

**KARNANI & CO.**

Chartered Accountants

Office : 15, Venkateshwar Colony,  
Ajmer Road, Sodala,  
Jaipur - 302 019Phone : 2296460 (O)  
98290 10172 (M)  
98290 63960 (M)

Date : 03.09.07

**AUDITORS REPORT TO THE MEMEBERS**

TO

**THE MEMBERS OF BMB MUSIC & MAGNETICS LTD.**

We have audited the attached **Balance Sheet of BMB MUSIC & MAGNETICS LTD.** As on **31<sup>st</sup> March 2007** and **Profit & Loss Account** for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's Management. our responsibilities is to express an opinion on these financial statements.

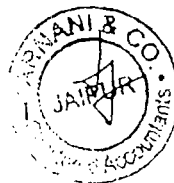
We have conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

*As required by the Companies (Auditor's Report) Order, 2003, issued by the Central Government of India in terms of section 227(4A) of the Companies Act, 1956 and on the basis of such checks, as we considered appropriate, we annex hereto a statement on the matters specified in paragraph 4 and 5 of the said order.*

In accordance with the provision of section 227 of the Companies Act, 1956, we further report as under:

- a) We have obtained all the information and explanation, which to the best of our knowledge and belief were necessary for the purpose of our audit.
- b) In our opinion proper books of accounts as required by law have been kept by the company so far as appears from our examination of such books.
- c) The Balance Sheet and Profit & Loss account referred to in this report are in agreement with the books of accounts.

**For BMB MUSIC AND MAGNETICS LTD.**  
*J. C. Babbar*  
**Managing Director**



- d) In our opinion, Balance Sheet and Profit & Loss a/c dealt with by this report comply with the accounting standards referred to in sub section 3(c) of Section 211 of Companies Act, 1956 to the extent applicable.
- e) On the basis of written representations received from the directors, as on 31<sup>st</sup> March, 2006, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31<sup>st</sup> March, 2006 from being appointed as a director in terms of clause (g) of sub section (1) of section 274 of the Companies Act, 1956.
- f) In our opinion and to the best of our information and according to the explanation given to us and **subject to the points mentioned in the Notes on Accounts & Auditor's observations attached to the Balance Sheet**, the said accounts give the information required by the companies act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
  - i) In the case of the **Balance sheet**, of the state of affairs of the Company as at **31<sup>st</sup> March, 2007**, and,
  - ii) In the case of the **Profit & Loss A/c**, of the profit for the year ended on that date.

Place: Jaipur

Date: 03.09.2007



**ANNEXURE TO AUDITOR'S REPORT**  
**Accounting Year : 2006-2007**

Report on matters to be included pursuant to order issued under section 227(4A) of  
the Companies Act, 1956.

1. (a) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.  
(b) As informed to us the management has conducted physical verification of fixed assets during the year and no material discrepancies were noticed on such verification. There is a regular program of verification which, in our opinion, is reasonable having regard to the size of the company and the nature of its assets.  
(c) In our opinion and according to information and explanation given to us, a substantial part of fixed asset has not been disposed of by the company during the previous year.
2. (a) The inventory has been physically verified by the management. In our opinion, the frequency of verification is reasonable.  
(b) The procedures of physical verification of the inventory followed by the management are reasonable and adequate in relation to the size of the Company and nature of its business.  
(c) The company is maintaining proper records of the inventory. The discrepancies noticed by the management on verification between the physical stocks and the book records were not material.
3. (a) The company has not granted or taken any loan, secured or unsecured to/from the companies, firms or other parties listed in the register maintained u/s 301 of Companies Act, 1956.  
(b) Rate of interest and other terms and conditions of loan taken by the company are not prima facie prejudicial to the interest of the company.  
(c) According to the explanations given to us, the company is regular in repayment of principal and interest.  
(d) No amount is overdue more than Rs. 1 lakh hence this clause is not applicable on the company.  
(e) The company has not taken any loans secured or unsecured from companies, firm or other parties covered in the register maintained under section 301 of the Act.  
(f) As the company has not taken any loan, hence the requirement of rate of interest and other terms and conditions of loans taken by the company, secured or unsecured are prejudicial to the interest of the company or not is not applicable.  
(g) Requirement of regular payment of the principal amount and interest is not applicable being no loan taken by the company.
4. In our opinion and according to the information and explanation given to us, there are adequate internal control procedures commensurate with the size of the company and the nature of its business with regard to purchase of inventory, fixed assets and



with regard to the sale of goods. During the course of our audit we have not observed any continuing failure to correct major weaknesses in the internal control.

