

**Himatsingka Seide**

ANNUAL REPORT

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2007-08

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# Outlook

**Dinesh Himatsingka**  
Managing Director

Dear Shareholders,

2007-2008 has been a rather eventful year for our Company. All the initiatives taken in the previous year have come to fruition. We inched closer to the overall vision to make our Company a vertically integrated home textile player with a global presence.

The new Bed-linen facility at the Hassan SEZ was commissioned during October 2007. This is a significant milestone for the Company from a standpoint of project execution as well as the capability to diversify its product portfolio and make inroads into new markets in the home textile segment.

Having completed the acquisition of Giuseppe Bellora SpA, Italy, we acquired Divatex Home Fashions Inc., USA. Divatex is the third largest distributor of bed linen in the United States. This was followed by the acquisition of DWI Holdings Inc. USA. DWI holds the license to manufacture and distribute Calvin Klein bedding products in the United States, Canada, Mexico and India. In addition, it also has the license to manufacture and distribute Barbara Barry bedding products globally. These three overseas acquisitions and the manufacturing facility at Hassan, enhances our brand portfolio, makes us vertically integrated, and gives us global reach in distribution capabilities.

“ATMOSPHERE”, our retail initiative in India and other Asian markets continued to post robust growth. We made a confident start in South East Asia with the opening of our first store in Singapore during October 2007. With this we now have fourteen showrooms under the Atmosphere brand. Our retail foray will be the subject matter of continued focus as we stay engaged in unlocking value for our Company.

As a result, our Company grew at an astounding pace and clocked consolidated revenues of Rs.892.32

crores as against Rs.244.58 crores in the previous year, an increase of 364.83%. Given the sluggish global macro economic environment, this is a considerable achievement. The Company has however posted a loss of Rs.23.99 crores during the year. This is primarily on account of a Rs.49.78 crore loss incurred from the new bed linen facility at Hassan. The loss includes expenses incurred prior to the commissioning of the facility and reflects the low capacity utilization at the plant given its recent commissioning. I expect the plant to stabilize in the current year. In addition to the loss from the bed linen facility, the company also provided Rs.27.77 crores towards an outstanding foreign exchange derivative contract taken to hedge its foreign exchange receivables.

We realize that the macroeconomic environment will be challenging in the coming year given the global slowdown. However, I believe, the vertical business model that we have so painstakingly built, together with our proven design capabilities, will result in enhanced value for our company. The stabilization of the Hassan bed linen plant and the management of foreign exchange risks, will get our focused attention. The year ahead will also be a year of consolidation of our various acquisitions.

I would like to thank the Board of Directors, my colleagues in the Management Team and our employees for their efforts and perseverance during a difficult year. I also thank our shareholders for the confidence reposed in us. I am certain that we have laid the right foundations for the future growth of the Company.

**Dinesh Himatsingka**  
Managing Director  
Himatsingka Seide Limited

## Management Discussion and Analysis

### Himatsingka Seide Limited

#### Industry Structure and Developments

The textile industry is among the largest industry in India in terms of employment generation and foreign exchange earnings. Home textiles segment in which the Company operates is an important part of the textile industry. The global environment in the home textile industry has been undergoing change in view of the increasing impetus on building capacities in the east while consolidating distribution channels in the key markets of the EU region and the United States. There have been consistent capacity additions in the weaving and processing of high-end home furnishing fabrics in India as well as in China.

Global competition, cost competitiveness, low productivity levels and a strong rupee appreciation are some of the key challenges faced by the industry.

India being the second largest producer of cotton, enjoys a competitive edge in low cost cotton sourcing compared to other countries. Design and fashion capabilities are the differentiators that have enabled Indian industry to build relationships with global retailers and score over competition from China and other countries.

The international market of home textiles has been marked by increasing product complexity, higher service standards by manufacturers and shorter delivery cycles. The higher dependence on suppliers for research and development and innovation continues. Hence, investing in design and product development expertise has become a key differentiator in the global equation between buyers and suppliers.

Operating in this segment of the market tests a manufacturer's ability in coping with best in the class technology, global design trends and the ability to harness talent in creating new product lines for the market. To address these challenges the Company continuously invests in new technology, and strives to shorten delivery cycles to meet customer demands. Expanding product breadth and enlarging design teams, both in India and overseas, have been an integral part of the Company's strategy. Additionally, with the new bed-linen manufacturing facility and Rs.35 crores investment in the apparel park facility, the Company is positioned to offer its customers a complete range of home textile products.

#### Opportunities

In the home textile space, India's share in the world trade is expected to increase from \$ 1.2 billion currently to \$ 5 billion in 2010. (Source: KSA Technopak). The continuation of Textile Upgradation Fund (TUF) scheme by the Central Government in the 11th plan period indicates the opportunities the industry has going forward. A gradual shifting of textile manufacturing facilities from the developed economies to developing economies is making countries like India and China play an increasingly important role.

With the Hassan bed-linen facility going on stream and the acquisitions of Giuseppe Bellora SpA, Divatex Home Fashions Inc and DWI Holdings Inc, the Company has created a strong presence in three segments which include the manufacturing of high end home furnishing fabrics, manufacturing of bed-linen fabric and made-ups and distribution of home furnishing and bed linen products in business-to-business and business-to-customer models.

Having integrated forward into retailing through the 'ATMOSPHERE' brand, the Company also has a strong presence in the Indian market, Middle East and South East Asian markets. The Company plans to continue opening new stores in select cities in India and other Asian markets to drive growth. With 14 stores in its portfolio, including two international stores at Dubai and Singapore, 'ATMOSPHERE' brand has become fairly visible in the home furnishing fraternity.

