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**Deloitte
Haskins
& Sells**

AUDITORS' REPORT

TO THE MEMBERS OF ARVIND FASHIONS LIMITED

We have audited the attached Balance Sheet of **Arvind Fashions Limited**, as at 31 March, 2003, and also the Profit and Loss Account and the Cash Flow Statement for the year ended on that date 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.

We conducted our audit in accordance with the 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 misstatement. 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.

As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988 issued by the Company Law Board in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

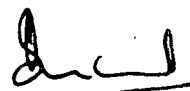
Further to our comments in the Annexure referred to above, we report that:

- (i) 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;
- (ii) In our opinion, proper books of account as required by law have been kept by the company, so far as it appears from our examination of the books;
- (iii) The Balance Sheet, Profit and Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of account;

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- (iv) In our opinion, Balance Sheet, Profit and Loss Account and the Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;
- (v) On the basis of written representations received from the directors, as on 31 March, 2003, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31 March, 2003 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956;
- (vi) 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:
- (a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March, 2003;
 - (b) in the case of the Profit and Loss Account, of the loss for the year ended on that date; and
 - (c) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For Deloitte Haskins & Sells
Chartered Accountants



V. Srikumar
Partner

Place : Bangalore
Date : 28th May, 2003

ANNEXURE TO THE AUDITORS' REPORT

(Referred to in our report of even date on the Accounts for the year ended 31 March 2003, of Arvind Fashions Limited.)

1. The Company has maintained proper records showing full particulars including quantitative details and location of fixed assets. The fixed assets of the Company have been physically verified by the Management in accordance with a programme of verification, the frequency whereof is reasonable.
- ~~2. None of the fixed assets have been revalued during the year.~~
3. As explained to us, the stocks of raw materials and components, work in progress, finished goods, traded items and stores and spare parts, including items with third parties, have been physically verified during the year by the management. In our opinion, the frequency of verification is reasonable.
4. According to the information and explanations given to us, in our opinion, the procedures of physical verification of stocks followed by the Management are reasonable and adequate in relation to the size of the Company and the nature of its business.
5. The discrepancies noticed on verification between the physical stocks and the book records were not material having regard to the size of the operations of the Company.
6. In our opinion, on the basis of our examination of the stock records, the valuation of stocks is fair and proper in accordance with the normally accepted accounting principles and is on the same basis as in the preceding year.
- ~~7. In our opinion, the terms and conditions on which the Company has taken loans from companies, firms or other parties listed in the registers maintained under Section 301 of the Companies Act, 1956 or companies under the same management within the meaning of Section 370(I-B) of the Companies Act, 1956 are not prima facie prejudicial to the interests of the Company.~~
8. The Company has not granted any loans, secured or unsecured, to companies, firms and other parties listed in the registers maintained under Section 301 or companies under the same management within the meaning of Section 370(1B) of the Companies Act, 1956.
9. In respect of loans and advances in the nature of loans given by the Company, where stipulations have been made, parties have generally repaid the principal amount and interest as stipulated.

In cases where instalments of principal and/or interest are not received, it is the practice of the Company to review such balances and take such steps as are considered appropriate in the circumstances, having regard to the overall objectives of the Company. In our opinion, the steps taken by the Company are reasonable having regard to the nature of business of the Company.

10. In our opinion and according to the information and explanations given to us, having regard to the explanation that some of the items purchased are of a special nature and comparable alternative quotations are not available, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business with regard to purchase of stores, raw material including components, plant and machinery, equipment and other assets, and for the sale of goods.
11. In our opinion and having regard to our comments in paragraph 10 above, and according to the information and explanations given to us, the transactions of purchase of goods and materials and sale of goods, material and services made in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Companies Act, 1956, and aggregating during the year to Rs. 50,000 (Rupees Fifty Thousand) or more in respect of each party have been made at prices which are reasonable having regard to prevailing market prices for such goods, materials or services, where such market prices are available with the Company or the prices at which transaction for similar services have been made with other parties.
12. As explained to us, unserviceable or damaged stores, raw materials and finished goods are determined by the Management and adequate provisions have been made in the accounts for the loss so determined.
13. The Company has not accepted any deposits from the public under Section 58A of the Companies Act, 1956.
14. According to the information and explanations given to us, in our opinion, the Company has maintained reasonable records for the sale and disposal of realisable scrap. We are informed that the Company's manufacturing process does not generate any by-product.
15. In our opinion, the Company has an adequate internal audit system commensurate with the size and nature of its business.
16. We are informed that the Central Government has not prescribed the maintenance of cost records under Section 209(1)(d) of the Companies Act, 1956, for the products of the Company.

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17. According to the records of the Company, Provident Fund and Employees' State Insurance dues have generally been regularly deposited with the appropriate authorities.

Employee State Insurance dues relating to the period 2002-03 and aggregating to Rs. 50,651 that had fallen due for deposit as at the year end have been deposited subsequently on 22nd April, 2003.

18. According to the information and explanations given to us there were no undisputed amounts payable in respect of income tax, customs duty and excise duty which have remained outstanding as at 31 March, 2003 for a period of more than six months from the date they became payable.