5. (a) According to the information and explanation given to us, we are of the opinion that the transaction that are required to be entered into the register maintained u/s 301 of the Companies Act 1956 have been so entered.
- (b) In our opinion and according to the information and explanations given to us, these transactions are made at prices which are reasonable having regard to the prevailing market prices at the relevant time.
6. The company has not accepted any public deposits under the provisions of section 58A and 58AA or any other relevant provisions of the Act and the rules framed there under.
7. The company is not having any internal audit system
8. Maintenance of cost records under section 209(1)(d) of the Companies Act, 1956 has not been prescribed by the Central Government for the Company.
9. (a) According to the books and records as produced and examined by us in accordance with generally accepted auditing practices in India and also based on Management representations, undisputed statutory dues in respect of Provident fund, Employee's state insurance dues, Investor education and protection fund, Income Tax, Sales tax, Wealth Tax, Service Tax, Custom duty, Excise duty, cess and other statutory dues have generally been regularly deposited by the company during the year with the appropriate authorities in India. However following amounts of Statutory dues are outstanding in the companies books for more than a year.

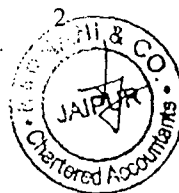
|                   |                         |
|-------------------|-------------------------|
| EPF Payable       | 143392.00               |
| Sales Tax Payable | 54341.00                |
| Surcharge on RST  | 85.00                   |
| TDS Payable       | 15680.00                |
| <b>TOTAL</b>      | <b><u>213498.00</u></b> |

(b) As per explanations given to us and the records of the company examined by us, there are no dues of income tax, wealth tax, service tax, sales tax, custom duty, excise duty and cess which have not been deposited on account of any disputes as on 31<sup>st</sup> March, 2007.

(c) According to the information and explanation given to us, there are no dues of sales tax, income tax, Wealth Tax, custom duty, excise duty and cess which has not been deposited on account on any dispute.

9. The company is having accumulated loss of Rs. 686.08 Lacs and the accumulated losses of the company are not more than 50 per cent of its net worth.

The company has incurred any cash losses during the financial year covered by our audit and in the immediately preceding financial year.

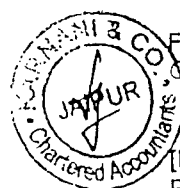


10. The company has defaulted in the payment of dues of bank. The company has gone under one-time settlement with The Bank of Rajasthan Limited and Industrial Financial Corporation of India, and the details of which are following.

| S.N. | FINANCIAL INSTITUTION      | OTS Amount<br>(in Rs.) |
|------|----------------------------|------------------------|
| 1.   | The Bank of Rajasthan Ltd. | 43,00,000/-            |
| 2.   | IFCI                       | 2,85,00,000/-          |

11. The company has not granted loans and advances on the basis of the security by way of pledge of shares, debentures and other securities hence this clause is not applicable on the company.
12. Considering the nature of activities carried on by the company during the year, the provisions of any special statute applicable to chit fund/ nidhi/ mutual benefit fund/ societies are not applicable to it.
13. The company is not dealing in or trading in shares, securities, debentures and other investments hence this clause is not applicable to the company.
14. As per information and explanations given to us, the company has not given any guarantees for loans taken by others from banks or financial institutions.
15. The company has not taken any term loans hence this clause is not applicable on the company.
16. According to the information and explanation given to us and on overall examination of the balance sheet of the company and as represented to us by the management, we report that the no funds raised on short term basis have been utilized for long term investments and no long term funds have been used to finance the short term assets except permanent working capital.
17. According to the information and explanation given to us, the company has not made any preferential allotment to the persons entered into the register maintained u/s 301 of the Act, so this clause is not applicable.
18. The company had not issued any debentures hence this clause is not applicable on the company.
19. No money has been raised from the public hence this clause is not applicable on the company.
20. According to the information and explanation given to us, no fraud on or by the company has been noticed or reported during the course of our audit