#### Threats

We are dependent on China for quality raw materials for our silk business. China is also the largest producer of silk fabric in the world, hitherto focusing on mass production. Though the Company continues to be the market leader in this space, growing competition from China and India can potentially be a threat to the market share which the Company commands.

In the bed linen segment, the Company will be competing with other large players in India, Pakistan and China, with similar or larger capacities. The industry has been witnessing a highly competitive environment with regard to the pricing of products. The challenge will be to garner market share profitably while competing with other large players.

Strengthening of the Indian rupee vis-à-vis US dollar may erode our margins as well as our competitive advantage.

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## **Strengths**

Our core strengths continue to be product design and development, state-of-the-art and flexible manufacturing facilities and efficient marketing and distribution channels.

Our in-house design studio is considered amongst the best in the world for its design capabilities. It is equipped with state-of-the-art infrastructure and related facilities to be able to churn out more than 1500 new products annually. In addition, we invest in expanding our design teams both in India and overseas to be able to address the increasing need for new products globally.

We ensure that our marketing team and our global buyers closely interact with our designers. We provide our design team with adequate facilities to enable them to anticipate market trends and create products that are cutting edge, novel and highly creative.

To successfully create products that are differentiated and unique, we constantly upgrade our manufacturing techniques. The array of intelligently balanced machines on our shop floor represents the best that technology has to offer.

Our production facilities remain flexible and unique. We are able to manufacture a large number of exclusive products, in small quantities, at just-in-time deliveries. This has increased our credibility and enabled us to reinforce long-term relationships with our global clientele.

Our IT infrastructure is seamlessly integrated, from design to manufacture. We continuously invest in capacity upgradation and consistently work towards improving our productivity standards.

In the silk business, we have a growing clientele that is 150-strong. We sell to highly reputed international brands in the home textiles and apparel space. Our customers' global retail network maximizes our product visibility and provides us with avenues for market penetration through new product introductions.

Our enduring relationships with clients are testimony to our effective and highly successful business model. The high percentage of repeat business we generate is a measure of the confidence our customers have in us.

The acquisitions during the last eighteen months have given the Company strategic foothold in the home textiles space of United States of America and Italy.

The acquisition of Giuseppe Bellora S.p.A in the previous year offers a significant share in the luxury market in Italy which gives us a platform to expand our business in the European market.

The acquisition of Divatex Home Fashions Inc. brings distribution strength for our bedding products. Divatex is the third largest distributor of bed linen products in the USA.

The acquisition of DWI Holdings Inc. which possesses licenses of luxury home textile brands such as Calvin Klein Home, Barbara Barry Home and Royal Sateen gives us access to the high end and branded segment of the bedding market in the USA.

## **Internal control systems and their adequacy**

The Company's internal control system ensures proper safeguarding of assets, maintaining proper accounting records and reliable financial information.

An external independent firm carries out the internal audit of the Company's operations and reports its findings to the Audit Committee on a regular basis. Internal Audit also evaluates the functioning and quality of internal controls and provides assurance of its adequacy and effectiveness through periodic reporting.

The combination of policies and process addresses the various risks associated with the Company's business. The Company periodically reviews the risk management framework to maintain its contemporariness so as to effectively address the emerging challenges in a dynamic business environment.

## **Risks and Concerns**

The Company's risks and concerns have been discussed comprehensively under the segment, Risk Management, later in this section.

## Financial Performance (Standalone)

### Product-wise performance

(Value in Rs. crores)

| Parameter                     | 2007-08   |        | 2006-07   |        |
|-------------------------------|-----------|--------|-----------|--------|
|                               | Quantity  | Value  | Quantity  | Value  |
| Silk/Blended Fabrics (meters) | 15,69,667 | 146.09 | 15,77,386 | 148.84 |
| Spun silk/ blended Yarn (kgs) | 1,43,151  | 25.26  | 1,35,218  | 25.32  |
| Bed linen Fabric (meters)     | 2,01,492  | 3.83   | -         | -      |
| Bed linen Sets (nos.)         | 7,74,350  | 57.50  | -         | -      |

Sales realisation for silk fabric increased from US \$ 20.93 per meter in the previous year to US \$ 23.10 per meter. However, due to appreciation of the Indian rupee by 10.6% during the year, the realisation in the Indian rupee declined from Rs.943.53 to Rs.930.71 per meter.

### Sales by geographical area

(Rs. crores)

| Country/Region | Value<br>2007-08 | Value<br>2006-07 |
|----------------|------------------|------------------|
| USA            | 107.10           | 58.15            |
| Western Europe | 90.70            | 86.69            |
| India          | 18.68            | 16.15            |
| Others         | 16.20            | 13.17            |

### Revenue break-up

(Rs. crores)

|              | 2007-08 | %      | 2006-07 | %      |
|--------------|---------|--------|---------|--------|
| Sales        | 232.68  | 93.20  | 174.16  | 86.55  |
| Other income | 16.97   | 6.80   | 27.06   | 13.45  |
| Total income | 249.65  | 100.00 | 201.22  | 100.00 |

### Expenditure analysis

The major heads of expenses are given below as a percentage of total income.

