AUDITORS' REPORT to the Members of PNB GILTS LTD.

We have audited the attached Balance Sheet of PNB GILTS LTD. as at March 31, 2008 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.

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.

As required by the Companies (Auditors' Report) Order, 2003, issued by the Central Government in terms of Section 227 (4A) of the Companies Act, 1956, we enclose in the annexure a statement on the matters specified in paragraphs 4 & 5 of the said order to the extent applicable to the Company :

Further to our comments in the annexure we report that :

(i) 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.

(ii) 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 those books (and proper returns adequate for the purpose of our audit have been received from the branches not visited by us).

(iii) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account.

(iv) 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 Companies Act, 1956.

(v) On the basis of written representations received from the directors, as on March 31, 2008 and taken on record by the Board of Directors in its meeting held on April 21, 2008, we report that none of the director is disqualified as on March 31, 2008 from being appointed as a director in terms of clause(g) of sub-section (1) of section 274 of the Companies Act, 1956.

(vi) The Govt. has not notified the rate of cess envisaged under Section 441A, hence, no provision/ payment has been made for the same {refer note no. 14 of schedule 20 (B)}.

(vii) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read with the notes thereon 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:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2008; and

(b) in the case of the Profit and Loss Account, of the profit for the year ended on that date.

(c) in the case of cash flow statement, of the cash flow for the year ended on that date.

For **Bansal R. Kumar & Associates**
Chartered Accountants

(R. K. Gupta)
Partner
Membership No. 86851

Date : 21st April, 2008
Place : New Delhi

Annexure referred to in our report of even date to the members of PNB Gilts Limited, New Delhi on the accounts of the company for the year ended March 31, 2008

1. The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets. The fixed assets have been physically verified by the management during the year. In our opinion, the frequency of verification is reasonable. As informed to us, no material discrepancies were noticed on such verification. Further no substantial part of fixed assets have been disposed off during the year.

2. (a) The company's stock comprising of Treasury Bills & Dated Govt. Securities is held in the form of Subsidiary General Ledger Account, maintained with the Reserve Bank of India. The said stock in the SGL account was verified with the confirmation certificate received from the Reserve Bank of India. The stock of other securities held by the company in de-materialised form in NSDL / SHCIL is verified with the confirmation certificate received from them at the year end.

   (b) The existing procedures of reconciliation of stock followed by the management at periodical interval is reasonable and adequate in relation to the size of the Company and nature of its business.

   (c) The company is maintaining proper records of its inventory and no material discrepancies were noticed on the reconciliation as mentioned above, as compared with book records.

3. In our opinion and according to the information and explanations given to us, the internal control procedure for purchase of fixed assets, company's money market operations and trading in Government Securities, Corporate Bonds, Debentures and Equities are commensurate with the size of the company and nature of its business.

4. In accordance with the legal opinion obtained by the company, the Directors of the company who are nominees of Punjab National Bank are not to be regarded as concerned or interested. Hence, the transactions with Punjab National Bank are not required to be listed in the register to be maintained under Section 301 of the Companies Act, 1956. Further for other transactions as

required to be entered into the register in pursuance to Section 301 to the Companies Act, 1956 have been entered. Further, these transactions have been made at prices which are reasonable having regard to the prevailing market price as observed from test check basis.

5. The Company has not accepted any deposits from the public, hence the provisions of Section 58A & 58AA of the Companies Act, 1956 are not applicable.

6. The Company has an Internal Audit System which in our opinion is commensurate with the size of the company and nature of its business.

7. (a) According to the records made available to us, the company is regular in depositing undisputed statutory dues including Provident Fund, Income-Tax and other Statutory Dues with the appropriate authorities. Further as explained to us, the provisions for Investor Education and Protection Fund, Employee State Insurance, Sales Tax, Wealth Tax, Customs Duty, Excise Duty are not applicable to the company during the year. However, in the absence of notification/ guidelines for levy of Cess towards rehabilitation of Sick Industries, the dues remain unascertained and not deposited.

