

Partners :

B. SANTHAKUMAR, M.Com., F.C.A.
SORNARAJAN T. VICTORIA, M.Com., F.C.A.
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**AUDITORS' REPORT TO THE MEMBERS OF M/s. S.M.I.L.E.MICROFINANCE
LIMITED**

(FORMERLY KNOWN AS SEMAM MICROFINANCE INVESTMENT LITERACY &
EMPOWERMENT LTD)

1. We have audited the attached Balance Sheet of **S.M.I.L.E.MICROFINANCE LIMITED** as at March 31, 2009, the Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto in which are incorporated the returns of 20 branches audited by other auditors. The branches audited by us and those audited by others have been selected by the Board on the authority of the shareholders. 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 have conducted our audit in accordance with auditing standard 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 evaluating the overall financial statement presentation. We believe that our audit provides reasonable basis for our opinion.
3. As required by Companies (Auditor' Report) Order, 2003 as amended by the Companies (Auditors' Report) (Amendment) Order, 2004 issued by the Central Government in terms of section 227 (4A) of the Companies Act, 1956 and on the basis of such checks as we considered appropriate and according to the information and explanation given to us, we give in the annexure, a statement of matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred 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 purposes of our audit;
 - (b) In our opinion, proper books of accounts as required by the law have been kept by the Company, so far as appears from our examination of the books of the Company;
 - (c) The Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of account;



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- (d) In our opinion, the Profit and Loss Account and the Balance Sheet comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;
- (e) On the basis of the written representations received from the Directors as on March 31, 2009, we report that none of the directors is disqualified as on March 31, 2009 from being appointed as 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 explanations given to us, the said financial accounts, read together with the notes on accounts attached thereto, 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 March 31, 2009.
- ii) In the case of the Profit and Loss Account, of the profits of the Company 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 **VICTORIA MATHEWS & SANTHAKUMAR**
Chartered Accountants



B. SANTHAKUMAR
Partner

Membership No: 27583/200

Place: Chennai
Date: 9th Day of May, 2009



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**ANNEXURE TO THE AUDITORS' REPORT REFERRED TO IN PARAGRAPH 3
OF OUR REPORT OF EVEN DATE**

Re: S.M.I.L.E.MICROFINANCE LIMITED

(Formerly known as Semam Microfinance Investment Literacy & Empowerment Limited)

1.
 - a. The Company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets.
 - b. We are informed by the Management that all the Assets have been physically verified by them during the year and no material discrepancies were noticed on such verification.
 - c. The Company has not disposed off any of fixed assets during the year.
2.
 - a. Company has not granted any loans secured or unsecured to companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956. Therefore, reporting under sub clauses (a) to (d) of clauses 4 (iii) does not arise.
 - b. The Company has not taken any loans secured or unsecured from companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956. Therefore, reporting under sub clauses (e) to (g) of clauses 4 (iii) does not arise.
3. In our opinion and according to the information and explanation given to us, there are adequate internal control systems commensurate with the size of the Company and the nature of its business with regard to purchases of fixed assets and for the services rendered. We are informed that there are no continuing failures to correct major weaknesses in internal control system, as corrective actions are taken immediately.
4.
 - a) To the best of our knowledge and belief and 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 that need to be entered in the register maintained under that Section have been so entered.
 - b) In our opinion, 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 Act and exceeding the value of rupees five lakhs in respect of any party during the year, prima facie, have been made at prices which are reasonable having regard to the nature of the service and the prevailing market prices at the relevant time.



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5. In our opinion according to the information and explanations given to us, the Company has not accepted any deposits from the public within the purview of section 58A of the Companies Act, 1956 and the company has complied with the directives issued by Reserve Bank of India with regard to acceptance of deposits.
6. In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.
7. a. According to the information and explanations given to us, the Company is regular in depositing undisputed statutory dues including income tax, wealth tax and other material statutory dues applicable to it with the appropriate authorities during the year. But an amount of Rs.2,29,632/= pertaining to ESI contribution collected from the Employees not paid within the due date due to non- allotment of registration number.
b. According to the information and explanations given to us, there are no undisputed amounts payable in respect of income tax, wealth tax and other material statutory dues applicable to it, which are outstanding as at 31st March, 2009 for a period of more than six months from the date they became payable.
8. According to the records of the company and the information and explanation given to us, there are no dues of wealth tax, customs duty, excise duty and cess which have not been deposited on account of dispute.
9. The Company does not have any accumulated losses and has not incurred cash losses during the financial year covered by our audit and the immediately preceding financial year.
10. In our opinion and according to information and explanations given to us, the Company has not defaulted in repayment of dues to Financial Institutions, Banks or Non-banking Financial Companies.
11. The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
12. The Company does not carry on the business of Chit funds, Nidhi, mutual benefit fund and society. Hence, the provisions of clause 4 (xiii) of the Order are not applicable to the Company.
13. Based on the examination of records and the information and explanations given to us, the Company does not deal / trade in shares, securities, debentures and other investments.