(Rs. crores)

|                                | 2007-08 | %       | 2006-07 | %     |
|--------------------------------|---------|---------|---------|-------|
| Material cost                  | 113.01  | 45.27   | 61.06   | 30.34 |
| Manufacturing expenses         | 32.50   | 13.02   | 16.27   | 8.09  |
| Employee cost                  | 41.37   | 16.57   | 25.22   | 12.53 |
| Other expenses                 | 28.46   | 11.40   | 23.24   | 11.55 |
| EBIDTA before exceptional item | 34.29   | 13.74   | 75.43   | 37.49 |
| Interest                       | 9.05    | 3.63    | 0.45    | 0.22  |
| Exceptional item               | 27.77   | 11.12   | -       | -     |
| EBDT                           | (2.53)  | (1.01)  | 74.98   | 37.27 |
| Depreciation                   | 26.37   | 10.56   | 14.04   | 6.98  |
| Profit/(Loss) before tax       | (28.90) | (11.57) | 60.94   | 30.29 |
| Tax                            | (2.86)  | (1.14)  | 6.33    | 3.15  |
| Profit/(Loss) after tax        | (26.04) | (10.43) | 54.61   | 27.14 |

Since the bed linen facility is commissioned during the year, the costs as a percentage of sales for the current year are not comparable with the previous year.

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### Material costs

Material cost as a percentage of sales has gone up due to

- a. Inclusion of results of bed linen operations during the current year which has higher material costs.
- b. Though raw silk prices have been lower in the current year due to appreciation of the Indian rupee, material cost as a percentage of sales has marginally increased due to lower sales realisation per meter on rupee basis.

### Manufacturing and Other Expenses

Manufacturing expenses include power and fuel, stores and spares, repairs, design and product development expenses.

EBITDA margin (before exceptional item) declined from 37.49% in 2006-07 to 13.74% in 2007-08 primarily due to loss of Rs.22.45 crores at EBITDA level on account of the bed linen operations during the year.

Interest expense is higher at Rs.9.05 crores (Rs.0.45 crores in 2006-07) due to interest on TUF loan and working capital loans for bed linen facility availed by the Company.

Depreciation is also higher due to capitalisation of bed linen facility in the third quarter of the current year.

Tax provision is as follows:

|                                    | (Rs. crores) |
|------------------------------------|--------------|
| Current Tax                        | 1.29         |
| Less: MAT Credit availed           | (1.29)       |
| Reversal of Deferred Tax liability | (3.66)       |
| Fringe Benefit Tax                 | 0.80         |
| Total Tax Provision                | (2.86)       |

### Share capital

The Company's share capital consists only of equity shares. As on 31st March, 2008, the share capital was Rs.49.23 crores consisting of 9,84,57,160 equity shares. The face value of each equity share is Rs.5/-.

### Reserves and surplus

The Company's reserves and surplus stood at Rs.552.39 crores at the end of 2006-07.

Rs.12.80 crores was added to share premium account towards issue of equity shares to promoters/ promoter group on conversion of warrants, during the year 2007-08.

Loss of Rs.26.04 crores for the year resulted in reduction in the profit and loss balance.

During the year Rs.0.44 crores was adjusted against opening balance of General reserves on account of employee benefits due to revised Accounting Standard 15 – Employee benefits as per transitional provision.

The Company's reserves and surplus stood at Rs.538.71 crores at the end of 2007-08.

The Company's entire reserve position was fully distributable to shareholders. The Company did not have any revaluation reserves as on March 31, 2008.

### Loans

The Company has availed a term loan of Rs.300 crores, at a weighted average interest of 8.35% per annum from Export Import Bank of India and Canara Bank, under the Technology Upgradation Fund (TUF) scheme for its bed linen project. An interest subsidy of 5% is available under this scheme. The loan is repayable in 33 quarterly instalments after a initial moratorium of two years. Total term loans outstanding as at the end of 2007-08 is Rs.310.17 crores, including Rs.12.44 crores availed during 2004-05 for addition of weaving looms in the silk facility.

The Company has also availed Rs.86.92 crores as working capital borrowings from its bankers, as on March 31, 2008.

## Fixed Assets

| Particulars                                    | (Rs. crores) |         |
|--|--------------|---------|
|  | 2007-08      | 2006-07 |
| Buildings                                      | 103.37       | 25.20   |
| Plant and machinery                            | 458.42       | 190.00  |
| Others   | 32.75        | 24.30   |
| Gross block                                    | 594.54       | 239.50  |
| Less: Accumulated depreciation                 | 149.28       | 134.24  |
| Net block                                      | 445.26       | 105.26  |
| Add: Capital work-in-progress                  | 46.45        | 250.76  |
| Net fixed assets                               | 491.71       | 356.02  |
| Depreciation as a % of Total Income            | 10.56        | 6.98    |
| Accumulated Depreciation as a % of Gross Block | 25.11        | 56.05   |

## Investments

Surpluses generated by the business are used to fund the Company's growth.

As on March 31, 2008, the Company has invested Rs.17.79 crores in various schemes of mutual funds.

During the year, the Company invested Rs.7.50 crores towards additional equity in Himatsingka Wovens Pvt Ltd (HWPL). This was done to part finance the setting up of Apparel Park unit by HWPL.

During the year, the Company invested Rs.102.94 crores towards additional equity in Himatsingka America Inc (HimA) to facilitate the acquisition of Divatex Home Fashions Inc., and DWI Holdings Inc. by HimA.

The mutual fund investments generated a return of 8.01% in 2007-08, as compared to 7.51% in 2006-07. On a composite basis (including investments sold and investments held as on March 31, 2008), the return works out to 7.78% (7.49%).

