

A. F. FERGUSON & CO.
 CHARTERED ACCOUNTANTS
 MAKER TOWERS "E"
 CUFFE PARADE
 MUMBAI 400 005

**AUDITORS' REPORT TO THE MEMBERS OF
 THE AHMEDABAD ADVANCE MILLS LIMITED**

1. We have audited the attached Balance Sheet of The Ahmedabad Advance Mills Limited as at March 31, 2007 and also the Profit and Loss Account and Cash Flow Statement for the nine months period ended on that date both annexed thereto. 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 conducted our audit in accordance with auditing standards 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 misstatements. 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 as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 (the 'Order'), issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we annex hereto a statement on the matters specified in paragraphs 4 and 5 of the said Order
4. Further to our comments in the annexure referred to in paragraph 3 above, we report that:
 - a) *the Company has given Inter Corporate Deposits (ICD) aggregating Rs.236,611,000 to two companies and one partnership firm which is not in accordance with Section 295 of the Companies Act, 1956. The two Companies have repaid the ICDs during the period with interest. However, the ICD placed with partnership firm is outstanding and the period end balance is Rs.135,820,000 (excluding accrued interest of Rs.3,793,245) (as indicated in Note 3; Schedule 16);*
 - b) *other liabilities and advances to employees are subject to adjustments, if any, arising from final settlement of workers (as indicated in Note 4; Schedule 16);*
 - c) *we are unable to ascertain the effect that the item mentioned in (b) above may have on the profits for the period and the debit balance of profit and loss account.*
5. Subject to the matters referred to in paragraph (4) above:
 - 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;

True Copy

THE AHMEDABAD ADVANCE MILLS LTD


AUTHORISED SIGNATORY

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- b) in our opinion, proper books of account as required by law have been kept by the Company, so far as appears from our examination of the books;
- c) the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
- d) in our opinion and to the best of our information and according to the explanations given to us, the Balance Sheet, Profit and Loss Account and Cash Flow Statement, 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 2007, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2007 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 accounts 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, 2007;
 - (ii) in the case of the Profit and Loss Account, of the profit for the nine months period ended on that date; and
 - (iii) in the case of the Cash Flow Statement, of the cash flows for the nine months period ended on that date.

For A. F. FERGUSON & CO.
Chartered Accountants



A.C. Khanna
Partner

Membership No. 17814

MUMBAI :

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Annexure to Auditors' report

Annexure referred to in paragraph 3 of our report of even date to the members of The Ahmedabad Advance Mills Limited on the accounts for the nine months period ended March 31, 2007.

- (i) (a) The Company is maintaining proper records showing full particulars including quantitative details and situation of fixed assets except for assets sold till March 31, 2007. (Refer Note 2; Schedule 16).
- (b) Fixed assets have been physically verified by the management during the period and in our opinion the frequency of verification is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies were noticed on such physical verification.
- (c) During the period under audit, the Company has sold 18,755.36 square yards of land and the remaining part of spinning department machineries. Fixed assets disposed off during the period were substantial. However, in view of the significant profits earned on sale of plant and machineries and land, the financial ability of the Company to meet its ascertained and contingent liabilities and the undertaking received from the promoters to support the Company for foreseeable future, we are of opinion that the going concern status of the Company is not affected.
- (ii) (a) The inventories have been physically verified during the period under audit by the management. In our opinion, the frequency of verification is reasonable.
- (b) The procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
- (c) In our opinion and according to the information and explanations given to us, the Company is maintaining proper records of inventories and there were no discrepancies noticed on physical verification.
- (iii) (a) As per information and explanations given to us, the Company has granted unsecured loan to three parties covered in the register maintained under section 301 of the Companies Act, 1956. The maximum amount involved during the period was Rs.145,933,543 and the period end balance of such loans was Rs.135,820,000.

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- (b) As per the information and explanations given to us, the rate of interest and other terms and conditions at which the loans have been given to Companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956 are not prima facie prejudicial to the interest of the Company having regards to the market yields.
 - (c) No stipulations or terms as to the recovery of principal and interest have been made in respect of loans given. In the absence of any stipulations or terms, we are unable to comment on the regularity of repayment of principal amount and interest.
 - (d) As no stipulations or terms have been made with regards to recovery of principal and interest amounts of loans, we are unable to comment on the overdue amount, if any, and the steps taken for recovery of overdue amounts.
 - (e) The Company has taken interest free unsecured loans from two parties covered in the register maintained under section 301 of the Companies Act, 1956. The maximum amount involved during the period is Rs.22,452,011 and the period end balance was Rs.15,943,000.
 - (f) In our opinion, the rate of interest and other terms and conditions on which loans have been taken from companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956 are not, prima facie, prejudicial to the interest of the Company.
 - (g) No stipulation has been made with regards to repayment of principal amount of loans. Accordingly, regularity in repayment cannot be commented upon. The loans are interest free and accordingly regularity in payment of interest has not been commented upon.
- (iv) In our opinion and according to the information and explanations given to us, there are generally adequate internal control systems commensurate with the size of the Company and the nature of its business with regard to purchases of inventory, fixed assets and with regard to the sale of goods and services. During the course of our audit, we have not observed any continuing failure to correct major weakness in internal control systems.
- (v) (a) According to the information and explanations given to us, we are of the opinion that the contracts or arrangements that need to be entered into the register maintained under section 301 of the Companies Act, 1956 have been so entered.
 - (b) In our opinion and according to the explanations given to us, the transactions made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the Companies Act, 1956 have

