

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 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



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.

- 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.*

ARVIND FASHIONS LIMITED

BALANCE AS AT MARCH 31, 2004

SOURCES OF FUNDS	Schedule	As at 31.03.04 Rs '000	As at 31.03.03 Rs '000
<i>Shareholders' Fund:</i>			
Capital	1	80,000	80,000
Reserves and Surplus	2	20,000	20,000
		100,000	100,000
<i>Loan Funds:</i>			
Secured Loans	3	241,160	241,257
Unsecured Loans	4	6,717	8,175
		247,877	249,432
		347,877	349,432
APPLICATION OF FUNDS			
<i>Fixed Assets:</i>			
Fixed Assets	5		
Net Block		315,231	280,696
Less: Depreciation		115,397	91,870
Net Block		199,834	188,826
Capital Work-in-Progress		3,896	685
		203,730	189,511
<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
		445,255	408,739
<i>Less: Current Liabilities and Provisions:</i>			
Current Liabilities	11	414,733	283,398
Provisions		3,481	2,830
		418,214	286,228
<i>Net Current Assets</i>		27,041	122,511
<i>Miscellaneous 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
		347,877	349,432

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. Srikumar

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

ARVIND FASHIONS LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2004

	Schedule	For the year ended 31.03.04 Rs '000	For the year ended 31.03.03 Rs '000
INCOME			
Sales and Services	12	778,091	649,748
Other Income	13	8,816	6,663
		<u>786,907</u>	<u>656,411</u>
EXPENDITURE			
Cost of Materials	14	293,357	255,626
Operating and Other Expenses	15	537,184	426,424
Interest	16	30,834	30,011
Depreciation	5	24,585	21,100
(Increase)/Decrease in stocks	17	(10,339)	(31,756)
		<u>875,621</u>	<u>701,405</u>
LOSS BEFORE TAXATION		88,714	44,994
Provision for Taxation			
- Current			
- Deferred Tax (Refer Schedule 18 Notes 1 (x) & 17)			(4,331)
LOSS AFTER TAXATION		88,714	40,663
Balance brought forward from previous year		25,244	(15,419)
BALANCE CARRIED TO BALANCE SHEET		<u>113,958</u>	<u>25,244</u>

Notes on Accounts 18

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

As per our report attached

De loitte Haskins & Sells
Chartered Accountants

For and on behalf of the Board

V. Srikumar

Partner

Membership No: 84494

Place: Bangalore

Date: Sep 13, 2004

Director

Director

Place: Mumbai

Date: Sep. 11, 2004

ARVIND FASHIONS LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2004

	31.03.04 Rs. '000	31.03.03 Rs. '000
A. CASH FLOW FROM OPERATING ACTIVITIES		
Net profit/(loss) before tax and extraordinary items	(88,714)	(44,994)
Adjustments for :		
Depreciation	24,585	21,100
Unrealised (gain)/ loss on foreign exchange (Net)	-	1,819
Deferred Revenue Expenses written off / (Unamortised)	9,018	(12,116)
Provision for Doubtful Debts/Advances	7,498	5,151
Loss/(Gain) on Sale of Fixed Assets (Net)	556	157
Liabilities no longer required written back (Net)	(1,525)	-
Interest Expense	30,834	30,011
Interest Income	(45)	(3)
Operating profit before working capital changes	(17,793)	1,125
Adjustments for :		
Trade and other receivables	(9,938)	(2,887)
Inventories	(31,883)	(27,384)
Trade payables	133,511	88,065
Cash generated from operations	73,897	58,919
Net cash from operating activities	73,897	58,919
B. CASH FLOW FROM INVESTING ACTIVITIES :		
Purchase of fixed assets	(40,669)	(24,579)
Proceeds from sale of fixed assets	1,310	572
Interest received (Net)	3,148	5
Net cash used in investing activities	(36,211)	(24,002)
C. CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from long term borrowings	2,441	(5,417)
Repayment of Long term borrowings	(8,297)	-
Proceeds/(Repayment) of short term borrowings (Net)	2,104	4,866
Interest paid	(28,637)	(30,864)
Net cash used in financing activities	(32,389)	(31,415)
Net increase/(decrease) in cash and cash equivalents	5,297	3,502
Cash and cash equivalents as at 31.03.2003	10,127	6,625
Cash and cash equivalents as at 31.03.2004	15,424	10,127

