

Chartered Accountants
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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.

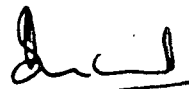
Further to our comments in the Annexure referred to above, we report that:

- (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.

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.

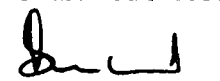
20. The Company is not a sick industrial company within the meaning of clause (o) of sub section (1) of Section 3 of the Sick Industrial Companies (Special Provisions) Act, 1985.

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. SriKumar
Partner

Place : Bangalore
Date : 28th May, 2003

ARVIND 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><u>349,432</u></u>	<u><u>369,241</u></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>		122,511	182,432
<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><u>349,432</u></u>	<u><u>369,241</u></u>

Notes on Accounts

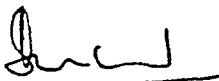
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The schedules referred to above and the notes thereon form an integral part of the accounts.

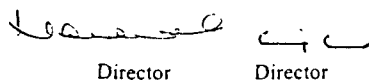
As per our report attached

For Deloitte Haskins & Sells
Chartered Accountants

For and on behalf of the Board



V. Srikumar
Partner


Director

Director

Place: Bangalore
Date: 23rd May 03

Place: Amedabad
Date: 23rd May 03

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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><u>25,244</u></u>	<u><u>(15,419)</u></u>

Notes on Accounts

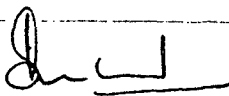
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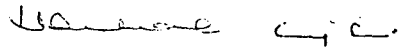
The schedules referred to above and the notes thereon form an integral part of the accounts.

As per our report attached

For Deloitte Haskins & Sells
Chartered Accountants

For and on behalf of the Board


V. Srikumar
Partner


Director

Place: Bangalore
Date: 28th May 2003

Place: Ahmedabad
Date: 28th May 03

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ARVIND FASHIONS LIMITED

Cash Flow Statement for the Year Ended March 31, 2003

	31.03.03 Rs. '000	31.03.02 Rs. '000
A. CASH FLOW FROM OPERATING ACTIVITIES		
Net profit/(loss) before tax and extraordinary items	(44,994)	(56,796)
Adjustments for :		
Depreciation	21,100	22,606
Unrealised (gain)/loss on foreign exchange	1,819	607
Liabilities no longer required written back	-	(459)
Bad Debts/Advances written off	-	126
Unamortised Deferred Revenue expenditure	(12,116)	-
Provision for Doubtful Debts/Advances	5,151	1,907
Provision - Others	(1,302)	11,679
Loss/(Gain) on Sale of Fixed Assets (Net)	157	1,081
Interest Expense	30,011	33,721
Interest Income	3	(72)
Operating profit before working capital changes	(171)	14,400
Adjustments for :		
Trade and other receivables	(2,893)	(62,008)
Inventories	(27,384)	19,804
Trade payables	89,367	89,779
Cash generated from operations	58,919	61,975
Direct taxes paid	-	(5,097)
Cash flow before extraordinary items	58,919	56,878
Extraordinary items	-	-
Net cash from operating activities	58,919	56,878
B. CASH FLOW FROM INVESTING ACTIVITIES :		
Purchase of fixed assets	(24,579)	(31,815)
Sale of fixed assets	572	360
(Purchase)/Sale of Investments (Net)	-	(20)
Interest received	5	35
Net cash used in investing activities	(24,002)	(31,440)
C. CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds/(Repayment) of long term borrowings (Net)	(5,417)	1,828
Proceeds/(Repayment) of short-term borrowings (Net)	7,669	42,052
Bank Overdrafts repaid (Net)	(2,803)	(41,057)
Interest paid	(30,864)	(29,978)
Net cash used in financing activities	(31,415)	(27,155)
Net increase/(decrease) in cash and cash equivalents	3,502	(1,717)
Cash and cash equivalents as at March 31, 2001 (Opening Balance)	6,625	8,342
Cash and cash equivalents as at March 31, 2002 (Closing Balance)	10,127	6,625
	3,502	(1,717)

Notes on Accounts (Refer Schedule 18)

The Schedules referred to above and the notes thereon form an integral part of the Accounts.

