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Haskins
& Sells**

AUDITORS' REPORT

TO THE MEMBERS OF ARVIND FASHIONS LIMITED

We have audited the attached Balance Sheet of **Arvind Fashions Limited**, as at 31st March 2004 and the Profit and Loss Account and the Cash Flow Statement for the year 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.

We conducted our audit in accordance with auditing standards generally accepted in India. These 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 the 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 Companies (Auditor's Report) Order, 2003 issued by the Government of India in terms of Section 227 (4A) of the Companies Act, 1956, we give in the Annexure, a statement on the matters specified in paragraphs 4 and 5 of the said Order, to the extent applicable to the Company.

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, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of account;
- (iv) In our opinion, the Balance Sheet, Profit and Loss Account and 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;

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- (v) On the basis of written representations received from the directors, as on 31st March 2004, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March 2004 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 read together with the notes thereon, 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 31st March 2004;
- ~~(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

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V. SRIKUMAR

Partner

Membership No. 84494

Place: *Bangalore*
Date: *Sep 13, 2004*

ANNEXURE TO THE AUDITORS' REPORT
(Referred to in our report of even date)

- 1 The nature of the Company's business/activities during the year is such that clauses i(c), iii(d), vi, viii, xii, xiii, xiv, xv, xviii and xx of paragraph 4 of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.
- 2 In respect of its fixed assets:
 - (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
 - (b) Some of the fixed assets were physically verified during the year by the management in accordance with a programme of verification, the frequency whereof is reasonable. According to the information and explanations given to us, no material discrepancies were noticed on such verification.
- 3 In respect of its inventories:
 - (a) As per the explanations given to us, the Company has conducted a physical verification of inventories during the year. In our opinion, the frequency of verification is reasonable.
 - (b) In our opinion, and according to the information and explanations given to us, the procedures of physical verification of inventories followed by the management were 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 has maintained proper records of its inventories and no material discrepancies were noted on physical verification of inventories.
- 4 According to the information and explanations given to us, the Company has not granted any loans to companies, firms or other parties covered in the Register maintained under Section 301 of the Companies Act, 1956. In respect of loans, secured or unsecured, taken by the Company from companies, firms or other parties covered in the Register maintained under Section 301 of the Companies Act 1956, according to the information and explanations given to us:
 - (a) The Company has not taken a loan from companies, firms or other parties covered in the Register maintained under Section 301 of the Companies Act 1956, during the year. The maximum amount of loans borrowed from a company in earlier years, due at any time during the year was Rs. 8,175 thousand.
 - (b) In our opinion, the rate of interest and other terms and conditions of such loans were prima facie, not prejudicial to the interest of the Company.
 - (c) The payment of principal amounts and interest, during the year, was as per stipulations.

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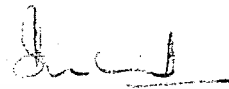
- 5 In our opinion, and according to the information and explanations given to us, and having regard to the explanation that some of the Company's transactions of purchases involves goods and assets of a specialized nature for which comparative prices are not available, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business for the purchase of inventory and fixed assets and for the sale of goods.
- 6 In respect of transactions entered in the Register maintained in pursuance of Section 301 of the Companies Act 1956:
 - (a) To the best of our knowledge and belief and according to the information and explanations given to us, transactions that needed to be entered into the Register, have been so entered.
 - ~~(b) According to the information and explanations given to us, transactions of purchase of goods and services exceeding Rs. 5 lakhs in respect of each party, involve goods and services, of a nature for which comparative prices are not available. In respect of other transactions exceeding Rs. 5 lakhs in respect of each party, excluding loans referred under paragraph 4 above, the transactions have been made at prices which are prima facie reasonable having regard to the prevailing market prices at the relevant time.~~
- 7 In our opinion, the internal audit functions carried out during the year by a firm of Chartered Accountants appointed by the management have been commensurate with the size of the Company and the nature of its business.
- 8 According to the information and explanations given to us, in respect of statutory and other dues:
 - (a) The Company has been generally regular in depositing undisputed statutory dues, including Provident Fund, Employee State Insurance, Income Tax, Sales Tax, Wealth Tax, Customs Duty, Excise Duty, Cess and any other statutory dues with the appropriate authorities during the year.
 - (b) Disputed income tax and customs duty dues aggregating to Rs. 5,909 thousand and Rs. 5,680 thousand respectively, have not been deposited since the matters are pending with the Commissioner of Income Tax (Appeals) and CEGAT respectively.
- 9 The accumulated losses of the Company have exceeded fifty per cent of its net worth as at the end of the year. The Company has incurred cash losses during the financial year covered by our audit and the immediately preceding financial year.
- 10 According to the information and explanations given to us, the Company has not defaulted in the repayment of dues to financial institutions, banks and debenture holders.
- 11 To the best of our knowledge and belief and according to the information and explanations given to us, term loans availed by the Company were, prima facie, applied by the Company during the year for the purposes for which the loans were obtained, other than temporary deployment pending application.