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

Membership No: 84494

Place: Bangalore

Date: Sep 13, 2004

For and on behalf of the Board

Director

Place: Mumbai

Date: Sep. 11, 2004

Director

ARVIND FASHIONS LIMITED

SCHEDULES FORMING PART OF ACCOUNTS

	As at 31st March 2004 Rs'000	As at 31st March 2003 Rs'000
1. CAPITAL		
Authorised 10,000,000 (2003: 10,000,000) Equity Shares of Rs. 10 each	100,000	100,000
	<u>100,000</u>	<u>100,000</u>
Issued, Subscribed and Paid up 8,000,000 (2003: 8,000,000) Equity Shares of Rs. 10 each fully paid up	80,000	80,000
	<u>80,000</u>	<u>80,000</u>
TOTAL	<u>80,000</u>	<u>80,000</u>
Note: Of the above shares, 7,999,999 (2003: 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
	<u>20,000</u>	<u>20,000</u>
TOTAL	<u>20,000</u>	<u>20,000</u>
3. SECURED LOANS		

Debentures [Note 1(i) and 2 below]		
649,364 (2003: 624,953) 16.5% privately placed Secured Redeemable Non Convertible Debenture of Rs.100 each	64,936	62,495
Interest Accrued and Due	4,603	1,910
Term Loans		
From Banks [Note 1(ii)] [Repayable within one year Rs. 1,765 (2003: Rs 8,059)]	1,765	9,779
Hire Purchase Loans [Note 1(iii) below]		
From Banks [Repayable within one year Rs.Nil.(2003: Rs.105)]	-	105
From a Finance Company [Repayable within one year Rs. 184(2003: Rs.178)]	185	363
Short term loans from Banks		
Foreign Currency Loan [Note 1(iv) below]	59,345	98,325
Interest Accrued and Due	-	496
Other Bank Borrowings [Note 1(iv) below]	110,326	67,784
	<u>241,160</u>	<u>241,257</u>
TOTAL	<u>241,160</u>	<u>241,257</u>

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. 24,500 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. 53,500 by Arvind Brands Limited, the holding company.



ARVIND FASHIONS LIMITED

SCHEDULES FORMING PART OF ACCOUNTS

	As at 31st March 2004 Rs'000	As at 31st March 2003 Rs'000
2. Terms of Redemption		
16.5% 600,000 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% 49,364 (2003: 24,953) Secured Redeemable Non Convertible Debenture of Rs.100 each are redeemable at face value on April 1,2004		
4. UNSECURED LOANS		
From The Arvind Mills Limited	6,717	8,175
TOTAL	6,717	8,175
6. INVESTMENTS [Schedule 18 Note 1 (iv)] [Long Term, Non Trade, At Cost, Unquoted]		
National Savings Certificate [Lodged with Sales Tax Authorities Rs.45 (2003: Rs.45)]	50	50
TOTAL	50	50
7. INVENTORIES [Schedule 18 Note 1 (v)]		
Stores and Spares		330
Raw Materials, Packing Material and Accessories [Including in Transit Rs.8,503 (2003: Rs.4,950) and with third parties Rs.6,636 (2003: Rs. 3,084)]	65,531	46,402
Work-in-Progress [Including items with third parties Rs.4,527(2003 : Rs. 2,329)]	19,547	17,681
Stock-in-Trade:		
Finished Goods [Including in-transit: Rs.7,471 (2003: Rs.7,195) and with third parties Rs.1,142 (2003: Rs.1,087)]	217,492	209,019
Traded Items [Including in-transit: Rs 1,512 (2003: Rs.650)]	30,839	28,094
TOTAL	333,409	301,526
8. SUNDRY DEBTORS		
Exceeding Six months		
Secured - Considered Good		5,515
Unsecured		
Considered Good	752	752
Considered Doubtful	14,951	7,453
	15,703	13,720
Other Debts		
Unsecured - Considered Good	48,601	39,088
	64,304	52,808
Less: Provision for Doubtful debts	14,951	7,453
TOTAL	49,353	45,355
9. CASH AND BANK BALANCES		
Cash on Hand	863	109
Balances with Scheduled Banks:		
In Current Accounts	13,897	9,388
In Term Deposits	664	630
[Lodged as security with Government Authorities Rs.6 (2003: Rs.6)]		
TOTAL	15,424	10,127