As per our report attached

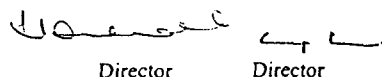
For Deloitte Haskins & Sells
Chartered Accountants



V. Srikumar
Partner

Place: Bangalore
Date: 28th May 03

For and on behalf of the Board



Director Director

Place: Ahmedabad
Date: 28th May 03

ARVIND FASHIONS LIMITED

SCHEDULES FORMING PART OF ACCOUNTS

Rs at
31.03.03
Rs'000

As at
31.03.02
Rs'000

1. CAPITAL

Authorised

10,000,000 (2002: 10,000,000) Equity Shares of Rs. 10 each

100,000

100,000

100,000100,000

Issued, Subscribed and Paid up

8,000,000 (2002: 8,000,000) Equity Shares of Rs. 10 each fully paid up

80,000

80,000

TOTAL

80,00080,000

Note: Of the above shares, 7,999,999 (2002: 7,999,999) shares are held
by Arvind Brands Limited, the holding company.

2. RESERVES AND SURPLUS

Debenture Redemption Reserve

As per last Balance Sheet [Schedule 18 Note 13]

20,000

20,000

General Reserve

As per last Balance Sheet

20,265

Less: Deferred Tax adjustment on initial
adoption-20,265

Balance in Profit and Loss Account

-

15,419

TOTAL

20,00035,419

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ARVIND FASHIONS LIMITED

SCHEDULES FORMING PART OF ACCOUNTS

As at
31.03.03
Rs'000

As at
31.03.02
Rs'000

3. SECURED LOANS

Long Term

Debentures [Note 1(i) and 2 below]

624,953 (2002: 600,000) 16.5% privately placed Secured Redeemable Non Convertible Debenture of Rs.100 each [Repayable within one year Rs. 17,495 (2002: 20,000)]	62,495	60,000
Interest Accrued and Due	1,910	3,108

Term Loans

From Banks [Note 1(ii) below] [Repayable within one year Rs. 8,059 (2002: Rs.10,832)]	9,779	16,544
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Hire Purchase Loans [Note 1(iii) below]

From Banks [Repayable within one year Rs. 178 (2002: Rs.818)]	105	1,094
From a Finance Company [Repayable within one year Rs. 90 (2002: Rs.158)]	363	521

Short Term

From Banks (Foreign Currency Loan) [Note 1(iv) below]	98,325	97,002
Interest Accrued and Due	496	635

Other Bank Borrowings [Note 1(iv) below]

	67,784	70,587
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TOTAL

<u>241,257</u>	<u>249,491</u>
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Notes:

1. Nature of Security:

- (i) Secured by a first charge on all immovable and movable fixed assets of the Company subject to charges created for loans from banks and bank borrowings as referred in note (ii), (iii) and (iv) below.
- (ii) Secured by a first charge on all the present and future plant and machineries and land and buildings ranking pari passu with the security for 16.5% Secured Redeemable Non-Convertible Debentures, second charge on inventories and book debts and a collateral security by way of a corporate guarantee of Rs. 49,500 by Arvind Brands Limited, the holding company.
- (iii) Secured by hypothecation of related assets.
- (iv) Secured by a first charge on inventories and book debts, second charge on all immovable and movable fixed assets of the company and a collateral security by way of a corporate guarantee of Rs. 42,500 by Arvind Brands Limited, the holding company.

2. Terms of Redemption

16.5% 6,00,000 Secured Redeemable Non Convertible Debenture of Rs.100 each are redeemable at face value in sixteen quarterly installments commencing on April 1, 2004 and ending on January 1, 2008.
16.5% 24,953 Secured Redeemable Non Convertible Debenture of Rs.100 each are redeemable at face value on 1st October 2003

4. UNSECURED LOANS

From The Arvind Mills Limited	8,175	-
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TOTAL

<u>8,175</u>	<u>-</u>
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ARVIND FASHIONS LIMITED

SCHEDULES FORMING PART OF ACCOUNTS

As at
31.03.03
Rs'000As at
31.03.02
Rs'0006. INVESTMENTS [Schedule 18 Note 1 (iv)]
[Long Term, Non Trade, At Cost, Unquoted]

National Savings Certificate [Lodged with Sales Tax Authorities Rs.45 (2002: Rs45)]	50	50
TOTAL	50	50

