

PGS & Associates

Chartered Accountants

301, Laxmi Krupa, 3rd Lokmanya Tilak Colony Road, Near Yogi Sabhagruh, Dadar (East), Mumbai 400014

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INDEPENDENT AUDITOR'S EXAMINATION REPORT ON RESTATED CONSOLIDATED FINANCIAL INFORMATION

To,

The Board of Directors
Diffusion Engineers Limited
T-5 & 6, MIDC, Hingana Nagpur
Maharashtra, Pin- 440016.

Independent Auditors' Examination Report on Restated Financial for the quarter ended June 30th, 2023 and for the years ended 31st March, 2023, 31st March 2022 and 31st March 2021, in connection with the Initial Public Offering of Diffusion Engineers Limited

Dear Sirs,

1. This report is issued in accordance with the terms of our engagement letter dated 1st Sept 2023.
2. We have examined the attached Restated Ind AS Consolidated Financial Information of Diffusion Engineers Limited (the "Company" or the "Issuer") and its subsidiaries (the Company and its subsidiaries together referred to as the "Group"), comprising
 - a. The Restated Consolidated Statement of Assets and Liabilities as at June 30th, 2023, March 31st, 2023, March 31st, 2022 and March 31st, 2021.
 - b. The Restated Consolidated Statements of Profit and Loss (including other comprehensive income) June 30th, 2023 for the quarter ended and the years ended March 31st, 2023, March 31st, 2022 and March 31st, 2021.
 - c. The Restated Consolidated Statement of Changes in Equity for the quarter ended June 30th, 2023 and the years ended March 31st, 2023, March 31st, 2022 and March 31st, 2021.
 - d. The Restated Consolidated Cash Flow Statement for the quarter ended June 30th, 2023 and the years ended March 31st, 2023, March 31st, 2022 and March 31st, 2021.
 - e. The Summary Statement of Significant Accounting Policies, and other explanatory information and for the quarter ended June 30th, 2023 and the years ended March 31st, 2023, March 31st, 2022 and March 31st, 2021 (hereinafter together referred to as the "Restated Consolidated Financial Information") as approved by the Board of Directors of the Company at their meeting held on 30th Nov, 2023, for the purpose of inclusion in the Draft Red Herring Prospectus ("DRHP"), Red Herring Prospectus ("RHP") and the Prospectus (the "Prospectus") prepared by the Management of the Company in connection with its proposed Initial Public Offer of equity shares ("IPO") prepared in terms of the requirements of:
 - i. Section 26 of Part I of Chapter III of the Companies Act, 2013 (the "Act");
 - ii. The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, as amended ("ICDR Regulations"); and
 - iii. The Guidance Note on Reports in Company Prospectuses (Revised 2019) issued by the Institute of Chartered Accountants of India ("ICAI"), as amended from time to time (the "Guidance Note").

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Management's Responsibility for the Restated Consolidated Financial Information

3. The Management of company is responsible for the preparation of the Restated Consolidated Financial Information for the purpose of inclusion in the DRHP, RHP and the Prospectus (hereinafter collectively referred to as the "Offer Documents") to be filed with Securities and Exchange Board of India, relevant stock exchanges and Registrar of Companies, Mumbai at Maharashtra in connection with the proposed IPO. The Restated Consolidated Financial Information have been prepared by the management of the Company on the basis of preparation stated in note 2.1 to the Restated Consolidated Financial Information. The respective Board of Directors of the company's responsibility includes designing, implementing and maintaining adequate internal control relevant to the preparation and presentation of the Restated Consolidated Financial Information. The respective Board of Directors are also responsible for identifying and ensuring that the Group complies with the Act, ICDR Regulations and the Guidance Note.

Auditor's Responsibilities

4. Our work has been carried out considering the concepts of test checks and materiality to obtain reasonable assurance based on verification of evidence supporting the Restated Consolidated Financial Information in accordance with the Guidance note on Reports in Company Prospectuses (Revised 2019) and other applicable authoritative pronouncement issued by the Institute of Chartered Accountants of India and pursuant to the requirement of Section 26 of the Companies Act and the SEBI ICDR Regulations. Our work was performed solely to assist you in meeting your responsibility in relation to your compliance with the Act, SEBI ICDR and the Guidance Note in connection with the proposed IPO.
5. The Guidance Note requires that we comply with the ethical requirements of the Code of Ethics issued by the Institute of Chartered Accountants of India.
6. These Restated Consolidated Financial Information has been prepared by the Company's management from:
 - a) The Consolidated Financial Statements of the Group as at and for the Quarter ended June 30th, 2023 along with comparative audited consolidated financial statements for the year ended March 31st, 2023 (the "Consolidated Financial Statements") which have been approved by the Board of Directors at their meeting held on 30th Nov 2023
 - b) The Consolidated Financial Statements of the Group as at and for the year ended March 31st, 2023 along with comparative audited consolidated financial statements for the year ended March 31st, 2022 (the "Consolidated Financial Statements") which have been approved by the Board of Directors at their meeting held on August, 17th, 2023.
 - c) The Consolidated Financial Statements of the Group as at and for the year ended March 31st, 2022 along with comparative audited the Restated consolidated financial statements for the year ended March 31st, 2021(the "Consolidated Financial Statements") which have been approved by the Board of Directors at their meeting held on September, 21st, 2022.
 - d) The Consolidated Financial Statements of the Group as at and for the year ended March 31st, 2021, along with comparative audited consolidated financial statements for the year ended March 31st, 2020 (the "Consolidated Financial Statements") which have been approved by the Board of Directors at their meeting held on September 24th, 2021.