19. According to the information and explanations given to us and the records of the Company examined by us, no personal expenses have been charged to the revenue account, other than those payable under contractual obligations or in accordance with generally accepted business practice.

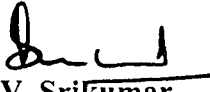
20. The Company is not a sick industrial company within the meaning of clause (o) of sub section (1) of Section 3 of the Sick Industrial Companies (Special Provisions) Act, 1985.

21. In respect of Company's service activities we report that:

- a. the Company has a reasonable system of recording receipts, issues and consumption of materials and stores and allocating materials consumed to the relative jobs.
- b. the Company has a reasonable system of authorisation at proper levels and an adequate system of internal control on issue of stores and allocation of stores and labour to jobs commensurate with the size of the Company and the nature of it's business.

22. In respect of the class of goods traded by the Company, we are informed that there are no damaged goods.

For Deloitte Haskins & Sells
Chartered Accountants


V. Sri Kumar
Partner

Place : Bangalore
Date : 28th May, 2003

RIND FASHIONS LIMITED

BALANCE SHEET AS AT MARCH 31, 2003

	Schedule	As at 31.03.03 Rs '000	As at 31.03.02 Rs '000
SOURCES OF FUNDS			
<i>Shareholders' Fund:</i>			
Capital	1	80,000	80,000
Reserves and Surplus	2	20,000	35,419
		<u>100,000</u>	<u>115,419</u>
<i>Loan Funds:</i>			
Secured Loans	3	241,257	249,491
Unsecured Loans	4	8,175	-
		<u>249,432</u>	<u>249,491</u>
<i>Net Deferred Tax Liability (Schedule 18 Note 1 (x) & Note 18)</i>		-	4,331
		<u>349,432</u>	<u>369,241</u>
APPLICATION OF FUNDS			
<i>Fixed Assets:</i>			
Gross Block	5	280,696	253,558
Less: Depreciation		91,870	70,996
Net Block		<u>188,826</u>	<u>182,562</u>
Capital Work-in-Progress		685	4,197
		<u>189,511</u>	<u>186,759</u>
<i>Investments</i>	6	50	50
<i>Current Assets, Loans and Advances:</i>			
Inventories	7	301,526	274,142
Sundry Debtors	8	45,355	37,909
Cash and Bank Balances	9	10,127	6,625
Current Assets, loans and advances	10	51,731	61,435
		<u>408,739</u>	<u>380,111</u>
<i>Less: Current Liabilities and Provisions:</i>			
Current Liabilities	11	283,398	184,184
Provisions		2,830	13,495
		<u>286,228</u>	<u>197,679</u>
<i>Net Current Assets</i>		<u>122,511</u>	<u>182,432</u>
<i>Miscellaneous expenditure (to the extent not written off or adjusted)</i>			
Advertising Cost [Schedule 18 Note 1 (vii) & 14]		12,116	-
<i>Profit and Loss Account</i>		25,244	-
		<u>349,432</u>	<u>369,241</u>

Notes on Accounts

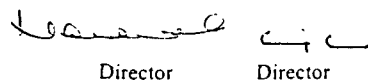
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The schedules referred to above and the notes thereon form an integral part of the accounts.

As per our report attached

For Deloitte Haskins & Sells
Chartered Accountants

For and on behalf of the Board

V. Srikumar
Partner
DirectorPlace: Bangalore
Date: 23rd May 03Place: Ahmedabad
Date: 23rd May 03

ARVIND FASHIONS LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2003

	Schedule	For the year ended 31.03.03 Rs '000	For the year ended 31.03.02 Rs '000
INCOME			
Sales and Services	12	707,338	708,110
Other Income	13	6,663	4,485
		<u>714,001</u>	<u>712,595</u>
EXPENDITURE			
Cost of Materials	14	255,626	208,942
Operating and Other Expenses	15	484,014	496,938
Interest	16	30,011	33,721
Depreciation	5	21,100	23,048
(Increase)/Decrease in stocks	17	(31,756)	6,742
		<u>758,995</u>	<u>769,391</u>
LOSS BEFORE TAXATION (Schedule 18 Note 14)		44,994	56,796
Provision for Taxation			
- Current		-	-
- Deferred Tax (Refer Schedule 18 Notes 1 (x) & 18)		(4,331)	(21,457)
LOSS AFTER TAXATION (Schedule 18 Note 14)		<u>40,663</u>	<u>35,339</u>
Balance brought forward from previous year		(15,419)	(56,281)
Less: Deferred Tax adjustment on initial adoption		-	5,523
		<u>(15,419)</u>	<u>(50,758)</u>
BALANCE CARRIED TO BALANCE SHEET		<u>25,244</u>	<u>(15,419)</u>

Notes on Accounts

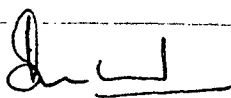
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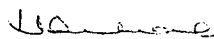
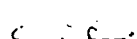
The schedules referred to above and the notes thereon form an integral part of the accounts.

As per our report attached

For Deloitte Haskins & Sells
Chartered Accountants

For and on behalf of the Board


 V. Srikumar
 Partner


 Director
 
 Director

 Place: Bangalore
 Date: 28th May 2003

 Place: Ahmedabad
 Date: 28th May 03

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