Place: Jaipur  
Dated: 03.09.2007



For KARNANI & CO.  
Chartered Accountants

[P. D. Karnani, F.C.A.]  
Partner, M.N. 54422

**B.M.B. MUSIC & MAGNETICS LTD.**

Regd Office : SPL-4, RIICO Industrial Area, Sitapura, Tonk Road, Jaipur

Accounting Year : 2006-2007

Assessment Year : 2007-2008

**BALANCE SHEET AS ON 31st MARCH, 2007**

| S.N. | Particulars  | Schedules | 31.03.2007          | 31.03.2006          |
|------|--|-----------|---------------------|---------------------|
| I    | <b>SOURCES OF FUNDS</b>  |           |                     |                     |
| (1)  | <b>Shareholder's Funds</b>   |           |                     |                     |
|      | a) Share Capital   | I         | 60439600.00         | 60439600.00         |
|      | b) Reserves & Surplus  | II        | 99472400.00         | 99472400.00         |
| (2)  | <b>Debt Funds</b>  |           |                     |                     |
|      | a) Secured Loans   | III       | 24278336.00         | 64964570.00         |
|      | b) Unsecured Loans   | IV        | 11000.00            | 1000000.00          |
| (3)  | <b>Deferred Tax Liability</b>  |           | 12105531.00         | 0.00                |
|      | <b>TOTAL</b>   |           | <b>196306867.00</b> | <b>225876570.00</b> |
| II   | <b>APPLICATION OF FUNDS</b>  |           |                     |                     |
| (1)  | <b>Fixed Assets</b>  | V         |                     |                     |
|      | a) Gross Block   |           | 61564140.50         | 61300273.00         |
|      | b) Less: Depreciation  |           | 12933111.00         | 10242836.00         |
|      | c) Net Block   |           | 48631029.50         | 51057437.00         |
|      | d) Capital Work in Progress  |           | NIL                 | NIL                 |
| (2)  | <b>Investments</b>   | VI        | 3000.00             | 3000.00             |
| (3)  | <b>Current Assets, loans &amp; advances</b>                            | VII       |                     |                     |
|      | a) Inventories   |           | 10657195.00         | 10657195.00         |
|      | b) Sundry Debtors  |           | 16116810.00         | 18260922.49         |
|      | c) Deposit   |           | 17000.00            | 1302223.00          |
|      | d) Loans & Advances  |           | 42084365.00         | 48565864.00         |
|      | e) Music & Marketing Rights  |           | 19211356.00         | 19540172.00         |
|      | f) Cash & Bank Balances  |           | 260654.66           | 814524.51           |
|      | <b>TOTAL (a to f)</b>  |           | <b>88347380.66</b>  | <b>99141501.00</b>  |
|      | <b>Less : Current Liabilities &amp; Provisions</b>                     | VIII      |                     |                     |
|      | a) Current Liabilities   |           | 9254409.00          | 326658.00           |
|      | b) Provisions  |           | 28500.00            | 0.00                |
|      | <b>TOTAL (a + b)</b>   |           | <b>9282909.00</b>   | <b>326658.00</b>    |
|      | <b>Net Current Assets</b>  |           | <b>79064471.66</b>  | <b>95874843.00</b>  |
| (4)  | a) Misc. Expenditure<br>(To the extent not written off or<br>adjusted) |           | 0.00                | 0.00                |
|      | b) Profit & Loss a/c   | IX        | 68608365.84         | 78941290.00         |
|      | <b>TOTAL</b>   |           | <b>196306867.00</b> | <b>225876570.00</b> |

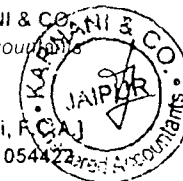
Note: Statement of significant accounting policies and notes on accounts are forming part of Balance Sheet  
For BMB Music & Magnetics Ltd.