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- 12 According to the cash flow statement and other records examined by us, and the information and explanations given to us, on an overall basis, funds raised on short term basis have, prima facie, not been used during the year for long term investment (fixed assets, etc.) and vice versa, other than temporary deployment pending application.
- 13 According to the information and explanations given to us and the records examined by us, securities have been created in respect of the debentures issued.
- 14 To the best of our knowledge and belief and according to the information and explanations given to us, no fraud on or by the Company was noticed or reported during the year.

For **DELOITTE HASKINS & SELLS**
Chartered Accountants



V. SRIKUMAR

Partner

Membership No. 84494

Place: *Bangalore*

Date: *Sep 13, 2004*

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ARVIND FASHIONS LIMITED

BALANCE AS AT MARCH 31, 2004

	Schedule	As at 31.03.04 Rs '000	As at 31.03.03 Rs '000
SOURCES OF FUNDS			
<i>Shareholders' Fund:</i>			
Capital	1	80,000	80,000
Reserves and Surplus	2	20,000	20,000
		<u>100,000</u>	<u>100,000</u>
<i>Loan Funds:</i>			
Secured Loans	3	241,160	241,257
Unsecured Loans	4	6,717	8,175
		<u>247,877</u>	<u>249,432</u>
		<u>347,877</u>	<u>349,432</u>
APPLICATION OF FUNDS			
<i>Fixed Assets:</i>			
Fixed Assets	5		
Fixed Assets Block		315,231	280,696
Less: Depreciation		<u>115,397</u>	<u>91,870</u>
Fixed Assets Block		199,834	188,826
Capital Work-in-Progress		3,896	685
		<u>203,730</u>	<u>189,511</u>
<i>Investments</i>	6	50	50
<i>Current Assets, Loans and Advances:</i>			
Inventories	7	333,409	301,526
Sundry Debtors	8	49,353	45,355
Cash and Bank Balances	9	15,424	10,127
Other Current Assets, Loans and Advances	10	47,069	51,731
		<u>445,255</u>	<u>408,739</u>
<i>Less: Current Liabilities and Provisions:</i>			
Current Liabilities	11	414,733	283,398
Provisions		<u>3,481</u>	<u>2,830</u>
		<u>418,214</u>	<u>286,228</u>
<i>Net Current Assets</i>		<u>27,041</u>	<u>122,511</u>
<i>Non-current expenditure (to the extent not written off or adjusted)</i>			
Deferred Revenue Expenditure [Schedule 18 Note 1 (vii)]		3,098	12,116
<i>Profit and Loss Account</i>		113,958	25,244
		<u>347,877</u>	<u>349,432</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

V. Sri Kumar

Partner

Membership No: 84494

Place: Bangalore

Date: Sep 13, 2004

For and on behalf of the Board

J. J. J.

Director

Place: Mumbai

Date: Sep 11, 2004

Balaseshpande

Director