ARVIND FASHIONS LIMITED
SCHEDULES FORMING PART OF ACCOUNTS

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

Rs 000's

	Gross Block (at cost)			Depreciation			Net Block		
	As at 01.04.2003	Additions during the year	Deductions/ Adjustments	As at 31.03.2004	Upto 31.03.2003	For the year	Upto 31.03.2004	As at 31.03.2004	As at 31.03.2003
Land (Note 1 below)	11,744	-	-	11,744	-	-	-	11,744	11,744
Buildings	66,332	102	-	66,434	12,023	1,746	13,769	52,665	54,309
Leasehold Improvements	18,223	18,211	-	36,434	8,374	3,230	11,604	24,830	9,849
Plant and Machinery	90,282	5,376	1,535	94,123	32,159	5,166	36,920	57,203	58,123
Data Processing Equipment	19,108	6,165	-	25,273	9,774	2,825	12,599	12,674	9,334
Office Equipments	4,770	431	-	5,201	1,089	233	1,290	3,911	3,681
Furniture and Fixtures	41,760	7,173	1,388	47,545	12,816	5,302	17,497	30,048	28,944
Technical Know-how	24,513	-	-	24,513	14,507	5,706	20,213	4,300	10,006
Vehicles	3,964	-	-	3,964	1,128	377	1,505	2,459	2,836
TOTAL	280,696	37,458	2,923	315,231	91,870	24,585	115,397	199,834	188,826
2003	253,558	28,091	953	280,696	70,996	21,100	91,870		

Capital work-in-progress [including Capital Advances Rs. 3,896 (2003: Rs.685)]

3,896 685
203,730 189,511

Note:

1. Freehold except for Rs. 3,360 (2003: 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.



ARVIND FASHIONS LIMITED

SCHEDULES FORMING PART OF ACCOUNTS

	As at 31st March 2004 Rs'000	As at 31st March 2003 Rs'000
10. OTHER CURRENT ASSETS, LOANS AND ADVANCES [Unsecured, considered good unless otherwise stated]		
Interest Accrued	25	3,128
Loans to Employees	2,884	2,768
Advances recoverable in cash or in kind or for value to be received [Including Rs.563 considered doubtful (2003:Rs.563)]	23,361	29,438
Less: Provision for Doubtful Advances	<u>563</u>	<u>563</u>
	22,798	28,875
Deposit with Custom and Excise Authorities	2,075	500
Other Deposits	19,287	16,460
TOTAL	<u>47,069</u>	<u>51,731</u>
11. CURRENT LIABILITIES AND PROVISIONS		
A. CURRENT LIABILITIES		
Bills Payable	10,443	7,791
Sundry Creditors		
Small Scale Industrial Undertakings (Schedule 18 Note 14)	8,416	8,144
Others	374,129	238,452
Other Liabilities	18,003	25,202
Advances from Customers	821	884
Interest accrued but not due	2,921	2,925
TOTAL	<u>414,733</u>	<u>283,398</u>
B. PROVISIONS		
Taxation Net of Advance Tax paid Rs.48,872 (2003: Rs.49,157)	703	417
Provision for Gratuity	1,388	1,100
Provision for Leave encashment	1,390	1,313
TOTAL	<u>3,481</u>	<u>2,830</u>



ARVIND FASHIONS LIMITED

SCHEDULES FORMING PART OF ACCOUNTS

For the Year
ended
31.03.04
Rs'000

For the Year
ended
31.03.03
Rs'000

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

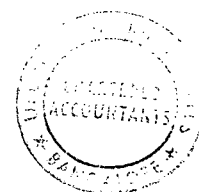
Sales less Returns	811,637	688,831
Less: Discount on Sales	<u>2,096</u>	<u>1,329</u>
	809,541	687,502
Less: Excise Duty	<u>65,599</u>	<u>57,590</u>
	743,942	629,912
Services		
Job Work [TDS Rs.38 (2003: Rs.331)]	34,149	19,836
TOTAL	<u><u>778,091</u></u>	<u><u>649,748</u></u>