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e) The audited special purpose Consolidated Financial Statements as at and for the year ended March 31st, 2022, for the year ended March 31st, 2021 and for the year ended March 31st, 2020, approved by the Board of Directors at their meeting held on June, 29th 2023.

7. For the purpose of our examination, we have relied on:

a) We did not audit the standalone financial statements of the Company for the year ended March 31st, 2022 and March 31st, 2021, where share of total assets (before consolidation adjustments), total revenues (before consolidation adjustments) and net cash flows inflows / (outflows) (before consolidation adjustments) for both the years have been given in the table below. The standalone financial statements of the Company for the years ended March 31st, 2022 and March 31st, 2021, have been audited by the auditors mentioned below and whose reports have been furnished to us by the company's management and our auditors' report referred to in above para 5, in so far as it relates to the said years is based solely on the audit reports of the other auditors.

(In lakhs)

Diffusion Engineers Ltd	Auditors	Total Assets	Total Revenue	Net Cash Flow
FY 2021-22	P.R Bhuta & Co	18,306.84	19,917.85	249.37
FY 2020-21	P.R Bhuta & Co	15,346.66	15406.26	402.80

b) We did not audit the standalone financial statements of subsidiaries, Nowelco Industries Pvt. Ltd., Diffusion Super-Conditioning Services Pvt. Ltd., Diffusion Herson Adhesive & Sealants Pvt Ltd, for the Quarter end June 30th, 2023, year ended March 31st 2023, March 31st, 2022 and March 31st, 2021, where share of total assets (before consolidation adjustments), total revenues (before consolidation adjustments) and net cash flows inflows / (outflows) (before consolidation adjustments) for both the years have been given in the table below. The financial statements of this subsidiary have been audited by other auditors, mentioned below, and whose reports for the Quarter end June 30th, 2023, year ended March 31st 2023, March 31st, 2022 and March 31st, 2021 have been furnished to us by the Company's management and our Auditor's Report dated November 30th, 2023 on the Special Purpose Consolidated Ind AS Financial Statements, in so far as it relates to the amounts and disclosures included in the Special Purpose Restated Consolidated Ind AS Financial Statements are based solely on the audit report of the other auditors; and

(In lakhs)

Quarter end 30 th June 2023	Auditors	Total Assets	Total Revenue	Net Cash Flow
Nowelco Industries Pvt. Ltd	CA. Devendra C. Ghate	379.63	630.46	1.01
Diffusion Super-Conditioning Services Pvt. Ltd	P N Gupta Chartered Accountant	229.42	209.88	24.33
Diffusion Herson Adhesive & Sealants Pvt Ltd	P N Gupta Chartered Accountant	37.46	5.61	5.28

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Yearend 31st March 2023	Auditors	Total Assets	Total Revenue	Net Cash Flow
Nowelco Industries Pvt. Ltd	CA. Devendra C. Ghate	426.18	1130.21	1.02
Diffusion Super- Conditioning Services Pvt. Ltd	P N Gupta Chartered Accountant	197.87	527.79	26.73
Diffusion Hernon Adhesive & Sealants Pvt Ltd	P N Gupta Chartered Accountant	39.64	20.45	5.65

Year end 31st March 2022	Auditors	Total Assets	Total Revenue	Net Cash Flow
Nowelco Industries Pvt. Ltd	CA. Devendra C. Ghate	294.77	850.68	0.51
Diffusion Super- Conditioning Services Pvt. Ltd	P N Gupta Chartered Accountant	285.60	142.97	40.64
Diffusion Hernon Adhesive & Sealants Pvt Ltd	P N Gupta Chartered Accountant	47.07	19.11	4.58