7. INVENTORIES [Schedule 18 Note 1 (v) & Note 5]

Stores and Spares	330	3,346
Raw Materials, Packing Material and Accessories [Including in Transit Rs. 4,950 (2002: Rs.3,352) and with third parties Rs.3,084 (2002: Rs. 950)]	46,402	47,274
Work-in-Progress [With third parties Rs. 2,329 (2002: Rs. 3,024)]	17,681	12,937
Stock-in-Trade:		
Finished Goods [Including in-transit: Rs. 7,195(2002: Rs.10,313) and with third parties Rs. 1,087 (2002: Rs.1,989)]	209,019	182,007
Traded Items [Including in-transit: Rs.650 (2002: Rs.900)]	28,094	28,578
TOTAL	301,526	274,142

8. SUNDRY DEBTORS

Exceeding Six months		
Secured - Considered Good	5,515	100
Unsecured		
Considered Good	752	3,771
Considered Doubtful	7,453	2,802
	13,720	6,673
Other Debts		
Secured - Considered Good	-	2,583
Unsecured - Considered Good	39,088	31,455
	52,808	40,711
Less: Provision for Doubtful debts	7,453	2,802
TOTAL	45,355	37,909

9. CASH AND BANK BALANCES

Cash on Hand [Including Cheques in hand Rs. Nil (2002: Rs.377)]	109	448
Balances with Scheduled Banks:		
In Current Accounts	9,388	6,171
In Term Deposits	630	6
[Lodged as security with Government Authorities Rs. 6 (2002: Rs. 6)]		
TOTAL	10,127	6,625

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ARVIND FASHIONS LIMITED

SCHEDULES FORMING PART OF ACCOUNTS

As at
31.03.03
Rs'000As at
31.03.02
Rs'000

10. CURRENT ASSETS, LOANS AND ADVANCES

[Unsecured, considered good unless otherwise stated]

Deposit with Custom and Excise Authorities	500		1,220
Other Deposits	16,460	10	15,203
Interest Accrued	3,139		3,143
Loans to Employees	2,768	10	2,906
Advances recoverable in cash or in kind or for value to be received [Including Rs. 563 considered doubtful (2002: Rs. 63)]	29,427	10	39,026
Less: Provision for Doubtful Advances	563		38,963
TOTAL	51,731		61,435

11. CURRENT LIABILITIES AND PROVISIONS

A. CURRENT LIABILITIES

Bills Payable	7,791		-
Sundry Creditors			
Small Scale Industrial Undertakings (Schedule 18 Note 15)	8,144		5,948
Others (including book overdraft in bank accounts Rs. 3,002 (2002: Rs. Nil))	241,553		149,351
Other Liabilities	22,181		25,023
Advances from Customers	804		1,421
Interest accrued but not due	2,925		2,441
TOTAL	283,398		184,184

B. PROVISIONS

Taxation (Net of Advance Tax paid Rs. 49,157 (2002: Rs. 49,502))	417		73
For Contingencies	-		9,363
Provision for Gratuity	1,100		665
Provision for Leave encashment	1,313		3,394
TOTAL	2,830		13,495

ARVIND FASHIONS LIMITED

SCHEDULES FORMING PART OF ACCOUNTS

For the Year
ended
31.03.03
Rs'000

For the Year
ended
31.03.02
Rs'000

12. SALES AND SERVICES [Schedule 18 Note 1 (viii) and 5]

Sales less Returns:		
Manufactured Goods	594,913	566,539
Traded Items	92,589	108,474
Services		
Job Work	19,836	33,097
TOTAL	707,338	708,110

13. OTHER INCOME

Interest from Banks [Tax Deducted at Source - Rs. Nil; (2002 - Nil)]	3	5
Interest - Others [Tax Deducted at Source - Rs. Nil; (2002 - Nil)]	-	67
Duty Draw Back, DEPB, Sale of Quota on Exports	3,874	2,641
Liabilities no longer required written back	-	459
Miscellaneous Income	2,786	1,313
TOTAL	6,663	4,485

14. COST OF MATERIALS

Raw Materials, Packing Material and Accessories consumed (Refer Note below) [Schedule 18 Note 7]	200,768	144,479
Consumption of Traded Items	54,858	64,463
TOTAL	255,626	208,942

