

SPENTEX INDUSTRIES LIMITED

Manufacturer of Yarns

**FORM B**

Format of covering letter of the annual audit report to be filed with the Stock Exchange

1.	Name of the company	SPENTEX INDUSTRIES LIMITED
2.	Annual financial statements for the year ended	31st March, 2014
3.	Type of Audit qualification	<p>NOTE 41:</p> <p>The company has an investment of ` 204,469,921/- in and has amount recoverable amounting to ` 548,277,206/- to Amit Spinning Industries Limited (ASIL), a subsidiary, as on March 31, 2014. The accumulated losses of ASIL, at the year end exceeded its net worth. There is also reduction in market value of the investment at the year end by ` 196,077,490. In the opinion of the management, diminution in this long term investment is due to adverse business conditions in the past. ASIL has started generating EBIDTA and cash profits. In view of these developments, management believes that diminution in the value of investment is of temporary nature and that outstanding would be realised within a reasonable period of time. Accordingly no provision considered necessary in the value of investment held and amount due from ASIL.</p> <p>NOTE 42:</p> <p>The Company has an investment of ` 56,10,11,339 and ` 93,23,779 in its subsidiary Spentex Netherlands B. V. (SNBV) and its step down subsidiary Spentex Tashkent Toytepa LLC (STTL) respectively. Further it has ` 7,00,12,404 as export receivable from STTL and advances of ` 9,50,70,902 in SNBV as on March 31, 2014. During the period of investment, Government of Uzbekistan (GOU) changed certain laws and policies by breaching the investment agreement and rendered operation of STTL unviable and insolvency proceedings have been initiated against it. Since investment agreement entered between GOU and company, Treaties entered between countries were breached, Company has initiated Arbitration proceeding against GOU for protection of investment and dues & compensation dispute. Claim in International Centre for Settlement of Investment Dispute (ICSID) SNBV appointed various experts to assess losses suffered by the company. Based on the draft report and claim to be lodged with ICSID, Board of Directors have decided not to make any provision for the aforesaid amounts.</p> <p>NOTE 44:</p> <p>Rs. 12,830,469 dues from Government Authorities against which company has filed an application for release with concerned authorities. The Company is making effort to recover the same and expects to reduce the outstanding dues</p>

		significantly. The management is of the opinion that ultimately there would be no losses against these old balances and hence no provision is considered necessary at the stage.
4.	Frequency of qualification	Note no. 41 : Repeated Note no. 42 & 44 is being qualified first time.
5.	Draw attention to relevant notes in the annual financial statements and management response to the qualification in the directors report:	The said qualification has been mentioned in the Director's Report in page no. 3 under heading of DIRECTORS' VIEW OF AUDITOR'S OBSERVATIONS
6.	Additional comments from the board/audit committee chair:	With respect to Note no. 41, Board for Industrial and Financial Reconstruction has declared the said subsidiary as Sick company and on its direction, it has filed Rehabilitation Plan, which is under consideration of all concerns. On sanction of such plan it is expected that the financial position of the subsidiary is likely to improve in coming years and this qualification will suitably be dealt in due course. With respect to other qualifications, appropriate action has been taken and these qualifications will be suitably dealt in due course.
7.	Signed by- • Mukund Choudhary, Managing Director • Anrit Agrawal, Director Finance/CFO • M/s. J. C. Bhalla & Co., Statutory Auditors • R-K Thapliyal, Audit Committee Chairman	   