13. OTHER INCOME

Interest from Banks [Tax Deducted at Source - Rs. 6; (2003 - Nil)]	30	3
Interest - Others [Tax Deducted at Source - Rs. Nil; (2003 - Nil)]	15	-
Export Incentives	1,560	3,874
Liabilities no longer required written back	1,525	-
Miscellaneous Income	5,686	2,786
TOTAL	<u><u>8,816</u></u>	<u><u>6,663</u></u>



ARVIND FASHIONS LIMITED	For the Year ended 31.03.04 Rs'000	For the Year ended 31.03.03 Rs'000
SCHEDULES FORMING PART OF ACCOUNTS		
14. COST OF MATERIALS		
Raw Materials, Packing Material and Accessories consumed [Schedule 18 Note 7]	213,693	200,768
Consumption of Traded Items	79,664	54,858
TOTAL	293,357	255,626
15 OPERATING AND OTHER EXPENSES		
Salaries, Wages and Bonus	64,733	50,139
Contribution to Provident and Other Funds	5,657	5,017
Staff Welfare Expenses	4,682	3,664
	<u>75,072</u>	<u>58,820</u>
Rent [Schedule 18 Note 15]	20,464	13,244
Rates and Taxes	8,239	1,519
Insurance	2,281	1,484
Power and Fuel	29,740	24,970
Stores and Spares Consumed [Schedule 18 Note 8]	32,831	19,931
Repairs and Maintenance:		
Buildings	1,556	874
Plant and Machinery	3,687	2,179
Others	5,213	5,128
Job Work Charges	23,256	28,786
Legal and Professional Expenses [Schedule 18 Note 12]	6,013	5,375
Communication Expenses	6,016	3,992
Travelling and Conveyance	14,395	9,844
Commission on Sales	98,226	88,390
Sales Tax and Turnover Tax	42,677	30,294
Cash Discount on Sales	-	3,023
Advertisement and Selling Expenses	66,294	41,045
Exhibition Sales Expenses	11,173	13,245
Other Selling Expenses	8,909	4,085
Freight	17,946	17,295
Royalty	27,395	23,086
Provision for Bad & Doubtful debts/advances	7,498	5,152
Loss on Foreign exchange fluctuation	1,439	4,976
Amortization of deferred revenue expenditure	9,018	6,556
Miscellaneous Expenses	17,846	13,131
TOTAL	537,184	426,424
16 INTEREST		
Interest on :		
Debentures	11,443	10,181
Fixed loans	788	2,221
Others	18,603	17,609
TOTAL	30,834	30,011
17 (INCREASE)/DECREASE IN STOCKS		
Movements in Stocks		
Opening Stock:		
Finished Goods	209,019	182,007
Work-in-Progress	17,681	12,937
	<u>226,700</u>	<u>194,944</u>
Closing Stock:		
Finished Goods	217,492	209,019
Work-in-Progress	19,547	17,681
	<u>237,039</u>	<u>226,700</u>
(Increase)/Decrease	(10,339)	(31,756)
TOTAL	(10,339)	(31,756)



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 own showrooms are depreciated over the period of trademark licence agreement of branded products or the lease period of rented properties, whichever is lower.
- c) Fixtures at showrooms other than own showrooms are depreciated over a period of three years.
- d) Used assets purchased are depreciated at the rate of 12.50%.
- e) Technical Know-how is amortised over the period of trademark licence agreement of branded products.
- f) Leasehold Improvements are amortised over the period of lease.
- g) 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 contract rates where the gains / losses arising on such restatements are recognised over the period of such contract.

vii) Miscellaneous expenditure

Deferred revenue expenditure is amortised over twenty four months

viii) Revenue Recognition

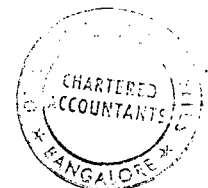
Sales are recognised on despatch to customers. Sales are inclusive of excise duty and sales tax. Services are recognised when they are rendered.

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.