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14. In our opinion and according to the information and explanations given to us, the terms and conditions of the guarantees given by the Company for loans taken by others from banks or financial institutions are not prima facie prejudicial to the interest of the Company.
15. To the best of our knowledge and belief and according to the information and explanations given to us, in our opinion, term loans availed by the Company were, prima facie, applied by the Company during the year for the purposes for which the loans were obtained.
16. According to the information and explanations given to us and on overall examination of the financial statements of the Company and after placing reliance on the reasonable assumptions made by the Company for classification of long term and short term usages of funds, we are of the opinion that, prima facie, short terms funds have not been utilized for long term purposes.
17. The Company has made preferential allotment of shares to parties and companies covered in register maintained under section 301 of the Companies Act, 1956, during the year and the same is not, *prima facie*, prejudicial to the interest of the Company.
18. The Company has not issued any debentures during the year and therefore the question of creating security in respect thereof does not arise.
19. The Company has not made any public issue of any security during the year and therefore the question of disclosing the end-use of money raised by any public issue does not arise.
20. Based on the audit procedures performed and the representation obtained from the management, we report that no fraud on or by the Company, having a material misstatement on the financial statements has been noticed or reported during the year under audit.
21. In our opinion and according to the information and explanation given to us, the nature of the company's business/activities during the year have been such that other clauses of the said Order are, in our opinion, not applicable to the Company for the year.

Place: Chennai
Date: 9th Day of May, 2009.

For VICTORIA MATHEWS & SANTHAKUMAR
Chartered Accountants





B. SANTHAKUMAR
Partner

Membership No: 27583/200

S.M.I.L.E. MICROFINANCE LIMITED

(formerly known as Semam Microfinance Investment Literacy & Empowerment Ltd.)

BALANCE SHEET AS AT 31.03.2009

PARTICULARS		31.03.2009	31.03.2008
	<i>Sch</i>	<i>Rs.</i>	<i>Rs.</i>
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share Capital	1	57,850,000	57,100,000
Reserves and Surplus	2	25,594,126	11,824,059
LOAN FUNDS			
Secured Loans	3	518,897,848	645,458,367
DEFERRED TAX LIABILITY		82,230	-
TOTAL		602,424,204	714,382,426
APPLICATION OF FUNDS			
FIXED ASSETS			
Gross Block	4	8,234,197	5,155,905
Less: Depreciation		2,359,309	835,077
Net Block		5,874,888	4,320,828
DEFERRED TAX ASSET		-	86,970
CURRENT ASSETS, LOANS & ADVANCES			
Current Assets	5	113,546,313	31,086,341
Loans & Advances	6	514,245,471	684,554,126
	(A)	627,791,783	715,640,467
Less: CURRENT LIABILITIES AND PROVISIONS			
Current Liabilities	7	28,497,164	4,819,828
Provisions	8	2,745,303	846,012
	(B)	31,242,467	5,665,840
NET CURRENT ASSETS		596,549,316	709,974,627
TOTAL		602,424,204	714,382,426

Notes to the Accounts

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Per our report of even date
for **VICTORIA MATHEWS & SANTHAKUMAR**
CHARTERED ACCOUNTANTS

B.Santhakumar
Partner
Membership No: 27583/200

Place : Chennai
Date : 09.05.2009



By order of the Board

Dr. N. Sethuraman
Dr. N. Sethuraman
Chairman & Managing Director

Director
Director

Director
Director



S.M.I.L.E. MICROFINANCE LIMITED

(formerly known as Semam Microfinance Investment Literacy & Empowerment Ltd.)
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31.03.2009

PARTICULARS		31.03.2009	31.03.2008
		<i>Rs.</i>	<i>Rs.</i>
INCOME	Sch		
Income from financing operation	9	135,284,723	112,459,966
Miscellaneous	10	211,224	45,235
Total		135,495,947	112,505,201
EXPENDITURE			
Financial Expenses	11	84,493,716	75,566,588
Establishment Expenses	12	15,948,944	13,361,280
Administration & Other Expenses	13	16,203,000	13,641,005
Provision for Non Performing Assets under RBI directions		(398,677)	590,440
Depreciation		1,573,285	654,085
		117,820,268	103,813,397
Profit before Taxation		17,675,679	8,691,804
Less : Provision for: Current tax		5,841,783	2,685,767
Assesment Tax Paid		1,712	
Deferred Tax		169,200	(1,173,150)
Fringe Benefit Tax		142,916	276,973
Profit after Tax		11,520,068	6,902,214
Add: Balance brought forward from previous year		9,457,459	3,935,745
Profit available for appropriation		20,977,526	10,837,959
APPROPRIATION			
Transfer to Statutory Reserve		2,304,400	1,380,500
Balance carried to Balance Sheet		18,673,126	9,457,459
Total		20,977,526	10,837,959
Accounting Policies	14		
Notes to the Accounts	15		

Per our report of even date

for VICTORIA MATHEWS & SANTHAKUMAR
 CHARTERED ACCOUNTANTS

(Signature)



B.Santhakumar
 Partner
 Membership No: 27583/200

Place : Chennai
 Date : 09.05.2009

By order of the Board

(Signature)

Dr.N.Sethuraman
 Chairman & Managing Director



(Signature)

Director

(Signature)

Director