As on 31st March, 2008, break up of investments is as follows:

| Investments in subsidiaries                   | (Rs. crores)    |                 |
|---|-----------------|-----------------|
|   | As on 31.3.2008 | As on 31.3.2007 |
| - Himatsingka Wovens Pvt Ltd                  | 11.64           | 4.14            |
| - Himatsingka America Inc.                    | 109.85          | 6.91            |
| - Twill & Oxford LLC                          | 0.37            | 0.37            |
| - Giuseppe Bellora SpA                        | 68.76           | 68.76           |
| <b>Other investments</b>                      |                 |                 |
| - Investment in US 64 bonds                   | 1.67            | 1.67            |
| - Investment in mutual funds                  | 16.36           | 49.35           |
| Total Investments                             | 208.65          | 131.20          |
| Less: Provision for diminution in value       | 0.24            | 0.10            |
| <b>Net investments as on 31st March, 2008</b> | <b>208.41</b>   | <b>131.10</b>   |

## Sundry debtors

The total debtors of the Company increased from Rs.41.48 crores in 2006-07 (including Rs.15.76 crores from subsidiaries) to Rs.59.26 crores (including Rs.33.01 crores from subsidiaries) in 2007-08.

The debtors' turnover (days) was maintained at 87 days.

The Company has an excellent track record on the realisation of receivables and does not foresee any bad debts. Accordingly, no provision is considered necessary.

## Inventories

The Company's inventories – raw materials, stores and spares, work-in-process and finished goods – increased from Rs.49.26 crores in 2006-07, to Rs.100.45 crores in 2007-08. The inventory levels increased due to the commissioning of the bed linen plant during the year. The break-up of inventories is as follows:

(Rs. crores)

|                   | 2007-08 | %      | 2006-07 | %      | YoY%    |
|-------------------|---------|--------|---------|--------|---------|
| Raw material      | 30.66   | 31.26  | 14.20   | 28.82  | (20.8%) |
| Stores and spares | 8.20    | 7.43   | 2.33    | 4.73   | 50.32%  |
| Work-in-process   | 50.27   | 50.04  | 26.23   | 53.26  | 40.12%  |
| Finished goods    | 11.32   | 11.27  | 6.50    | 13.19  | 52.22%  |
| Total             | 100.45  | 100.00 | 49.26   | 100.00 | 15.96%  |

For the silk business, the Company mainly imports its raw material from China and Brazil. It maintains about four months of raw material inventory to overcome any temporary disruptions in supply. At times, this inventory is stepped up to six months to take advantage of lower raw material prices.

India being the second largest producer of cotton, the main raw material for the bed linen facility, availability is assured throughout the year.

#### Cash and cash equivalents

Cash and cash equivalents decreased from Rs.224.10 crores to Rs.8.56 crores during 2007-08 on account of infusion of funds in Himatsingka America Inc., for the acquisition of Divatex Home Fashions Inc., and DWI Holdings Inc.

#### Derivative contracts

The Company is exposed to foreign currency fluctuations on foreign currency assets and forecasted cash flows denominated in foreign currency and follows a policy of covering the risks arising out of foreign exchange fluctuations through a combination of forward contracts and options. During the year ended 31st March, 2008, apart from forward contracts, the Company, entered into three foreign exchange derivative contracts.

The Company has accounted for marked to market loss of Rs.27.77 crores as indicated by the contracting bank in respect of the foreign exchange derivative contract.

#### Financial Performance (Consolidated)

##### Sales by geographical area

(Rs. crores)

| Country/Region | Value<br>2007-08 | Value<br>2006-07 |
|----------------|------------------|------------------|
| USA            | 573.49           | 59.23            |
| Europe         | 245.39           | 102.99           |
| India          | 31.75            | 25.20            |
| Others         | 19.65            | 21.69            |

##### Revenue break up

(Rs. crores)

|              | 2007-08 | %      | 2006-07 | %      |
|--------------|---------|--------|---------|--------|
| Sales        | 870.28  | 97.53  | 209.11  | 85.50  |
| Other Income | 22.04   | 2.47   | 35.47   | 14.50  |
| Total Income | 892.32  | 100.00 | 244.58  | 100.00 |

The results of the current year are not comparable with the previous year on account of acquisitions made during the year and the commissioning of the bed linen facility during the mid year.

## Expenditure analysis

The major heads of expenses are given below as a percentage of total income.

(Rs. crores)

|                                | 2007-08 | %      | 2006-07 | %     |
|--------------------------------|---------|--------|---------|-------|
| Material cost                  | 519.70  | 58.24  | 74.52   | 30.47 |
| Manufacturing expenses         | 63.34   | 7.10   | 16.78   | 6.86  |
| Employee cost                  | 124.45  | 13.95  | 33.52   | 13.71 |
| Other expenses                 | 120.14  | 13.46  | 33.10   | 13.53 |
| EBIDTA before exceptional item | 64.69   | 7.25   | 86.66   | 35.43 |
| Interest                       | 24.80   | 2.78   | 0.96    | 0.39  |
| Exceptional item               | 25.65   | 2.87   | -       | -     |
| EBDT                           | 14.24   | 1.60   | 85.70   | 35.04 |
| Depreciation                   | 35.88   | 4.02   | 15.70   | 6.42  |
| Profit/(Loss) before tax       | (21.64) | (2.42) | 70.00   | 28.62 |
| Tax                            | 5.39    | 0.60   | 6.88    | 2.81  |
| Minority interest              | (3.04)  |        | 1.69    |       |
| Profit/(Loss) after tax        | (23.99) | (2.69) | 61.43   | 25.12 |

## Material costs

The material cost as a percentage of sales is not comparable with the previous year due to inclusion of results of bed linen operations and newly acquired entities during the current year.

## Manufacturing and Other Expenses

Manufacturing expenses include power and fuel, stores and spares, repairs, design and product development expenses.

EBIDTA margin (before exceptional item) declined from 35.43% in 2006-07 to 7.25% in 2007-08 due to

- Loss of Rs.22.45 crores at EBIDTA level on account of the bed linen operations during the year.
- Newly acquired entities operate at a lower EBIDTA margin.