	2004	2003	
2. Estimated amount of contracts to be executed on capital account (net of advances) and not provided for	1,332	7,493	
3. Contingent Liabilities:			
i) Custom duty matters disputed by the Company which are pending in appeal including estimated interest	6,180	5,845	
ii) Claims against the Company not acknowledged as debts	3,871	4,283	
iii) Income Tax demands in dispute	5,909	-	
4. Particulars of Capacity and Production:			
Class of Goods	Licensed Capacity [Note (i)]	Installed Capacity [Note (ii)]	Actual Production [Note (iii)]
Readymade Garments			
Tops	NA	Job Work	169,283 (164,554)
Bottoms	960,000 (960,000)	720,000 (720,000)	714,590 (656,661)

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.
- ii) Installed capacity is as certified by the management and relied upon by the auditors, being a technical matter.
- iii) Production quantity include 125,598(2003: 160,668) numbers produced through job workers and exclude 93,754 (2003:59,830) 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	108,472 (99,391)	39,608 (37,322)	170,507 (155,473)	110,264 (87,774)	107,248 (108,472)	39,203 (39,608)
Bottoms	359,497 (341,517)	169,411 (144,685)	647,636 (638,681)	574,694 (507,139)	426,451 (359,497)	178,289 (169,411)
		209,019 (182,007)		684,958 (594,913)		217,492 (209,019)
II Traded						
Readymade Garments						
Tops	117,970 (180,915)	21,349 (26,369)	292,401 (294,386)	94,027 (87,390)	141,759 (117,970)	26,669 (21,349)
Bottoms	-	-	19,819 (975)	18,148 (387)	-	-
Accessories	-	6,745 (2,209)	-	12,408 (4,812)	-	4,170 (6,745)
		28,094 (28,578)		124,583 (92,589)		30,839 (28,094)

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 in respect of accessories.
- ii) Figures in brackets relate to previous year.



6. Particulars of Purchase of Traded Goods:

Class of Goods	Quantity (Numbers)	Value
Readymade Garments		
Tops	316,190 (231,441)	64,432 (49,606)
Bottoms	19,819 (975)	8,038 (327)
Accessories (Note(i))		9,939 (4,441)
		<u>82,409</u> <u>(54,374)</u>

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	2004		2003		
	Quantity	Value	Quantity	Value	
Fabric	Meters	1,205,976	163,375	1,140,008	151,602
Packing Materials (Note below)		20,288			17,243
Accessories [Note below]		52,139			44,292
		235,802			213,137
Less: CENVAT Credit		22,109			12,369
		<u>213,693</u>			<u>200,768</u>
		%	Value	%	Value
Whereof:					
Imported		5	10,025	2	4,596
Indigenous		95	203,668	98	196,172
		100	213,693	100	200,768

Note:

- 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 6251. (2003: Rs.6,781)

8. Consumption of Stores and Spare Parts:

	2004		2003	
	%	Value	%	Value
Indigenous	100	32,831	100	19,931
	100	32,831	100	19,931

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

	2004	2003
Raw materials and accessories	8,840	5,704

10. Expenditure in Foreign Currency:

	2004	2003
Royalty (Net of tax)	23,285	19,625
Travel	729	427
Advertisement	-	1,258



18 ARVIND FASHIONS LIMITED
NOTES TO ACCOUNTS Rs. in '000

11. Earnings in Foreign Currency:	<u>2004</u>	<u>2003</u>
FOB Value of exports	13,549	26,741

12. Auditors' Remuneration [included under Legal and Professional Charges in Schedule 15]:	<u>2004</u>	<u>2003</u>
Audit Fees	600	600
Service Tax	48	48
Reimbursement of Out-of-Pocket Expenses	4	4

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

14 Particulars of Small Scale Industrial Undertakings to whom amounts are payable for more than thirty days:

- 1 AFNOSH PACKING INDUSTRIES
- 2 CHEN WEAR
- 3 EMBASSY PACKING
- 4 IMPRESSIONS
- 5 LAKSHMI POLYMERS
- 6 MANGAL PLASTIC UDOYG
- 7 R.S. ENTERPRISES
- 8 RAMYA REPROGRAPHIC PVT.LTD
- 9 S.V.POLYMERS
- 10 SHRI SHIRDI SAI
- 11 UNITED PRECISION PLASTICS
- 12 WINTERFLEXO PRINTS
- 13 AKASH APPARELS
- 14 DHATRI KREATIONS
- 15 JUST NATURAL
- 16 MEGHA GARMENTS PRIVATE LIMITED
- 17 S A INDUSTRIES

Notes:

i) 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.