Note:
Net of Discounts/claims received relating to previous year Rs. Nil (2002: Rs. 3,361)

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ARVIND FASHIONS LIMITED

SCHEDULES FORMING PART OF ACCOUNTS

For the Year
31.03.03
Rs'000For the Year
31.03.02
Rs'000

15 OPERATING AND OTHER EXPENSES

Salaries, Wages and Bonus	48,803	34,646
Contribution to Provident and Other Funds	5,017	3,139
Staff Welfare Expenses	3,664	1,435
	<u>57,484</u>	<u>39,220</u>
Rent [Schedule 18 Note 16]	13,244	11,246
Rates and Taxes	59,109	68,332
Insurance	1,484	2,104
Power and Fuel	24,970	20,094
Stores and Spares Consumed [Schedule 18 Note 8]	19,931	21,631
Repairs and Maintenance:		
Buildings	874	397
Plant and Machinery	2,179	1,381
Others	5,128	2,495
Job Work Charges	28,786	23,376
Legal and Professional Expenses [Schedule 18 Note 12]	5,375	4,780
Management Service Fees	-	480
Communication Expenses	3,992	2,742
Travelling and Conveyance	9,844	3,264
Commission on Sales	88,390	86,277
Sales Tax and Turnover Tax	30,294	30,395
Cash Discount on Sales	3,023	1,729
Advertisement and Selling Expenses	60,846	110,893
Freight	17,295	12,899
Royalty	23,087	22,814
Provision for Contingency	-	9,363
Bad & Doubtful debts/advances	5,151	2,035
Loss on Foreign exchange fluctuation	4,976	3,541
Miscellaneous Expenses	18,552	15,450
TOTAL	<u>484,014</u>	<u>496,938</u>

16 INTEREST

Interest on :		
Debentures	10,181	10,513
Fixed loans	2,221	2,668
Others	17,609	20,540
TOTAL	<u>30,011</u>	<u>33,721</u>

17. (INCREASE)/DECREASE IN STOCKS

Movements in Stocks

Opening Stock:		
Finished Goods	182,007	176,404
Work-in-Progress	12,937	25,282
	<u>194,944</u>	<u>201,686</u>
Closing Stock:		
Finished Goods	209,019	182,007
Work-in-Progress	17,681	12,937
	<u>226,700</u>	<u>194,944</u>

(Increase)/Decrease (31,756) 6,742

TOTAL **(31,756)** **6,742**

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Rs '000

5. FIXED ASSETS [Schedule 18 Note 1 (ii) and 1 (iii)]

Particulars	Gross Block at cost				Depreciation				Net Block	
	As at 01.04.2002	Additions- during the year	Deductions/ Adjustments	As at 31.03.2003	Upto 31.03.2002	For the year	Deletions	Upto 31.03.2003	As at 31.03.2003	As at 31.03.2002
Land (Note (1) below)	11,744	-	-	11,744	-	-	-	-	11,744	11,744
Buildings	60,817	5,515	-	66,332	10,326	1,697	-	12,023	54,309	50,491
Leasehold Improvements	10,956	7,267	-	18,223	6,586	1,788	-	8,374	9,849	4,370
Plant and Machinery	87,779	2,503	-	90,282	26,405	5,754	-	32,159	58,123	61,374
Data Processing Equipment	11,384	7,724	-	19,108	7,834	1,940	-	9,774	9,334	3,550
Office Equipments	4,116	654	-	4,770	882	207	-	1,089	3,681	3,234
Furniture and Fixtures	37,478	4,428	146	41,760	9,246	3,613	43	12,816	28,944	28,232
Technical Know-how	24,513	-	-	24,513	8,801	5,706	-	14,507	10,006	15,712
Vehicles	4,771	-	807	3,964	916	395	183	1,128	2,836	3,855
TOTAL	253,558	28,091	953	280,696	70,996	21,100	226	91,870	188,826	182,562
2002	225,673	29,862	1,977	253,558	48,926	22,606	536	70,996		

Capital work-in-progress [including Capital Advances Rs.Nil (2002: Rs.2,433)]

685

4,197

189,511

186,759

Note:

- 1) Freehold except for Rs. 3,360 (2002: 3,360) in respect of land acquired on lease cum sale basis from Karnataka Industrial Area Development Board (KIADB).
The registration of land in favour of the Company will be done on completion of lease period.

