Form No. B

1.	**Name of the Company**	**WINSOME YARNS LIMITED**
2.	**Annual Financial Statements for the year ended**	30th September, 2013 (for 18 Months) **(For Standalone Financial Statements)**
3.	**Type of Audit observation**	Qualification in the Annexure referred to in **'Basis for Qualified Opinion'** paragraph of the Auditors' Report dated 18th October 2013 to the members of Winsome Yarns Limited on the accounts for the period ended 30th September, 2013 (for 18 Months):-
		(i) *Note No. 2.17 regarding pending confirmation/ reconciliation of balances of certain receivables (including oversea overdue receivables as stated in note no. 2.10) and payables (including of a Associate Company), in this respect impact is unascertainable and cannot be commented by us. As explained, the exercise of reconciliation is being carried out on regular basis, in our view internal control needs to be further strengthened in this regards.*
		(ii) *Note No. 2.11 regarding non provision against certain overdue receivables in respect of commission and Handling Charges of Rs. 944.33 lacs and loans and advances of amounting to Rs. 828.71 lacs, for the reasons as stated in the said note.*
		(iii) *Note No. 2.25(A)(iv)(a) to (c) regarding accounting of consumption as balancing figure And the valuation of inventories is as taken, valued and certified by the management, the impact whereof on the statement of profit and loss and state of affairs not being ascertained.*
		(iv) *As stated in note no. 2.6 and as per the AS-28 (Impairment of Assets) during the period the company have carried out assessment of value in use of assets of knitwear unit, by an independent professional firm, based on this impairment loss estimated comes to amounting to Rs.2,996.00 Lacs. However, the company, as explained in note no. 2.6, have not accounted for this impairment loss. The Non provision against diminution in value of assets of stated above is not in line with AS-28 and as such to that extent assets are stated higher and loss is stated lower for the period.*
		(v) *We report that, without considering item mentioned in paragraph (i) and (iii) above the impact of which could not be determined, had the impact of notes referred in Paragraph (ii) and (iv) above been given*

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		to in these financial statements, the loss for the period would have been Rs. 12249.42 lacs (as against the reported figures of Rs.7480.38 lacs), accumulated loss at the period end would have been Rs. 13508.83 lacs(as against the reported figure of Rs.8739.79 lacs), Loans and advances at the period end would have been Rs.4392.23 lacs (as against the reported figure of Rs.5220.94 lacs), carrying value fixed assets would have been Rs.27888.33 lacs (as against the reported figure of Rs.30884.33 lacs), trade receivables would have been Rs. 15262.00 lacs (as against the reported figure of Rs. 16208.33 lacs).
4.	**Frequency of Qualification**	• In case of point no. (i) – for more than 3 years • In case of point no. (ii) - for more than 2 years • In case of point no. (iii) & (iv) - First Time
5.	**Draw attention to relevant notes in the Annual Financial Statements and management response to the qualification in the Directors' Report**	As per page no. 8 to 10 of Director's Report of Annual Report 2012-2013 under Addendum to the Director's Report-
		(i) Balances of certain Trade Receivables (including oversea overdue trade receivables as stated in note no. 2.10), Trade Payables (including Associate Company and contingent liabilities are as certified by the management read with note no. 2.1 A), are subject to confirmation/ reconciliation. The management is of the opinion that adjustment, if any; arising out of such reconciliation would not be material.
		(ii) (a) Revenue from Operations (note no.20) includes Commission income and Handling charges receivable in foreign currency amounting to Rs. 752.42 Lacs (including exchange fluctuation gain) and NIL (Previous Year Rs.929.52 lacs and Rs. 298.12 Lacs) respectively on sale which have been accounted for on accrual basis as per the terms of agreements. Company has initiated necessary steps for recovery/reconciliation of the outstanding amount of Rs. 944.33 Lacs (which includes Commission Income of Rs. 752.42 Lacs and Rs. 191.91 Lacs for Handling Charges). Necessary provisions, if any, will be made after reconciliation/confirmation. (b) Short Term Loans and Advances of Rs. 828.71 Lacs (including Refunds / Claims Receivables of Rs. 403.87 Lacs & advances and Balance with Government Authorities of Rs. 83.30 Lacs). The management is initiating necessary steps for recovery of these. Hence no provision against these is considered necessary at this stage. Necessary provisions, if any, will be made after reconciliation/confirmation.
		(iii) (a) As per the past practice and considering the nature of continuous manufacturing process, consumption of raw material and stores & spares is derived as net of opening stock plus purchases less closing stock as item