Interest expense and depreciation are not comparable with the previous year due to inclusion of results of bed linen operations and newly acquired entities during the current year.

Tax provision is as follows:

(Rs. crores)

|                                    |        |
|------------------------------------|--------|
| Current Tax                        | 2.52   |
| Less: MAT Credit availed           | (1.44) |
| Reversal of Deferred Tax liability | 3.44   |
| Fringe Benefit Tax                 | 0.87   |
| Total Tax Provision                | 5.39   |

## Share capital

The Company's share capital consists only of equity shares. As on 31st March, 2008, the share capital was Rs.49.23 crores consisting of 9,84,57,160 equity shares. The face value of each equity share is Rs.5/-.

## Reserves and surplus

The Company's reserves and surplus stood at Rs.545.86 crores at the end of 2006-07.

Rs.12.80 crores was added to share premium account towards issue of equity shares to promoters/ promoter group on conversion of warrants, during the year 2007-08.

Loss of Rs.23.99 crores for the year resulted in reduction in the profit and loss balance. Profit and loss balance is further reduced by Rs.0.22 crores due to restatement of foreign currency denominated opening balance of profit and loss account.

During the year Rs.0.44 crores was adjusted against opening balance of General Reserves on account of employee benefits due to revised Accounting Standard 15 – Employee benefits as per transitional provision.

Legal reserve decreased by Rs.0.03 crores on account of exchange fluctuation and consolidation adjustments.

Foreign currency translation reserve has increased by Rs.6.26 crores on account of difference in exchange rates arising on translation of financials from foreign currency to reporting currency.

The Company's reserves and surplus stood at Rs.540.25 crores at the end of 2007-08.

The Company did not have any revaluation reserves as on March 31, 2008.

### Secured Loans:

Secured loans have increased by Rs.245 crores mainly due to term loan taken for the bed linen project at Hassan SEZ, working capital facilities availed during the year and inclusion of secured loans of the entities acquired during the year.

### Unsecured Loans:

The company has availed working capital facility for effective cash management thereby increasing the unsecured loans by Rs.32.52 crores.

### Goodwill on consolidation:

The excess of cost to the Company of its investments in the subsidiary companies over its share of the equity of the subsidiary companies, at the dates on which the investments in the subsidiary companies were made, is recognized as goodwill, being an asset in the consolidated financial statements.

Goodwill has increased by Rs.255.33 crores during the year primarily arising from acquisition of Divatex Home Fashions Inc., and DWI Holdings Inc., during the year and due to restatement of goodwill on acquisition of Giuseppe Bellora S.p.A. at the closing exchange rate.

### Fixed Assets

|  | (Rs. crores) |         |
|--|--------------|---------|
|  | 2007-08      | 2006-07 |
| Buildings                                      | 167.72       | 58.84   |
| Plant and machinery                            | 490.85       | 207.87  |
| Others   | 115.94       | 73.19   |
| Gross block                                    | 774.51       | 339.90  |
| Less: Accumulated depreciation                 | 238.40       | 191.30  |
| Net block                                      | 536.11       | 148.60  |
| Add: Capital work-in-progress                  | 46.63        | 274.88  |
| Net fixed assets                               | 582.74       | 423.48  |
| Depreciation as a % of Total Income            | 4.02         | 6.42    |
| Accumulated Depreciation as a % of Gross Block | 30.78        | 56.28   |

### Investments

Surpluses generated by the business are used to fund the Company's growth.

As on March 31, 2008, the Company has invested Rs.17.79 crores in various schemes of mutual funds.

The mutual fund investments generated a return of 8.01% in 2007-08, as compared to 7.51% in 2006-07. On a composite basis (including investments sold and investments held as on March 31, 2007), the return works out to 7.49% (6.68%).

As on 31st March, 2008, break up of investments is as follows:

|   | (Rs. crores) |              |
|---|--------------|--------------|
|   | 31.03.2008   | 31.03.2007   |
| <b>Long term investments</b>                      |              |              |
| Milano Confezioni S.r.l.                          | 0.01         | 0.01         |
| BP Venture S.r.l.                                 | 3.14         | -            |
| Other investments in equity shares and debentures | 0.47         | 0.41         |
| <b>Other investments</b>                          |              |              |
| - Investment in US 64 bonds                       | 1.67         | 1.67         |
| - Investment in mutual funds                      | 16.36        | 49.35        |
| <b>Total Investments</b>                          | <b>21.65</b> | <b>51.44</b> |
| Less: Provision for diminution in value           | 0.24         | 0.10         |
| <b>Net investments as on 31st March, 2008</b>     | <b>21.41</b> | <b>51.34</b> |

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### Sundry debtors

The total debtors of the Company increased from Rs.80.20 crores in 2006-07 to Rs.115.61 crores in 2007-08.

The debtors' turnover (days) has dropped from 140 days in 2006-07 to 48 days in 2007-08 primarily because of the low collection period of the newly acquired entities.

The Company has created a provision of Rs.0.28 crores in 2007-08 towards the doubtful receivables in the books of overseas subsidiary.

### Inventories

The Company's inventories – raw materials, stores and spares, work-in-process and finished goods – increased from Rs.123.61 crores in 2006-07, to Rs.323.66 crores in 2007-08. The inventory levels increased primarily due to the commissioning of the bed linen plant and inclusion of inventory of new entities acquired during the year. The break-up of inventories is as follows:

|                   | 2007-08       | %             | 2006-07       | %             | YoY%          |
|-------------------|---------------|---------------|---------------|---------------|---------------|
| Raw material      | 47.17         | 14.57         | 33.31         | 26.95         | 41.61         |
| Stores and spares | 8.70          | 2.69          | 2.33          | 1.88          | 273.39        |
| Work-in-process   | 61.08         | 18.87         | 36.98         | 29.92         | 65.17         |
| Finished goods    | 206.71        | 63.87         | 50.99         | 41.25         | 305.39        |
| <b>Total</b>      | <b>323.66</b> | <b>100.00</b> | <b>123.61</b> | <b>100.00</b> | <b>161.84</b> |

### Cash and cash equivalents

Cash and cash equivalents decreased from Rs.240.38 crores to Rs.15.34 crores during 2007-08 on account of acquisition of Divatex Home Fashions Inc., and DWI Holdings Inc., during the year.