	<u>2002-03</u>	<u>2001-02</u>
2) Depreciation on fixed assets for the year	21,100	22,606
Add: Cross Charged by other Companies	-	636
	21,100	23,242
Less: Cross Charged to other Companies	-	194
	<u>21,100</u>	<u>23,048</u>

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ARVIND FASHIONS LIMITED

SCHEDULE TO ACCOUNTS

18. NOTES ON ACCOUNTS

Rs. in '000

1. *Statement on Significant Accounting Policies*

(i) *Method of Accounting*

The Company adopts the historical cost concept and accrual basis in the preparation of its accounts.

(ii) *Fixed Assets*

Fixed assets are stated at their original cost of acquisition including taxes, duties, freight and other incidental expenses related to acquisition and installation of the assets concerned.

(iii) *Depreciation*

Depreciation is provided on the Straight Line Method (SLM) at the rates prescribed in Schedule XIV to the Companies Act, 1956, except for the following, which are based on management's estimate of useful-life-of-assets concerned:

- a) Furniture and Fixtures at employees' residence are depreciated at the rate of 18%.
- b) Fixtures at showrooms are depreciated over the period of trademark license agreement of branded products or the lease period of rented properties, whichever is lower.
- c) Used assets purchased are depreciated at the rate of 12.50%.
- d) Technical Know-how is amortised over the period of trademark license agreement of branded products.
- e) Leasehold Improvements are amortised over the period of lease.
- f) Machinery spares of irregular usage are amortised over a period of four years or the estimated useful life of the Plant and Machinery, whichever is lower

(iv) *Investments*

Long term investments are stated at cost except in the case of a permanent diminution in value where cost is written down. Current investments are stated at lower of cost and realisable value.

(v) *Inventories*

Inventories are valued at lower of cost and net realisable value. The cost is, in general, ascertained on moving weighted average method.

Work in Progress and Finished Goods are valued at material cost and an appropriate share of Production Overheads. Cost of finished goods includes amount of Excise Duty paid or estimated amounts of Excise Duty payable.

(vi) *Foreign Currency Transactions*

Transactions in foreign currency are recognised at the rates of exchange prevailing on the dates of the transactions.

All foreign currency liabilities / assets are restated at the forward contracted rates / rates ruling at the year end and all exchange gains / losses arising therefrom are adjusted to the Profit and Loss Account except those covered by forward contracted rates where the gains / losses arising on such restatements are recognised over the period of such contract.

ARVIND FASHIONS LIMITED

SCHEDULE TO ACCOUNTS

18. NOTES ON ACCOUNTS – Contd.

Rs: in '000

(vii) Miscellaneous expenditure

Deferred revenue expenditure is amortised over a period of twenty four months.

(viii) Revenue Recognition

Sales are recognised on despatch to customers. Sales are inclusive of excise duty and sales tax. Services are recognised when rendered.

(ix) Retirement and Other Benefits

Retirement benefits are paid to the approved funds maintained on behalf of the Company as per the statutes / amounts advised by the funds, except for gratuity and leave encashment liability, which are accounted for on the basis of actuarial valuation.

(x) Taxes on Income

Income Tax comprises the current tax provision and the net change in the deferred tax asset or liability in the year. Deferred tax assets and liabilities are recognized for the future tax consequences of temporary differences between the carrying values of the assets and liabilities and their respective tax bases. Deferred tax assets are recognized subject to management's judgment that realization is more likely than not. Deferred tax assets and liabilities are measured using substantially enacted tax rates as on the Balance sheet date. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the income statement in the period of enactment of the change.

	2003	2002
2. Estimated amount of contracts to be executed on capital account (net of advances) and not provided for	7,493	5,611
3. Contingent Liabilities:		
(i) Custom duty matters disputed by the Company which are pending in appeal including estimated interest	5,845	4,474
(ii) Claims against the Company not acknowledged as debts	4,283	2,621

4. Particulars of Capacity and Production:

Class of Goods	Units	Licensed Capacity [Note (i)]	Installed Capacity [Note (ii)]	Actual Production [Note (iii)]
Readymade Garments				
Tops	Numbers	NA	Job Work	164,554 (147,442)
Bottoms	Numbers	960,000 (960,000)	720,000 (720,000)	656,661 (559,625)

Notes:

- (i) The capacities specified under 'Licensed capacity' are the capacities as per the carry on business licenses, registration letters and industrial licences, issued under The Industries (Development & Regulation) Act, 1951. However, licensing of products of the Company has since been discontinued.