As per our Audit Report of Even Date annexed

*J. C. Bhatnagar* *M. C. Bhatnagar*  
Director Director Secretary

Date: 03.09.2007  
Place: JAIPUR

FOR KARNANI & CO.  
Chartered Accountants  
*P. D. Karnani*  
Partner, M.N. 054422



**B.M.B. MUSIC & MAGNETICS LTD.**

Regd Office : SPL-4, RIICO Industrial Area, Sitapura, Tonk Road, Jaipur

Accounting Year : 2006-2007

Assessment Year : 2007-2008

**PROFIT & LOSS A/C FOR THE YEAR ENDED ON 31st MARCH, 2007**

| S.N. | Particulars  | Schedules | 31.03.2007           | 31.03.2006           |
|------|--|-----------|----------------------|----------------------|
| I    | <b>INCOME</b>  |           |                      |                      |
|      | a) Sales   |           | 0 00                 | 0 00                 |
|      | b) Increase/(Decrease in Stock)                              | X         | 0 00                 | 0 00                 |
|      | c) Other Income  | XI        | 649864 63            | 0 00                 |
|      | <b>TOTAL</b>   |           | <b>649864.63</b>     | <b>0.00</b>          |
| II   | <b>EXPENDITURE</b>   |           |                      |                      |
|      | a) Raw Materials Consumed                                    |           | 0 00                 | 0.00                 |
|      | b) Manufacturing Expenses                                    | XII       | 1328816.00           | 1328816.00           |
|      | c) Payments to Employees                                     | XIII      | 173500.00            | 96000.00             |
|      | d) Administrative Expenses                                   | XIV       | 2691469.00           | 119837.00            |
|      | e) Finance Charges   | XV        | 792399.00            | 2760.00              |
|      | f) Preliminary Expenses w/off                                |           | 0.00                 | 429251.00            |
|      | g) Depreciation on Fixed Assets                              | V         | 2690275.00           | 0.00                 |
|      |  |           | <b>7676459.00</b>    | <b>1976664.00</b>    |
|      | <b>LOSS DURING THE YEAR - FROM ORDINARY OPERATIONS</b>       |           | <b>(7026594.37)</b>  | <b>(1976664.00)</b>  |
|      | Add: Income from Extra-Ordinary Items                        | XVI       | 31071139 00          | 0 00                 |
|      | Less: Prior Period Items                                     | XVII      | 320803 47            | 100000 00            |
|      | <b>PROFIT / (LOSS) BEFORE TAX</b>                            |           | <b>23723741.16</b>   | <b>(2076664.00)</b>  |
|      | Add:   |           |                      |                      |
|      | Opening Balance of P&L a/c                                   |           | (78941290.00)        | (76864626 00)        |
|      | Deferred Tax Liability reversed for Current Period           |           | 358244 00            |                      |
|      | Less:  |           |                      |                      |
|      | Current Tax  |           | 0 00                 | 0 00                 |
|      | Deferred Tax Liability for Earlier Periods                   |           | 12463775.00          | 0.00                 |
|      | Income Tax Payment w/off [Earlier year's]                    |           | 1285286.00           | 0 00                 |
|      | <b>CLOSING BALANCE IN P&amp;L A/C TAKEN TO BALANCE SHEET</b> |           | <b>(68608365.84)</b> | <b>(78941290.00)</b> |

Note: Statement of significant accounting policies and notes on accounts are forming part of Balance Sheet For BMB Music & Magnetics Ltd.

As per our Audit Report of Even Date annexed

FOR KARNANI & CO.  
Chartered Accountants

[P. D. Karnani, F.C.A.]  
Partner, M.N. 54422

*S. C. Bhatnagar* Director  
*M. C. Bhatnagar* M.C. Director Secretary

Date: 03.09.2007  
Place: JAIPUR