

AUDITORS' REPORT TO THE MEMBERS:

1. We have audited the attached Balance Sheet of ZF STEERING GEAR (INDIA) LIMITED (the `Company') as at March 31, 2010, and also the Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We 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 of material misstatement. 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.
3. As required by the Companies (Auditor's Report) Order, 2003 as amended by the Companies (Auditor's Report) (Amendment) Order, 2004 (the `Order') issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, (the 'Act') we give in the Annexure, a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to above, 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 it appears from our examination of those books;
 - (c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - (d) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Act, to the extent applicable;
 - (e) On the basis of written representations received from the Directors as on March 31, 2010, and taken on record by the Board of Directors, none of the Directors is disqualified as on March 31, 2010 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act; and
 - (f) In our opinion, and to the best of our information and explanations given to us, the said accounts 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:
 - (i) In the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2010;
 - (ii) In the case of the Profit and Loss Account, of the profit for the year ended on that date and
 - (iii) In the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For **MGM and Company**
Chartered Accountants
Firm Registration No. : 117963W
Mangesh Katariya
Partner
Membership No. 104633

Pune
May 27, 2010

ANNEXURE TO THE AUDITORS' REPORT

With reference to the Annexure referred to in paragraph 3 of our report of even date to the Members of ZF Steering Gear (India) Limited on the accounts for the year ended March 31, 2010, we report that:

On the basis of our examination of the books and records of the Company carried out in accordance with the auditing standards generally accepted in India and according to the information and explanations given to us, we state that:

- (i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of its fixed assets.
- (b) As informed to us, the management has physically verified most of the fixed assets during the year. No material discrepancies were noticed on such verification. In our opinion, the frequency of physical verification of fixed assets is reasonable having regard to the size of the Company and the nature of the assets.
- (c) In our opinion and on the basis of information and explanation provided to us, the company has not disposed off substantial part of fixed assets during the year.
- (ii) (a) The inventory has been physically verified by the management during the current year. In our opinion, the frequency of such verification is reasonable. In respect of inventory lying with third parties, confirmations for the same have been taken by management.
- (b) In our opinion, the procedures for the physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.

- (c) The Company has maintained proper records of inventory. The discrepancies noticed on verification between physical stock and book stock were not material having regard to the size of operations of the Company and have been properly dealt with in the books of account.
- (iii) The Company has neither granted nor has taken any loans, secured or unsecured, to or from Companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act. Consequently, paragraphs iii (b), iii (c) and iii (d) of the said Order are not applicable.
- (iv) In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business. Further, on the basis of our examination of books and records of the company, and according to the information and explanation given to us, we have neither come across nor have been informed of any continuing failure to correct major weaknesses in the aforesaid internal control system.
- (v) (a) According to the information and explanations given to us, we are of the opinion that the particulars of contracts or arrangements referred to in Section 301 of the Act have been entered in the register required to be maintained under that section.
- (b) In our opinion and according to the information and explanations given to us the transactions made in pursuance of such contracts or arrangements entered in the register maintained under Section 301 of the Companies Act, 1956 and aggregating during the year to Rupees Five Lacs or more in respect of each party, have been made at prices which are reasonable having regard to prevailing market prices at the relevant time.
- (vi) In our opinion, and according to the information and explanations given to us, the Company has not accepted any deposit from public within the meaning of Section 58A and Section 58AA of the Act and the rules framed there under.
- (vii) In our opinion, the Company has an internal audit system commensurate with the size of the Company and nature of its business.
- (viii) We have broadly reviewed the cost records maintained by the Company pursuant to the Order of the Central Government under Section 209(1)(d) of the Act in respect of automotive spare parts and accessories, and are of the opinion that, prima facie, the prescribed accounts and records have been made and maintained. However, we have not made a detailed examination of the records with a view to determine whether they are accurate or complete.
- (ix) (a) According to the information and explanations given to us and on the basis of our examination of the books of account, the Company has been regular in depositing undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Income Tax, Sales Tax, Wealth Tax, Service Tax, Custom Duty, Excise Duty, Cess and any other material statutory dues with the appropriate authorities. At March 31, 2010, there are no undisputed statutory dues payable for a period of more than six months from the date they became payable.
- (b) According to the information and explanations given to us and records of the company examined by us the particulars of dues of Income Tax, Sales Tax, Service Tax, Excise Duty, Custom Duty, Wealth Tax that have not been deposited with the appropriate authorities on account of any dispute, are as follows:

Nature of Dues	Amount (Rs.)	Financial Year	Forum where dispute is pending
Income Tax	32,631,743	2000-01 2001-02 2002-03	CIT (Appeals), Pune
Service Tax	3,226,600	2000-01 2002-03 2003-04 2004-05	CCE, Pune - III

- (x) The Company does not have any accumulated losses at the end of the financial year and has not incurred cash losses in the financial year covered by our audit and the immediately preceding financial year.
- (xi) The Company did not have any outstanding debentures. The Company has not defaulted in repayment of dues to financial institutions / banks.
- (xii) In our opinion and according to the information and explanations given to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (xiii) In our opinion and according to the information and explanations given to us, the nature of the activities of the Company does not attract any special statute applicable to the chit fund and nidhi / mutual benefit fund / societies.
- (xiv) The Company is not dealing or trading in shares and other investments except normal course of its investment activities. In our opinion and according to the information and explanations given to us, proper records have been maintained. All the investments are held by the Company in its own name.
- (xv) In our opinion and according to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions.
- (xvi) The Company has no term loans outstanding during the year.
- (xvii) According to the information and explanations given to us and on an overall examination of the cash flow statement and balance sheet of the Company, in our opinion, the funds raised on short-term basis have, prima facie, not been used for long term investment.
- (xviii) During the year or in the recent past, the Company has not made any preferential allotment of shares to parties and companies covered in the Register maintained under Section 301 of the Act.
- (xix) The Company did not have any outstanding debentures during the year or in the recent past. Accordingly, no securities have been created.
- (xx) The Company has not raised any money by way of public issues during the year or in the recent past.
- (xxi) During the course of our examination of the books and records of the Company, carried out in accordance with the generally accepted auditing practices in India and according to the information and explanations given to us, we have neither come across any instances of any fraud committed on or by the Company, or has been noticed or reported during the year, nor have we been informed of any such case by the management.

For **MGM and Company**
Chartered Accountants
Firm Registration No. : 117963W
Mangesh Katariya

Partner
Membership No. 104633

Pune
May 27, 2010