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ARVIND FASHIONS LIMITED

SCHEDULE TO ACCOUNTS

18. NOTES ON ACCOUNTS – Contd.

Rs. in '000

- (ii) Installed capacity is as certified by the management and relied upon by the auditors, being a technical matter.
- (iii) Production quantity includes 160,668 (2002: 181,582) numbers produced through job workers and exclude 59,830 (2002: 161,748) numbers produced for third parties-on-job-work.
- (iv) Figures in brackets are in respect of the previous year.

5. Particulars of Stocks and Turnover:

Class of Goods	Opening Stock		Turnover		Closing Stock	
	Quantity (Numbers)	Value	Quantity (Numbers)	Value	Quantity (Numbers)	Value
(i) Manufactured Readymade Garments						
Tops	99,391 (83,782)	37,322 (24,844)	155,473 (131,833)	87,774 (88,480)	108,472 (99,391)	39,608 (37,322)
Bottoms	341,517 (367,108)	144,685 (151,560)	638,681 (585,216)	507,139 (478,059)	359,497 (341,517)	169,411 (144,685)
		182,007 (176,404)		594,913 (566,539)		209,019 (182,007)
(ii) Traded Readymade Garments						
Tops	180,915 (214,425)	26,369 (37,810)	294,386 (328,898)	87,390 (103,062)	117,970 (180,915)	21,349 (26,369)
Bottoms	- (-)	- (-)	975 (999)	387 (626)	- (-)	- (-)
Accessories [Note (i)]		2,209 (3,917)		4,812 (4,786)		6,745 (2,209)
		28,578 (41,727)		92,589 (108,474)		28,094 (28,578)

Notes:

- (i) In view of the large number of items, individually costing less than 10% of the total sales and closing stock, quantitative details cannot be given.
- (ii) Figures in brackets relate to previous year.

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ARVIND FASHIONS LIMITED

SCHEDULE TO ACCOUNTS

18. NOTES ON ACCOUNTS – Contd.

Rs. in '000

6. Particulars of Purchase of Stock-in-Trade:

Class of Goods	Quantity (Numbers)	Value
Readymade Garments		
Tops	231,441 (295,388)	49,606 (48,661)
Bottoms	975 (999)	327 (497)
Accessories [Note (i)]		4,441 (2,156)
		54,374 (51,314)

Notes:

- (i) In view of the large number of items, individually costing less than 10% of the total purchases, quantitative details cannot be given.
- (ii) Figures in brackets relate to previous year.

7. Analysis of Raw Material, Packing Material and Accessories consumed:

	Unit	Quantity	2003 Value	Quantity	2002 Value
Fabric	Meters	11,40,008	151,602	926,328	107,847
Packing Materials			17,243		12,960
Accessories [Note (i)]			44,292		36,966
			<u>213,137</u>		<u>157,773</u>
Less: Deemed CENVAT Credit			12,369		13,294
			200,768		144,479
Whereof:		%	Value	%	Value
Imported		2	4,596	5	7,490
Indigenous		98	196,172	95	136,989
		100	200,768	100	144,479

Notes:

- (i) In view of the large number of items, individually costing less than 10% of the total consumption, quantitative details cannot be given.
- (ii) The value of raw materials, packing materials and accessories consumed is net of sale at cost price Rs.6,781 (2002: Rs.3,941)

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ARVIND FASHIONS LIMITED

SCHEDULE TO ACCOUNTS

18. NOTES ON ACCOUNTS – Contd.

Rs. in '000

8. Consumption of Stores and Spare Parts:

	2003		2002	
	%	Value	%	Value
Imported	-	-	-	25
Indigenous	100	19,931	100	21,606
	100	19,931	100	21,631