### Material developments in Human Resources

Our people are our key asset. We have been able to create a work environment that encourages proactiveness and responsibility. The Company employed 2851 people as on March 31, 2008.

A people oriented work environment combined with a market-driven compensation and benefit package has ensured that we have a moderate attrition rate.

### Outlook

With the new investments in bed linen manufacturing, retailing and overseas acquisitions, we believe we are positioned to embrace the various opportunities available to us in these segments to significantly enhance our revenues and market share.

## Risk Management

Himatsingka Seide Limited

Risk is an essential part of any business or industrial undertaking. Risk management is not about minimizing exposure. It is using the risk as a tool for competitive advantage. A comprehensive and integrated risk management framework forms the basis of all the de-risking efforts taken by your Company. Prudential norms aimed at limiting exposures are an integral part of this framework.

We operate in a rapidly changing environment that involves a number of risks. The following discussion highlights some of these risks which could materially and adversely affect our business, financial condition, prospects, operating results or cash flows. The following risk factors are not an exhaustive list of the risks associated with our business. New factors may emerge or changes to these risks could occur that could materially affect our business.

### **Business concentration risk**

The Company's business is predominantly export oriented and 80% of consolidated revenue is earned in the United States of America. The high degree of concentration in select markets could potentially impact results, especially when the consumption pattern in these markets is affected by political or economic events specific to them.

Revenue and credit risk arising from concentration of customers; as three customers account for 40% of consolidated sales.

### **Competition related risk**

Competition in the home textile industry from producers in India, China and other developing countries may adversely affect our performance.

With strengths in design and product development capabilities coupled with strong marketing and distribution network, we strive to stay ahead of competition.

### **Material related risks**

High dependence on raw silk imports from China and Brazil could impact results should there be any interruption, temporary shortage or transportation delays.

To minimize the risk arising out of a potential delay in delivery and to mitigate the impact of an unforeseen increase in raw material prices, the Company maintains three-to-four month raw material inventory.

Fluctuation in the cost of raw materials and finished goods could impact results.

### **Employee related risk**

Given the high dependence of the Company on design skills, attrition in this area could impact the Company's capability to meet product development requirements and thereby impact results.

The Company has continually expanded its design team in India and overseas to ensure that design and product development requirements are adequately addressed. We believe that given the size of our design team and the adequacy of design infrastructure in place, industry attrition is unlikely to affect our capabilities in these areas.

### **Regulatory / Compliance risk**

The effluents generated in some of the Company's production processes could be harmful to the environment, if released untreated. A poor management of effluent treatment could lead to statutory non-compliance for the Company.

The Company has invested significantly and prudently on effluent treatment facilities to meet pollution control and other regulatory norms.

### **Intellectual capital risk**

The Company's intellectual capital resides largely in its designs and there could be a potential risk of losing competitive advantage should there be an inadequacy in the protection of data.

To ensure design security, we have embarked on a few initiatives. We have prudently evolved designs from the physical to the virtual networked environment with high security features. Besides, only select personnel have access to these designs, which minimises the loss of sensitive information.

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**Post-acquisition integration risk**

In line with its vision to pursue growth through organic and inorganic means, the Company has set up bed linen manufacturing facility and completed three acquisitions in the last eighteen months.

Post-acquisition, the Company recognizes that there could be risk emanating from possible

- a. Deviation in estimation of business potential and synergies.
- b. Difficulties in integration of acquired entities within the operational and strategic policies.

**Exchange rate risk**

The Company earns revenues, pays expenses, owns assets and incurs liabilities in countries using currencies other than the Indian rupee, including U.S Dollar, Euro and Pound. Consolidated financial statements are presented in the Indian rupee and hence the Company must translate revenue, income and expenses, as well as assets and liabilities, into the Indian rupees at exchange rates in effect during or at the end of each reporting period. Therefore, increases or decreases in the value of the Indian rupee against other major currencies will affect our net operating revenues, operating income and the value of balance sheet items denominated in foreign currencies.

The Company follows a policy of covering the risks arising out of foreign exchange fluctuations through a combination of forward contracts and options related to receivables and anticipated realisation from projected revenues of Himatsingka Seide Limited.

## Corporate Governance

### Himatsingka Seide Limited

#### 1. Company's Governance Philosophy

The Corporate Governance Code was introduced by the Securities and Exchange Board of India (SEBI) through the incorporation of new clause in the Listing Agreement of the Stock Exchanges and also through applicable provisions of the Companies (Amendment) Act, 2000. Corporate Governance refers to a combination of laws, regulations, procedures, implicit rules and good corporate practices which ensure that a Company meets obligations to optimize shareholders value and fulfill its responsibilities to the community, customers, employees, Government and other segments of society.

Over the years, your Company has complied with the principles of Corporate Governance emphasising on transparency, empowerment, accountability and integrity. These have helped the company enhance its stakeholder values.

Your Company will continue to focus its resources, strengths and strategies for creation and safeguarding of shareholders' wealth and at the same time protect the interests of all its shareholders.

