

FORM B

1.	Name of the Company	Winsome Diamonds and Jewellery Limited	Winsome Diamonds and Jewellery Limited
2.	Annual Financial Statements for the 18 months period	30 th September, 2013	30 th September, 2013
3.	Type of Audit Qualification	<u>Matter of emphasis</u>	-
4.	Frequency of Qualification	<u>Appeared first time</u>	<u>Appeared first time</u>
	<u>Draw attention to relevant notes in the annual financial statements and management response to the qualification in the Directors Report</u>	<u>Auditors' Qualifications</u>	<u>Managements Reply</u>
		<p>1. Company had an adequate Internal Audit System commensurate with its size and nature of its business till September, 2012. Subsequent to September 2012, except for Mumbai office and Surat office where internal audits have been carried out till March 2013, no internal audits have been carried out. Further from April 2013 to September 2013 there has not been any internal audits carried out.</p> <p>2. Service Tax payment to the tune of Rs.3,44,798 relevant for March, 2013 (o/s for more than 6 months) has not been deposited</p>	<p>The independent internal auditor agreed to carry the audit for latter half of the year in the month of April, 2013 and was to submit report subsequently. The company was having liquidity constraints and to save on costs, decided to conduct the audit internally. The same will be carried out with retrospective effect. (Refer Note No. 7 of Annexure to the Auditors' Report).</p> <p>The Company has not paid service Tax amounting to Rs. 3,44,786. The same shall be paid before March 2014. It unfortunately got delayed due to liquidity constraints and delays in expected refunds from the Service Tax Dept. and Income Tax Dept of much larger sums. (Refer Note No. 9A of Annexure to the Auditors' Report).</p>



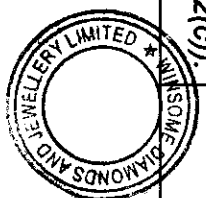
3. The Company had given guarantees of USD 5.5 mn for credit facilities availed by its overseas subsidiary, Su-Raj Diamonds and Jewellery DMCC, from bank. During the period under review, the Company has divested its entire equity holding in the said subsidiary. However the said guarantee has still not been released and the status of the guarantee, is not available with the Company. Thus we are unable to comment on the terms and conditions of the guarantee being prima-facie prejudicial to the interests of the Company.

We have written to Standard Chartered Bank, Mumbai to kindly request their counter parts in the UAE to release the guarantee or issue a no dues letter as, we understand, all their dues have since been settled. (Refer Note No. 15 of Annexure to the Auditors' Report).

4. Basis for Qualified Opinion

In accordance with Accounting Standard - 11 (Standard on The Effects of Changes in Foreign Exchange Rates), the Company is required to value its monetary assets and liabilities viz foreign currency trade receivables and trade payables at the foreign exchange rate prevailing on the date of the balance sheet. The Company has not carried out such valuations. Accordingly the exchange gain for the period is understated, loss for the period is overstated by Rs. 636,04,74,798 (net), trade receivables are understated by Rs. 643,26,50,421 and trade payables are understated by Rs. 7,21,75,623 (Refer Note No. 8 (b) 18(b) and Note 22(c)).

Export receivables had been restated based on exchange rate as at 31.03.2013. In view of persistent defaults by overseas customers in clearing outstanding dues, the same have been carried forward at the same rate (based on exchange rate as at 31.03.2013) while drawing up accounts for the quarter ended 30.06.2013 and also while drawing up accounts for the period under review as it is deemed expedient not to take cognizance of depreciation in rupee vis-à-vis US dollar on notional basis when outstanding amounts are likely to be realized over uncertain period of time. Had it been restated on the basis of exchange rate as at 30.09.2013, the export receivables would have been higher by Rs. 643,26,50,421/-.



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5. DISCLAIMER OF OPINION

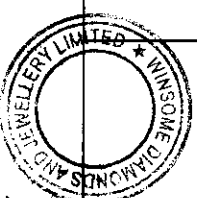
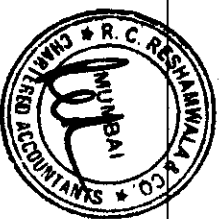
Because of the significance of the matters described in the Basis for disclaimer of Opinion paragraph, specifically relating to the multiple uncertainties created due to factors such as non recovery of trade receivables on due dates, non payments of liabilities including statutory dues, financial difficulties faced by the Company due to recalling of bank finance we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements.

The Management has made following assumptions / presumptions:

The promoter-guarantor, Mr. Jatin Mehta, is professionally expected eventually to lend tangible support by joining the Board, bringing funds for resumption of operations, arranging for funds to initiate legal actions against defaulting customers and with his active involvement and commitment in any exercise of revival / restructuring of the company's business.

Investigations / substantive proceedings / audits that might be carried out overseas either through expert to be appointed through Court in Dubai or by any other agencies will endorse / substantiate claims of overseas customers about genuineness of (a) transactions so far as they relate to exports by the company and (b) loss incurred in commodity and currency transactions.

The defaulting UAE customers will eventually pay off their entire dues over a reasonable span of time.