   (b) The company has received demand notices dated 31.12.07 from the Deputy Commissioner of Income Tax (DCIT), for the Assessment Year (AY) 2003-04 and 2005-06, whereby diminution in the market value of securities amounting to Rs. 3684.92 lacs (AY 2003-04) and the carried forward loss for AY 2005-06 has been reduced to the extent of disallownce. The company has filed an appeal before CIT (Appeals) and has moved the stay application for demand before CIT. Further as explained to us, there are no dues of Sales Tax/Income Tax/Customs Tax/ Wealth Tax/Excise Duty/Cess which are in dispute as on March 31, 2008.

8. The Company has not defaulted in repayment of dues to the financial institution / bank / debenture holder during the year.

9. In respect of the Company's dealings in Treasury Bills, Certificates of Deposit, Commercial Papers, Dated Govt. Securities, Corporate Bonds, Debentures and Equities, proper records have been maintained and timely entries have been made thereof. Since the principal business of the company consists of buying and selling of securities, the provisions of Section 49(1) of the Companies Act, 1956, regarding holding of investments in its own name are not applicable to it.

10. During the course of audit no fraud case has come to our notice. Further as informed to us the company has not noticed / reported any fraud case during the year.

11. The provisions of para (iii), (viii), (x), (xii), (xiii), (xv), (xvi), (xvii), (xviii), (xix), (xx) are not applicable during the year ended March 31, 2008.

For **Bansal R. Kumar & Associates**
Chartered Accountants

(R. K. Gupta)
Partner
Membership no. 86851

Date : 21st April, 2008
Place : New Delhi

The Board of Directors
PNB Gilts Limited

In terms of Reserve Bank of India, Department of Financial Companies Notification No.DFC.117/DG(SPT)-98 dated January 31st, 1998, we report that:

1. The Company has received Registration Certificate, as provided in Section 45-IA of the Reserve Bank of India Act, 1934 (2 of 1934) from Reserve Bank of India on February 10, 1998.
2. A resolution for non-acceptance of any public deposits, was passed in the meeting of the Board on April 21, 2008.
3. The Company has not accepted any public deposits during the year ended March 31, 2008.
4. The Company has complied with the prudential norms relating to income recognition, accounting standards, asset classification and provisioning for bad and doubtful debts, as applicable to it.

For **Bansal R. Kumar & Associates**
Chartered Accountants

(R. K. Gupta)
Partner
Membership no. 86851

Date : 21st April, 2008
Place : New Delhi

Comments of The Comptroller & Auditor General of India

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 619 (4) OF THE COMPANIES ACT, 1956, ON THE ACCOUNTS OF PNB GILTS LIMITED, NEW DELHI FOR THE YEAR ENDED 31st MARCH, 2008.

The preparation of financial statements of PNB Gilts Limited, New Delhi for the year ended 31st March, 2008 in accordance with the financial reporting framework prescribed under the Companies Act, 1956 is the responsibility of the management of the company. The statutory auditors appointed by the Comptroller and Auditor General of India under Section 619(2) of the Companies Act, 1956 are responsible for expressing opinion on these financial statements under Section 227 of the Companies Act, 1956 based on independent audit in accordance with the auditing and assurance standards prescribed by their professional body the Institute of Chartered Accountants of India. This is stated to have been done by them vide their Audit Report dated 21.04.2008.

I, on the behalf of the Comptroller and Auditor General of India have conducted a supplementary audit under Section 619(3) (b) of the Companies Act, 1956 of the financial statements of PNB Gilts Limited, New Delhi for the year ended 31st March, 2008. This supplementary audit has been carried out independently without access to the working papers of the statutory auditors and is limited primarily to inquiries of the statutory auditors and company personnel and a selective examination of some of the accounting records. On the basis of my audit nothing significant has come to my knowledge which would give rise to any comment upon or supplement to Statutory Auditors' Report under Section 619(4) of the Companies Act, 1956.

For and on behalf of the
Comptroller and Auditor General of India

(Nand Kishore)
Principal Director of Commercial Audit &
Ex-officio Member, Audit Board-III,
New Delhi.

Date : 18th June, 2008
Place : New Delhi