#### 2. Board of Directors (Board)

The Company has a Non-Executive Chairman and the number of Independent Directors is more than one-third of the total number of Directors. The number of Non-Executive Directors (NEDs) is more than 50% of the total number of Directors.

The Non-Executive Directors are eminent industrialists and professionals with experience in management, finance and law.

None of the Directors on the Board is a Member on more than 10 Committees and Chairman of more than 5 Committees (as specified in Clause 49), across all the companies in which he is a Director.

The names and categories of the Directors on the Board, their attendance at Board Meetings during the year and at the last Annual General Meeting, as also the number of Directorships and Committee Memberships held by them in other companies are given below:

| Name of Director   | Designation        | Category                  | No. of Board meetings attended | Attendance at last AGM | No. of other Directorships held @ | No. of Memberships of other Companies statutory committees @@ |
|--|--------------------|---------------------------|--------------------------------|------------------------|-----------------------------------|---|
| Mr. N. Vaghul *  | Chairman           | Non-Executive Independent | 6                              | Yes                    | 11                                | 3 (including 1 chairmanship)                                  |
| Mr. A.K. Himatsingka   | Vice-Chairman      | Promoter, Executive       | 6                              | Yes                    | 4                                 | Nil   |
| Mr. Dilip J Thakkar #  | Director           | Non-Executive Independent | 6                              | Yes                    | 11                                | 7 (including 4 chairmanships)                                 |
| Mr. A.K. Dasgupta  | Director           | Non-Executive Independent | 2                              | No                     | 11                                | 1 (including 1 chairmanship)                                  |
| Mr. Rajiv Khaitan  | Director           | Non-Executive Independent | 7                              | Yes                    | 3                                 | Nil   |
| Dr. K.R.S. Murthy  | Director           | Non-Executive Independent | 7                              | Yes                    | 2                                 | 1 (including 1 chairmanship)                                  |
| Mr. D.K. Himatsingka   | Managing Director  | Promoter, Executive       | 7                              | Yes                    | 2                                 | Nil   |
| Mr. Aditya Himatsingka   | Executive Director | Executive                 | 7                              | Yes                    | 3                                 | Nil   |
| Mr. Shrikant Himatsingka   | Executive Director | Executive                 | 7                              | Yes                    | 2                                 | Nil   |
| Mr. David Rasquinha<br>(Representative of Export-<br>Import Bank of India, as<br>lender) | Nominee Director   | Non Executive Independent | 6                              | Yes                    | 1                                 | 1   |

@ For the purpose of considering the limit of directorship, foreign companies, private companies and companies under Section 25 of the Companies Act, 1956 have been excluded.

@@ For the purpose of considering limit of committee membership, private limited companies, foreign companies and companies under section 25 of the companies act, 1956 have been excluded. Chairmanship of only Audit Committee and Shareholders Grievance Committee is considered.

\* Resigned as Chairman & also from the Board w.e.f. 1.4.2008.

# Appointed as Chairman of the Board on 16.4.2008

During the year 2007-08, the Board of Directors met seven times on the following dates: 14th June 2007, 26th June 2007, 27th July 2007, 22nd August, 2007, 26th September 2007, 28th October 2007 and 31st January, 2008.

The Company has adopted the Code of Conduct for the Board of Directors and Senior Management Personnel of the Company. The Company has received confirmations from the Directors as well as Senior Management Personnel regarding compliance of the Code during the year under review. Both the Codes are posted on the website of the Company.

The following represent the details of pecuniary transactions between the non-executive Directors and the company

| Name of the Director | Purpose   | Amount paid (Rs.) |
|----------------------|---|-------------------|
| Mr. Rajiv Khaitan    | Legal/Professional Fees paid to Khaitan & Co.             | 77,500/-          |
| Mr. A.K. Dasgupta    | Project Consultancy Fees paid to Gherzi Eastern Ltd       | 4,48,500/-        |
| Dr. K.R.S. Murthy    | Listing Fees paid to National Stock Exchange of India Ltd | 80,000/-          |

### 3. Audit Committee

The company set up an independent Audit Committee on 13th January 2001. It comprises of four independent non-executive Directors and the Company Secretary acts as the secretary to the Committee. During the year 2007-08, the Audit Committee met on four occasions.

The minutes of the Audit Committee meetings are placed before the Board of Directors in the subsequent Board meeting.

The Constitution of Audit Committee and attendance of the Members for the year 2007-08 is mentioned below:

| Name of Director    | Category                             | No. of Audit Committee meetings attended |
|---------------------|--------------------------------------|--|
| Mr. Dilip J Thakkar | Chairman, Non-Executive, Independent | 4  |
| Mr. Rajiv Khaitan   | Non-Executive, Independent           | 4  |
| Dr. K.R.S. Murthy   | Non-Executive, Independent           | 3  |
| Mr. David Rasquinha | Non-Executive, Independent           | 3  |

The audit committee was constituted in accordance with the provisions of the listing agreement. The terms of reference of the Audit Committee were in accordance with clause 49 of the listing agreement with stock exchanges and Section 292A of the Companies Act, 1956, which, includes :

- a. Oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
- b. Recommending the appointment and removal of the Statutory Auditor, the fixation of the audit fee and also the approval for payment for any other services.
- c. Discussion with internal auditors any significant findings and follow up thereon.
- d. Reviewing the adequacy of internal audit function, reporting structure coverage and frequency of internal audit.
- e. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.
- f. Reviewing with the management, performance of statutory and internal auditors, adequacy of internal control systems.
- g. Reviewing with the management the annual financial statements before submission to the Board for approval, with particular reference to:
  - i. Matters required to be included in the Director's Responsibility statement to be included in the Board's report in terms of clause 2AA of Section 217 of the Companies Act, 1956.
  - ii. Changes, if any, in accounting policies and practices and reasons for the same.
  - iii. Major accounting entries involving estimates based on the exercise of judgment by management.
  - iv. Significant adjustments made in the financial statements arising out of audit findings.
  - v. Compliance with listing and other legal requirements relating to financial statements.
  - vi. Disclosure of any related party transactions.
  - vii. Qualifications in the draft audit report.
- h. Review of Management letters/ letters of internal control weaknesses issued by the statutory auditors.
- i. Reviewing the company's financial and risk management policies.