Year end 31st March 2021	Auditors	Total Assets	Total Revenue	Net Cash Flow
Nowelco Industries Pvt. Ltd	CA. Devendra C. Ghate	276.84	425.30	0.91
Diffusion Super- Conditioning Services Pvt. Ltd	P N Gupta Chartered Accountant	70.99	8.49	20.26
Diffusion Hernon Adhesive & Sealants Pvt Ltd	P N Gupta Chartered Accountant	45.44	27.83	5.27

C) We did not audit the standalone financial statements of the subsidiary Diffusion engineers Singapore Pte. Ltd. Quarter ended June 30th, 2023 and the years ended March 31st, 2023, March 31st, 2022 and March 31st, 2021, where share of total assets (before consolidation adjustments), total revenues (before consolidation adjustments) and net cash flows inflows / (outflows) (before

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consolidation adjustments) for the respective years have been given in the table below. The financial statements of these subsidiaries have been audited by other auditors, mentioned below, and whose reports for the Quarter ended June 30th, 2023, years ended March 31st, 2023, March 31st, 2022 and March 31st, 2021 have been furnished to us by the Company's management and our Auditor's Report dated September 15th, 2023 on the Special Purpose Consolidated Ind AS Financial Statements, in so far as it relates to the amounts and disclosures included in the Special Purpose Consolidated Ind AS Financial Statements are based solely on the audit reports of the other auditors.

Further, these subsidiary are located outside India, whose financial statements the Quarter ended June 30th, 2023 for years ended March 31st, 2023, March 31st, 2022 and March 31st, 2021 have been prepared in accordance with accounting principles generally accepted in that country and which have been audited by the other auditors under generally accepted auditing standards applicable in that country. The Company's management has converted the financial statements of these subsidiaries located outside India. Our opinion in so far as it relates to the balances and affairs of such subsidiaries located outside India for the said years is based solely on the report of other auditors and the conversion adjustments prepared by the management of the Company and audited by us

(In USD)

Diffusion Engineers Singapore Pte. Ltd	FY	Auditor	Total Assets	Total Revenue	Net Cash Flow
	Year ended 31 st march 2023	AAA ASSURANCE PAC	5,78,645	881,788	59,530
	Year ended 31 st march 2022	AAA ASSURANCE PAC	3,81,713	613,555	33,543
	Year ended 31 st march 2021	AAA ASSURANCE PAC	4,64,261	5,00,453	25,896

D) We did not audit the standalone financial statements of the associate's enterprise LSN Diffusion engineers & Mecdiff SDN. BHD. the financials has been prepared and certify by the management however, they are not consolidated as they are not material & less than 10% of turnover or net profit or profit before tax in annual consolidated financial statement. Therefore, we have not audited the financials of associates.

Opinion

8. Based on our examination and according to the information and explanations given to us we report that the Restated Consolidated Financial Information:

a) have been prepared after incorporating adjustments for the changes in accounting policies, material errors and regrouping/reclassifications to reflect the same accounting treatment as per the accounting policies and grouping/classifications followed as at and for the quarter ended 30th June 2023 and the financial years ended March 31st, 2023, March 31st, 2022 and March 31st, 2021;

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- b) Have been prepared in accordance with the Companies Act, ICDR Regulations and the Guidance Note.
- c) There is no qualification in the auditor's reports which required any adjustments.
9. The Restated Consolidated Financial Information do not reflect the effects of events that occurred subsequent to the respective dates of the reports on respective audited financial statements mentioned in paragraph 7 above.
10. The Company has calculated EPS on the basis of bonus shares allotted on 29th Nov 2023, the effect of the same is made in Restated Consolidated Financial Statements for period ended 30th June 2023, March 31st, 2023, March 31st, 2022 and March 31st, 2021
11. We have complied with the relevant applicable requirements of the Standard on Quality Control (SQC) 1, Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements.
12. This report should not in any way be construed as a reissuance or re-dating of any of the previous audit reports issued by us, nor should this report be construed as a new opinion on any of the financial statements referred to herein.
13. We have no responsibility to update our report for events and circumstances occurring after the date of the report.

Restriction on Use

14. Our report is addressed to and is provided to enable the Board of Directors of the Company to include this report in the Offer Documents, prepared in connection with the proposed Initial Public Offering of Equity Shares of the Company, to be filed by the Company with the Securities and Exchange Board of India, Bombay Stock Exchange Limited, National Stock Exchange of India Limited and Registrar of Companies in connection with the proposed Initial Public Offering of the equity shares of the Company. Our report should not be used, referred to, or distributed for any other purpose except with our prior consent in writing. Accordingly, we do not accept or assume any liability or any duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come without our prior consent in writing.

For PGS & Associates

Chartered Accountants

Firm Registration No.: 0122384W

Premal H Gandhi

Partner

Membership No. 111592

Place: Mumbai

Date: 30/11/2023

UDIN: 23111592BGXFIM8962