable.
 - e. On the basis of the written representations received from the directors as on March 31, 2019, taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2019, from being appointed as a director in terms of Section 164(2) of the Act.
 - f. With respect to adequacy of the internal financial controls over the financial reporting of the Company and the operating effectiveness of such controls, refer to our separate report in "annexure A". Our respect expresses an unmodified opinion on the adequacy and operating effectiveness of the Company's internal financial controls over financial reporting.
 - g. 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) Rule, 2014, in our opinion and to the best of our information and according to the explanation given to us:
 - a) The Company has disclosed the impact of profit in Profit and Loss Account as referred to Note to the financial statements.
2. As required by the Companies (Auditor's Report) Order, 2016 (the Order) issued by the Central Government in terms of Section 143(11) of the Act, we give in Annexure B, a statement on the matters specified in the paragraphs 3 and 4 of the Order.

For Babu Peram and Associates. Chartered Accountants

**CA. Babu Peram
Proprietor**

(Firm Registration No. 012721S)
Membership No.200803
Chennai
Date: 27/05/2019

ANNEXURE "A"

TO THE INDEPENDENT AUDITORS' REPORT

(Referred to in paragraph 1(f) under 'Report on Other Legal and Regulatory Requirements' of our report of even date)

Report on the Internal Financial Controls Over Financial Reporting 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 Pentamedia Graphics Limited ("the Company") as of 31st March, 2018 in conjunction with our audit of the 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") issued by the Institute of Chartered Accountants of India and the Standards on Auditing prescribed under

Section 143(10) of the Companies Act, 2013, to the extent applicable to an audit of internal financial controls. 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 auditors' judgment, 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 Company's 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 authorizations of management and directors of the company; and
- (3) provide reasonable assurance regarding prevention or timely detection of unauthorized 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.

OPINION

In our opinion, to the best of our information and according to the explanations given to us, the Company has, in all material respects, an adequate internal financial controls system over financial reporting and such internal financial controls over financial reporting were operating effectively as at 31st March, 2019, 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.

**For Babu Peram and Associates
Chartered Accountants**

**CA. Babu Peram
Proprietor**

(Firm Registration No. 012721S)
Membership No.200803
Place: Chennai
Date: 27/05/2019

ANNEXURE "B"**TO THE INDEPENDENT AUDITORS' REPORT**

(Referred to in paragraph 2 under 'Report on Other Legal and Regulator) Requirements' of our report of even date)

1. Fixed Assets:

- a) The company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- b) The fixed assets are physically verified during the year by the management at reasonable intervals. According to the information and explanation given to us, no material discrepancies were noticed on such verification, As per our verification we opine that, there are no immovable properties held in the name of the company. The company sold the land and building during the year.
The inventories were physically verified during the year by the management at reasonable intervals and according to the information and explanation given by the management, no material discrepancies were noticed on physical verification.
3. The company has not granted or taken any loans, secured or unsecured to or from companies, firms, Limited Liability Partnerships and other parties except from Mayajaal Entertainment Ltd covered in the register maintained under Sec 189 of Companies Act 2013.
4. The company has not provided any loans, investments, guarantees or securities which fall under the purview of Section 185 and Section 186 of the Companies Act, 2013.
5. In our opinion and according to the information given to us, the company has not accepted any deposits from the public during the year. Therefore, Clause 5 of this order is not applicable.
6. As per the information and explanations given to us, maintenance of cost records has not been prescribed by the Central Government under Sub-section (1) of Section 148 of the companies Act 2013.
7. According to the information and explanations given to us there are no dues of Income Tax, Sales Tax, Customs duty, Excise Duty, Service Tax, Provident Fund and Cess which have not been deposited on account of any dispute except the following cases:

INCOME TAX

Claims against the company which has not been acknowledged as debt for the year ended 31st March 2019 includes demands from the Income Tax Authorities for payment of Tax including interest for the issues mentioned hereinafter. Rs.3.68 crores pertaining to the assessment years 1996-97,1997-98 and 1998-99. These demands for the years due to disallowance of Training income STP/EHTP. These matters are pending to these years in Supreme court of India. Moreover, company has given a petition for the year 1996-97 during August 2018 indicating that certain payments amounting to Rs. 5.01 crores have been left or wrongly adjusted by the department. The effect has not been given till date. So also demand and interest of Rs.13.53 crores pertaining to the assessment year 2000-01 is due to the treatment of goodwill which is now pending in the High Court of Madras. For the assessment year 2001-02,2002-03and 2003-04 the demand include interest of Rs.48.53 due to treatment of unrealized sales and opening cases u/s 263. Here also the company has given petition to the AO during August 2018 for the year 2001-02 indicating the certain mistakes in the computation. The department has not taken up the same till now. For the Assessment years 2004-05,2005-06 and 2006-07 the demands inclusive of interest are Rs.82.89 crores which arose due to reopening of the files u/s147 in the matters pertaining to TDS and rate of depreciation. The Company has gone appeal in the High of Madras and has obtained stay for the three years. For the assessment years 2007-08, 2008-09, 2009-10, 2010-11, 2011-12, 2012-13. 2013-14 and 2014-15 there is total demand of Rs. 6.72 crores including interest because of dispute in the rate of depreciation, deduction of TDS in some matters. The company has given a petition to the AO to indicating the same during Aug 2018 and have gone on appeal to CIT (Appeals) There is also matter pending for Pentasoft Technologies (now merged with Pentamedia Graphics) where demand inclusive of interest is Rs. 6.30 crores for issues pertaining unrealized sales.

The company has contested all the demands and the Management including the advisors are very confident that they will all be upheld in the process.

CASES FILED BY THE COMPANY AGAINST INCOME TAX THE DEPARTMENT

1. The Company has filed a WP 2357/2010 and got a stay order dated 15.07.2010 and to dispose of all the issues /appeals from 1996 to 2000 -07 within 8 weeks from the date of the order.
2. Revised returns has been filed by the company for the AYs 2001-02 to 2004-05 on 31.03.2008 writing off Rs.

690 Crores of impaired assets is still pending with the department . The Madras High Court vide order/ direction dated 11.01.2010 has asked the departments to consider the revised returns.

3. The company has filed a WP 25120/2010 for Pentasoft Technologies and got a stay order dated 18.12.2009 till such time all the issues /appeals from 1996 to 2000 -07 are disposed off.

CASES FILED BY THE INCOME TAX THE DEPARTMENT AGAINST THE COMPANY

1. Department has filed in the Supreme Court of India against Pentasoft Technologies (now merged with Pentamedia Graphics) for Assessment Years 2001-02 and 2002-03 challenging the Depreciation on Non Compete Fees upheld by the Madras High Court. The Management believes that the ultimate outcome of the proceedings will not have any adverse to the company.
8. The company has not obtained any loans or borrowings from financial institutions, banks, Government and debenture holders, hence this Clause is not applicable.
9. In our opinion and according to the information given to us, the company has not raised any money by way of initial public offer or further public offer and hence this clause is not applicable.
10. As per our verification and explanation given to us, by the company, no fraud on or by the company has been noticed or reported during the year.
11. The managerial remuneration paid by the company is as per Section 197 read with schedule V to the Companies Act, 2013.
12. The company is not a Nidhi company and hence this clause is not applicable.
13. As per our verification, it is opined that all the transactions with the related parties are in compliance with Sections 177 and 188 of the Companies Act, 2013 where applicable and the details have been disclosed in the financial statements.
14. The company has not made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year, hence this clause is not applicable.
15. According to the information and explanations given to us, the company has not entered into any non - cash transactions with the directors or persons connected with them. Hence provisions of Section 192 of the Companies Act, 2013 are not applicable to the company.
16. The company is not required to be registered under Section 45-IA of the Reserve Bank of India Act, 1934.

**For Babu Peram and Associates
Chartered Accountants**

**CA. Babu Peram
Proprietor**

(Firm Registration No. 012721S)
Membership No.200803
Place: Chennai
Date: 27/05/2019