9. Value of Imports on C.I.F. basis:

	2003	2002
Raw materials and accessories	5,704	5,172

10. Expenditure in Foreign Currency:

Royalty (Net of tax)	19,625	19,391
Advertisement	1,258	7,839
Travelling	427	486

11. Earnings in Foreign Currency:

FOB Value of exports	26,741	18,123
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12. Auditors' Remuneration [included under Legal and Professional Charges in Schedule 15]

Audit Fees	600	500
Service Tax	48	25
Reimbursement of Out-of-Pocket Expenses (paid to the erstwhile auditors)	4	4

13. In the absence of profit in the current year, Debenture Redemption Reserve has not been created.

14. The nature of the company's business involves significant expenditure on advertisement and publicity. During the year the management has carried out a detailed review of the nature of expenditure being incurred and has identified specific types of advertisement expenditure where the benefits will accrue over an extended period. Based on such specific identification, advertisement expenses amounting to Rs. 12.116 has been carried as Deferred Revenue Expenditure for amortisation in terms of the accounting policy. Consequently, losses for the year are lower by a similar amount.

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ARVIND FASHIONS LIMITED

SCHEDULE TO ACCOUNTS

18. NOTES ON ACCOUNTS – Contd.

Rs. in '000

15. Particulars of small scale industrial undertakings, for which dues are outstanding for more than thirty days:

1. Lakshmi Polymers
2. Mangal Plastic Udyog
3. Namit Packaging Company
4. Shri Shirdi Sai Fabrik
5. Tirupati Adhesives Private Limited
6. Impressions
7. Ajith Global Fashions
8. Bio Care
9. Just Natural
10. Ice Berg Apparels
11. Megha Garments Private Limited
12. Maruthi Clothing Company
13. Performanz
14. RJP Apparels
15. Southern Seams
16. Sree Ram and Sons
17. Uma Apparels Private Limited
18. Baash group
19. Balaji Garments
20. Krishna Lamicoat Pvt Ltd
21. Sudarshan Containers
22. Ramya Reprographic Pvt Ltd
23. Print Impact (India)
24. Print Image
25. Kumar Elastics
26. Himalaya Corrugators
27. Durga Flexo Poly Graphics
28. Bajaj Packlines
29. Anupoly Industries
30. Seven Hills International

Note:

The above information and that given in Schedule 11(A) – “Current Liabilities” regarding small scale industrial undertakings has been determined to the extent such parties have been identified on the basis of information provided by the Company, which has been relied upon by the auditors.

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ARVIND FASHIONS LIMITED

SCHEDULE TO ACCOUNTS

18. NOTES ON ACCOUNTS – Contd.

Rs. in '000

16. (a) Rent expenses includes lease rentals payments towards machinery, office premises and other facilities (including those for employee residences). Such leases are generally for a period of 10 to 180 months with options of renewal against increased rent and premature termination of agreement through notice period 1 to 6 months except for machinery, where the lease period is for 12 months and options for renewal on mutual consent. The particulars of these leases are as follows:

	2003	2002
Minimum lease payments	13,244	11,246
Obligation on non-cancellable leases		
Not later than one year	3,384	3,059
Later than one year and not later than five years	4,264	7,823
Later than five years	-	528
	7,648	11,410

(b) Rent income include lease rental received towards portion of factory buildings. Such leases are generally for a period of 2 years with options for renewal against mutual consent and premature termination of agreement by lessee through notice period of 3 months. The particulars of these leases are as follows:

Class of Assets	Gross Block		Depreciation		
	2002	2003	2002	Additions	2003
Buildings	-	3,199	-	68	68
Plant & Machinery	1,760	1,760	205	105	310
Furniture & Fixtures	262	262	114	16	130

Note : Future minimum lease payments are not prescribed.

	2003	2002
Minimum lease payments received	217	-

17. Related Party Disclosures:

A) Names of related parties and description of relationship:

a) Parties where control exists:

(i) Holding Company	Arvind Brands Limited (ABL)
(ii) Ultimate Holding Company	The Arvind Mills Limited (AML)

b) Parties under common control with whom transaction have taken place during the year:

Fellow Subsidiary	Arvind Clothing Limited (ACL)
	Arvind Products Limited (APL)
	Asman Investments Limited

Note: The above information has been determined to the extent such parties have been identified on the basis of information provided by the company, which has been relied upon by the auditors.