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		wise records are in process of updation. However considering past experience there will not be material impact on completion of compilation. (b) Company is in process of item wise physical verification of Fixed Assets and inventories. To the extent same has been physically verified by the management, no material discrepancies have been observed between the book record and physical quantity. (c) In view of para (a) above, inventory of raw material, process stock and finished goods has been considered as taken, valued and certified by the management. This response also addresses the auditor's observation as mentioned vide clause (i) (a & b), clasue (ii) (a,b, & c) and clause (iv), (vii) and (viii)of the Annexure to the Auditors Report.
		(iv) In accordance with Accounting Standard 28-' Impairment of Assets', the Company has identified its garmenting manufacturing facility (Knitwear Unit) located at B-58, Industrial Area Phase - VII, Mohali (Punjab), [Cash Generating Units (CGU)]. The CGU is engaged in manufacture of sweaters, pullover and garments of various sizes. Considering the continuing past losses of the CGU, during the period ended 30th September 2013, the Company on the basis of projected scale of operations and prevailing market conditions assessed that the recoverable value of the above CGU is lower as compared to the carrying value, thus, indicating impairment. As a result of the impairment testing carried out as at 30th September 2013 by an independent professional firm (the firm), impairment loss of Rs. 2,996.00 Lacs as estimated by the Management, based on a comparison of carrying value of the asset vis-a-vis recoverable value. The Reports of the firm is under consideration of the Management and Impairment Loss will be accounted as and when finally assessed. This response also addresses the auditor's observation as mentioned vide clause (i) (a & b) of the Annexure to the Auditors Report.
6.	**Additional comments from the board/audit committee chair:**	No

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(A) Under the Annexure referred under '**Report on other legal and regulatory requirements**' paragraph, Auditors have drawn attention to the following:-

1) In respect of records and Physical verification of fixed assets. [Refer to clause (i) (a) and (b) of the above referred Annexure]

   This is to be read with point no. 3(iii) & 3(iv) under the heading '**Type of Audit observation**' as stated above.

2) In respect of records and procedure of Physical verification of the Inventories. [Refer to clause (ii) (a), (a) and (c) of the above referred Annexure].

   This is to be read with point no. 3(iii) under the heading '**Type of Audit observation**' as stated above.

3) In respect of further strengthens of internal control system and internal audit. [Refer to clause (iv) and (vii) respectively of the above referred Annexure].

4) In respect of maintenance of Cost Records. [Refer to clause (viii) of the above referred Annexure].

   This is to be read with point no. 3(iii) under the heading '**Type of Audit observation**' as stated above.

(B) Under the '**Emphasis of Matters**' paragraph, Auditors have drawn attention to the following:-

1) Balance money amounting to USD 6049664 (Rs.3,196.48 lacs) out of the GDR issue made by the company in the year 2010-11, is still lying outside India i.e. balance amount against GDR issue of 1994125 nos. made in financial year 2010-11, entitling 199412500 fully paid up equity shares of Re.1/-. each at Rs.2.97 per share including premium (now 19941250 fully paid up equity shares of Rs.10/- each at Rs. 29.70 including premium). As explained, above stated amount is invested in money market fund outside India, pending utilization for the purposes the issue was made.

2) In view of the accumulated losses read together with our comments under para (ii) to (v) under the head '**Basis for Qualified Opinion**', had the impact of the same been considered, the net worth of the Company become negative as on 30th September 2013. However, as stated in Note No. 2.14 (read together with accounting policy- Note No.1.1) accounts have been prepared by the management ongoing concern considering the future business plans and expected cash flows. In the event of the same not being held to be a going concern and various assets and liabilities being consequently required to be adjusted with respect to their realizable value, the impact thereof has not been ascertained and therefore cannot be commented upon by us.

Auditors report is not qualified in respect of above matters.

Management Response:
The Directors have been explained in detail in Note No. 2.3, 2.14, however the explanations of the directors are further given as under:

(i) In the EGM held on 28.06.2010, shareholders of the company have approved the issue of Global Depository Receipts (GDRs). Pursuant to this 1994125 number of GDRs of USD 6.64 each, entitling 199412500 fully paid up equity shares of Re.1/-. each at Rs.2.97 per equity share including premium (now 19941250 fully paid up equity

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shares of Rs.10/- each at Rs. 29.70 including premium) were issued. Out of the total proceeds of the GDRs made in the year 2010-2011, balance amount of Rs. 3195.38 lacs (including foreign exchange gain) is invested in Money Market Fund and lying outside India as on 30.09.2013, pending proceeds to be utilized as per offer document. In this regards the Company is filing all the required returns/ disclosures regularly with the RBI.

(ii) As per the audited financial statements as at 30th September, 2013, the total losses of the Company have resulted in substantial erosion of the peak net worth during the immediately preceding four financial years. The company is in the process of making necessary compliances as per the applicable laws. Further in the opinion of the Board, the Current Assets, Loans and Advances appearing in the Company's Balance Sheet as at period end would have a value on realisation in the normal course of business at least equal to the respective amounts at which they are stated in the Balance Sheet. Considering future business plan and expected cash flow in near future by the management of the company, accounts are prepared on 'Going Concern basis'.

To be signed by:		
1.	**CEO/Managing Director**	Manish Bagrodia Managing Director
2.	**Chief Financial Officer**	Deepak Mahajan Chief Financial Officer
3.	**Auditor of the Company**	N. K. Lodha M. No. 85155 M/s Lodha & Co. Chartered Accountants FRN:- 301051E
4.	**Audit Committee Chairman**	Pradeep Kumar Audit Committee Chairman

Dated: 1 8 JAN 2014

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