6. Basis for Disclaimer of Opinion

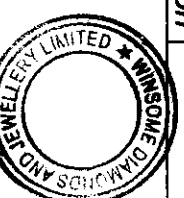
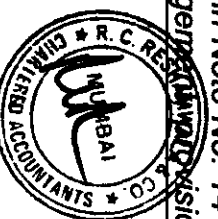
A. In respect of Trade receivables amounting to Rs.4,759,24,33,182, the auditors have not received any confirmations of balances. The management has obtained confirmations of balances from the respective parties. There have been defaults on the payment obligations by the debtors on the due date. Various attempts have not resulted into any significant collections or getting commitment from the parties regarding schedule of payments which are acceptable to the management/ lenders. In view of the above we are unable to comment on the realisability of the debts and any provision to be made for unreliability in the carrying amounts of these balances and consequential impact, on the financial. (Refer Note 18 to the financial statements)

B. The Company has made long term investments in Forever Precious Diamonds and Jewellery Ltd.(Forever) amounting to Rs. 1,411,710,802, thereby resulting in it holding a 49 % stake in the equity of that company. The said investments continue to be valued at cost. As stated in Note No. 14 B, in the view of the management, provision for diminution

The Management has made following assumptions / presumptions:

Overseas customers have confirmed the balances due from them in their debt confirmation letter. As the group of overseas customers have claimed to have suffered heavy losses, they are unable to pay in time and have sought very long period to meet their obligations which is not acceptable to the company and the banks. Accordingly legal action at Dubai is being contemplated.

The Company is of the opinion that with the goodwill, reputation, brand image and retail network of over 125 outlets across the country that FPDJL had developed has potential to re-establish its financial viability in the long term once it is able to mitigate current crisis through initiatives from Promoter-Guarantor or other strategic Investor and therefore, it will probably be little premature to



in value of investments as per the requirements of Accounting Standard -13 (Accounting for Investments) is not considered necessary and hence not made. In the absence of availability of audited financial statements of 'Forever', we are unable to comment on the carrying costs of such investments and the provision for diminution in their value as on 30th September 2013. We are unable to comment on the impact on the financial statements of provision for diminution in value of investments.

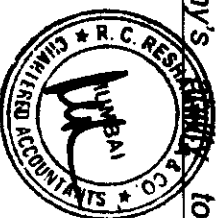
C.

As mentioned in Note No 1 (1) regarding preparation of accounts on a Going Concern basis and the reasons stated therein and Note No. 30 of the financial statements detailing the developments that have happened during the period under audit, the Company's operating results have been materially affected due to various factors including non availability of finance in view of the consortium bankers recalling the financial facilities granted. These events cast significant doubts on the ability of the Company to continue as going concern since the volumes of business have also drastically dropped in the last 6 months. The appropriateness of the going concern assumption is dependent on the Company's ability to raise adequate

consider depletion in the value of investment at present and accordingly, the same have been carried at cost without considering any provision in this regard.

The promoter-guarantor, Mr. Jatin Mehta, is professionally expected eventually to lend tangible support by joining the Board, bringing funds for resumption of operations, arranging for funds to initiate legal actions against defaulting customers and with his active involvement and commitment in any exercise of revival / restructuring of the company's business.

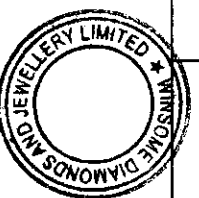
Investigations / substantive proceedings / audits that might be carried out overseas either through expert to be appointed through Court in Dubai or by any other agencies will endorse / substantiate claims of overseas customers about genuineness of (a) transactions so far as they relate to exports by the company and (b) loss incurred in commodity and currency transactions.



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finance from alternate means and/or recoveries from overseas debtors to meet its short term and long term obligations as well as to establish consistent business operations. In absence of any convincing audit evidences, no positive steps taken by the management, non recovery of trade receivables on due date, non payment of liabilities including statutory dues, financial difficulties faced by the company due to recalling of bank finance facilities and in view of multiple uncertainties stated above, we are unable to determine the possible effects on the financial statements. We are also unable to conclude on the ability of the company to carry on as a going concern.

The defaulting UAE customers will eventually pay off their entire dues over a reasonable span of time.



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7. Emphasis of Matter

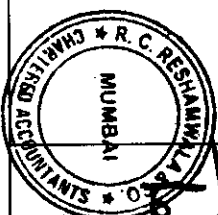
A. In accordance with Accounting Standard – 9 (Revenue Recognition), In terms of the EXIM policy for Gold Loans and as per the consistent practice followed by the Company in the past, it is required to raise revised invoices on its customers on account of the final settlement of its liability of gold loan. As stated in Note No. 18(c), in view of the uncertainty involved of ultimate realization of such amounts, the company has not raised the revised invoices amounting to Rs. 119,35,00,046. (Refer Note No. 18 c and Note 22 c).

The company was importing gold on loan basis and on unfixed price basis and likewise, the exports of jewellery were also on unfixed price basis as per FTP / EXIM policy. Accordingly, both the export invoices and the invoices for imports of gold used to be revised upon final settlement of liability in respect of gold loan. Considering facts and circumstances of the case, when export receivables are overdue and are expected to be realised over a long period, revised invoices have not been raised in view of uncertainty about realisation of additional revenue. If the invoices were to be revised, the export receivables would have been higher by Rs.119,35,00,046/- based on exchange rate as at 30.09.2013.



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<p><u>Additional Comments from the Board / Audit Committee Chair</u></p>		
<p>5. <u>To be signed by</u> <u>CEO/Managing Director</u> <u>CFO</u> <u>Auditor of the Company</u> <u>Audit Committee Chairman</u></p>		<p><i>Chairman</i></p> <p><i>Pratibha C. Patil</i></p> <p><i>Pratibha C. Patil</i></p>



10 MAR 2014