ARVIND FASHIONS LIMITED

SCHEDULE TO ACCOUNTS

18. NOTES ON ACCOUNTS – Contd.

Rs. in '000

B) Summary of the transactions with related parties is as follows:

	Ultimate Holding Company [A(a)(ii)]	Holding Company [A(a)(i)]	Fellow Subsidiary [A(b)(i)]	Total
i. Sales and Services				
Sales – Traded Items	222 (1,769)	103 -		325 (1,769)
Services [Schedule 12]	1,673 (18,272)	11,684 (10,843)	6,474 (3,127)	19,831 (32,242)
ii. Other Income				
Rent	150 -	109 -	156 -	415 -
Depreciation – Income	(155)	-	(39)	(194)
iii. Materials				
Purchase of Raw Materials, Accessories and Packing Material	77,901 (54,819)	2,724 (3,233)	21,181 (20,675)	101,806 (78,727)
Purchase of Traded Items	5,308 (11,387)	- (320)	12,836 (1,987)	18,144 (13,694)
Sale of Raw Materials (At Cost)	-	6,219 (3,334)	562 (607)	6,781 (3,941)
iv. Expenses				
Payable under arrangement for sharing certain common facilities	-	7,578 (5,589)	82,935 (90,467)	90,513 (96,056)
Depreciation - Expense	-	- (532)	- (104)	- (636)
Job Work Charges	1,673 -	- (951)	19 -	1,692 (951)
Balances written off	-	-	- (434)	- (434)
Sales Commission	-	-	420 (420)	420 (420)
Rent	408	-	120 (120)	528 (120)
Hire Charges-Machinery	-	1,956		1,956
v. Capital goods purchased	(1,841)			(1,841)
vi. Reimbursement of Expenses under arrangement for sharing certain common facilities	245 (101)	6,052 (11,605)	3,195 (6,821)	9,492 (18,527)
vii. Outstanding Payables	93,816 (51,060)	-	27,365 (9,966)	121,181 (61,026)
viii. Outstanding Receivables	-	16,302 (25,555)	101	16,403 (25,555)

Notes:

- (i) The Company is acting as consignment agent for ABL and ACL for which no consideration is received. Similarly, ABL and ACL act as consignment agents for which no consideration is paid by the Company.
- (ii) Figures in brackets relate to previous year.

ARVIND FASHIONS LIMITED

SCHEDULE TO ACCOUNTS

18. NOTES ON ACCOUNTS – Contd.

Rs. in '000

18. The company has a net deferred tax asset at the year end. As a matter of prudence, the company has not recognised the same.

19. Segment Reporting

The Company's operations relate only to manufacture and sale of readymade garments, and accordingly, primary reporting disclosures for business segment, as envisaged in Accounting Standard 17 on 'Segment Reporting' (AS 17) issued by The Institute of Chartered Accountants of India, is not applicable.

The Company sells readymade garments in the domestic market and also exports them to various countries. Accordingly, secondary segment reporting has been confined to sales in India and exports outside India.

Fixed assets used in the Company's business and liabilities contracted in respect of its sole manufacturing facility, are not identifiable in line with the following reportable segments as the fixed assets and liabilities contracted are used interchangeably between the segments. Accordingly, except for sundry debtors, no disclosures relating to other segment assets and liabilities have been made.

Secondary-Segment Reporting:

	India	Outside India	Total
External Sales (Net of Returns)	660,761 (656,890)	26,741 (18,123)	687,502 (675,013)
External Services	19,836 (33,097)		19,836 (33,097)
TOTAL	680,597 (689,987)	26,741 (18,123)	707,338 (708,110)
Current Assets, Loans and Advances:			
Sundry Debtors (Net of Provisions)	44,991 (37,841)	364 (68)	45,355 (37,909)

Note: Figures in brackets relate to previous year.

20. Details of dues from companies under same management:

Name of the Company	Balance as on 31 st March 2003	Maximum amount outstanding at anytime during the year
Arvind Brands Limited	16,302 (25,555)	25,555 (25,555)

Note: Figures in brackets relate to previous year.

21. Amounts mentioned in Notes on Accounts and other Schedules are all in Rupees Thousands.

22. Previous year's figures have been reclassified / regrouped wherever necessary.