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been made at the prices which are reasonable having regard to the prevailing market prices at the relevant time.

- (vi) The Company has not accepted any deposits from the public to which the provisions of section 58A, 58AA or any other relevant provisions of the Companies Act, 1956 and the Companies (Acceptance of Deposits) Rules, 1975 apply. Accordingly, the provisions of clause 4 (vi) of the Order are not applicable to the Company. As informed to us, no Order has been passed by the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any court or any other Tribunal.
- (vii) The Company's internal audit is carried out by a Chartered Accountant. In our opinion, the internal audit system is commensurate with the size of the Company and the nature of its business.
- (viii) In our opinion and according to the information and explanations given to us, the cost records as prescribed under clause (d) of sub-section (1) of section 209 of the Act have not been maintained by the Company during the period, as there was no manufacturing activity except on job work basis.
- (ix)
 - (a) According to the records of the Company and information and explanations given to us, provident fund, employees state insurance, income tax, sales tax, service tax, cess and other material statutory dues as applicable have not been regularly deposited during the period under audit with the appropriate authorities. As explained to us, the Company did not have any dues on account of investor education protection fund, custom duty, excise duty and wealth tax.
 - (b) According to the information and explanations given to us, no undisputed amounts payable in respect of provident fund, employees state insurance (E.S.I.C), income tax, sales tax, service tax, cess and other material statutory dues as applicable were in arrears, as at March 31, 2007 for a period of more than six months from the date they became payable *except for E.S.I.C dues of Rs.4,44,736 in respect of earlier years.*
 - (c) According to the information and explanations given to us, there are no dues of Income Tax/Sales Tax/Service Tax/Customs Duty/Wealth Tax/Excise Duty or Cess that have not been deposited on account of any dispute. The Board for Industrial and Financial Reconstruction (BIFR) has vide the Order dated August 22, 2006 issued directives to the Income tax department to exempt the Company from payment of capital gains tax and permit the Company to set off the capital gains, if any, against accumulated losses of the Company. The Company has, accordingly, not deposited capital gain tax and interest thereon of approximately Rs.22,000,000 and Rs.33,000,000 for assessment years 2006-07 and 2007-08 respectively in accordance with the directives of

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BIFR. However, the Income tax department has filed an appeal before the Appellate Authority for Industrial and Financial Reconstruction against the said directives of BIFR.

- (x) In our opinion, the accumulated losses at the end of the financial period are more than fifty per cent of its net worth. The Company has not incurred cash losses during the financial period covered by our audit and the immediately preceding financial period.
- (xi) In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to a financial institution, bank or debenture holders.
- (xii) Based on the examination of our records and the information and explanations given to us, the Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (xiii) In our opinion, the Company is not a chit fund or a nidhi / mutual benefit fund / society. Therefore, the provisions of clause 4 (xiii) of the Order are not applicable to the Company.
- (xiv) In our opinion, the Company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4 (xiv) of the Order are not applicable to the Company.
- (xv) According to information and explanations given to us, the Company has not given guarantee for loans taken by others from banks or financial institutions. Accordingly, the provisions of clause 4 (xv) of the Order are not applicable to the Company.
- (xvi) The Company has not taken any term loans during the period under audit. Accordingly, the provisions of clause 4 (xvi) of the Order are not applicable to the Company.
- (xvii) According to the information and explanations given to us and on an overall examination of the Balance Sheet of the Company, we report that no funds raised on short-term basis have been used for long-term investment.
- (xviii) According to the information and explanations given to us, the Company has not made any preferential allotment of shares to parties and Companies covered in the register maintained under Section 301 of the Companies Act, 1956.
- (xix) The Company has not issued any debentures. Accordingly, the provisions of clause 4 (xix) of the Order are not applicable to the Company.

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- (xx) The Company has not raised any money by way of public issues. Accordingly, the provisions of clause 4 (xx) of the Order are not applicable to the Company.
- (xxi) According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the course of our audit.

For A.F.FERGUSON & CO.
Chartered Accountants


A.C.Khanna
Partner
Membership No. 17814

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