15 a) Rent expenses include lease rental 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 option for renewal is on mutual consent. The particulars of these leases are as follows:

Minimum lease payments	<u>2004</u>	<u>2003</u>
	20,464	13,244
Obligation on non-cancellable leases		
Not later than one year	3,384	3,384
Later than one year and not later than five years	880	4,264
Later than five years	-	-
	<u>4,264</u>	<u>7,648</u>

b) Rent income include lease rental received towards portion of factory and other buildings. Such leases are generally for a period of 2 years with options for renewal against increased rent 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		2004
	2003	2004	2003	Additions	
Buildings	3199	3199	68	107	175
Plant & Machinery	1760	480	310	86	396
Furniture & Fixtures	262	262	130	16	146

Minimum lease payments received	<u>2004</u>	<u>2003</u>
	478	412



18 ARVIND FASHIONS LIMITED
NOTES TO ACCOUNTS

Rs. in '000

17. Deferred Taxation

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

18. 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)	795,992 (660,761)	13,549 (26,741)	809,541 (687,502)
External Services	34,149 (19,836)	-	34,149 (19,836)
	830,141 (680,597)	13,549 (26,741)	843,690 (707,338)
Current Assets, Loans and Advances:			
Sundry Debtors (Net of Provision)	49,226 (44,991)	127 (364)	49,353 (45,355)

Note: Figures in brackets relate to previous year

19. Details of dues from companies under the same management:

Name of the Company	Balance as on 31st March 2004	Maximum amount outstanding as at anytime during the year
Arvind Brands Limited	12,493	85,546

Note: Figures in brackets relate to the previous year.

20. The Company has incurred losses in the previous three years and the accumulated losses of the Company as at 31 March, 2004 have exceeded its Capital and Reserves. The company has received a letter of support from The Arvind Mills Ltd., a major shareholder in the holding company, stating its intent to support the operations of the Company and enable the Company to meet its financial obligations.

21. Amount mentioned in notes and other schedules are Rupees in thousands

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



ARVIND FASHIONS LIMITED

SCHEDULE TO THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

18. BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE.

I. Registration Details

Registration No.	<input type="text" value="9919"/>	State Code :	<input type="text" value="4"/>
Balance Sheet Date :	<input type="text" value="31-3-2004"/>		
	Date Month Year		

II. Capital Raised during the year (Amount In Rs.'000)

Public Issue	<input type="text" value="Nil"/>	Rights Issue	<input type="text" value="Nil"/>
Bonus Issue	<input type="text" value="Nil"/>	Private Placement	<input type="text" value="Nil"/>

III. Position of Mobilisation and Deployment of Funds (Amount in Rs.'000)

Total Liabilities	<input type="text" value="666.091"/>	Total Assets	<input type="text" value="649.035"/>
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Sources of Funds

Paid-up Capital	<input type="text" value="80,000"/>	Reserves and Surplus	<input type="text" value="20,000"/>
Secured Loans	<input type="text" value="241,160"/>	Unsecured Loans	<input type="text" value="6,717"/>

Application of Funds

Net Fixed Assets	<input type="text" value="203,730"/>	Investments	<input type="text" value="50"/>
Net Current Assets	<input type="text" value="27,041"/>	Misc. Expenditure	<input type="text" value="3,098"/>

IV. Performance of Company (Amount in Rs.'000)

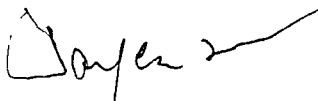
Turnover (includes Other Income Rs.8,816)	<input type="text" value="786,907"/>	Total Expenditure	<input type="text" value="875,621"/>
Profit/(Loss) before Tax	<input type="text" value="(88,714)"/>	Profit/(Loss) after Tax	<input type="text" value="(88,714)"/>
Earnings per share in Rs.	<input type="text" value="(11.09)"/>	Dividend Rate %	<input type="text" value="-"/>

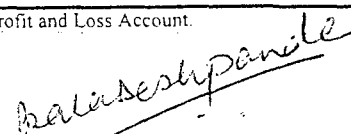
V. Generic Names of Three Principal Products / Services of the Company (as per monetary terms)

Item Code No. (ITC Cod

Product Description

Signatures to Schedules 1 to 17 forming part of the Balance Sheet and Profit and Loss Account.


Director


Director

Place: Mumbai
Date: Sep. 11, 2004