- j. Discussion with external auditors before audit commences, nature and scope of audit as well as, have post-audit discussion to ascertain any area of concern.
- k. To look into the reasons for substantial defaults in the payment to the shareholders (in case of non payment of declared dividends) and creditors.
- l. Review the Management Discussion and analysis of financial conditions and results of operations.
- m. Reviewing with the management, the quarterly financial statements before submission to the Board for approval.
- n. Review the financial statements of unlisted subsidiary companies, in particular the investments made by them.
- o. Such additional functions as may be prescribed by the listing agreement or the Companies Act from time to time.

#### 4. Remuneration of Directors

The Company pays remuneration by way of salary, perquisites and allowances (fixed component) and commission (variable component) to Managing and Whole-time Directors. Salary is paid within the limits approved by the Shareholders. Annual increments each year are approved by the Board. Commission is calculated with reference to net profits of the Company in a particular financial year and is determined by the Board of Directors at the end of the financial year, subject to overall ceilings stipulated in Sections 198 and 309 of the Companies Act, 1956.

Given below are the details of relationship of directors, their business interest and actual payments made during the financial year 2007-2008 to the Directors of the Company.

| Sl. No. | Director                 | Relationship with other Directors                              | Business Relationship with the Company, if any | Sitting fees for Board & Committee Meetings | Salaries & perquisites | Commission | Total       |
|---------|--------------------------|--|--|---|------------------------|------------|-------------|
| 1       | Mr. N. Vaghul            | None   | None   | 30,000/-                                    | Nil                    | Nil        | 30,000/-    |
| 2       | Mr. A.K. Himatsingka     | Related to Sri. D.K. Himatsingka and Sri. Aditya Himatsingka   | None   | Nil   | 2,705,920/-            | Nil        | 2,705,920/- |
| 3       | Mr. Dilip J Thakkar      | None   | None   | 50,000/-                                    | Nil                    | Nil        | 50,000/-    |
| 4       | Mr. A.K. Dasgupta        | None   | None   | 10,000/-                                    | Nil                    | Nil        | 10,000/-    |
| 5       | Mr. Rajiv Khaitan        | None   | Partner Khaitan & Co.,                         | 55,000/-                                    | Nil                    | Nil        | 55,000/-    |
| 6       | Dr. K.R.S. Murthy        | None   | None   | 50,000/-                                    | Nil                    | Nil        | 50,000/-    |
| 7       | Mr. David Rasquinha      | None   | Nominee of Exim Bank, a lender of the Company  | 45,000/-                                    | Nil                    | Nil        | 45,000/-    |
| 8       | Mr. D.K. Himatsingka     | Related to Sri. A.K. Himatsingka and Sri. Shrikant Himatsingka | None   | Nil   | 2,811,840/-            | Nil        | 28,11,840/- |
| 9       | Mr. Aditya Himatsingka   | Related to Sri. A.K. Himatsingka                               | None   | Nil   | 2,705,920/-            | Nil        | 2,705,920/- |
| 10      | Mr. Shrikant Himatsingka | Related to Sri. D.K. Himatsingka                               | None   | Nil   | 1,466,259/-            | Nil        | 1,466,259/- |

The Contract tenures of the Wholetime Directors are as follows

|                          |   |   |
|--------------------------|---|---|
| Mr. A.K. Himatsingka     | : | From 1st April, 2004 to 31st March, 2009, |
| Mr. D.K. Himatsingka     | : | From 1st April, 2004 to 31st March, 2009, |
| Mr. Aditya Himatsingka   | : | From 2nd June, 2004 to 1st June, 2009,    |
| Mr. Shrikant Himatsingka | : | From 3rd June, 2003 to 2nd June, 2008.    |

#### Criteria for making payments to non-executive Directors:

The Non-Executive Directors (NEDs) are paid remuneration by way of Commission and Sitting Fees. In terms of the shareholders' approval obtained at the AGM held on 31st July, 2004, the Commission is paid at a rate not exceeding 1% per annum of the profits of the Company (computed in accordance with Section 309(5) of the Companies Act, 1956). The distribution of Commission amongst the NEDs is placed before the Board. The Commission is distributed on the basis of their attendance and contribution at the Board and certain Committee Meetings as well as time spent on operational matters other than at the meetings.

A sitting fee of Rs.5,000/- for attendance at each meeting of the Board and Audit Committee is paid to its Members (excluding Executive Directors).

The Company also reimburses out-of-pocket expenses to Directors for attending meetings.

## Shareholding of Directors

Shareholding of Directors as on 31st March, 2008 is as under:

| Sl. No. | Name                     | No. of shares held |
|---------|--------------------------|--------------------|
| 1       | Mr. N. Vaghul            | 22,000             |
| 2.      | Mr. A.K. Himatsingka     | 3,540,240          |
| 3       | Mr. Dilip J Thakkar      | Nil                |
| 4       | Mr. A.K. Dasgupta        | Nil                |
| 5       | Mr. Rajiv Khaitan        | 3,200              |
| 6       | Dr. K.R.S. Murthy        | Nil                |
| 7       | Mr. David Rasquinha      | 200                |
| 8       | Mr. D.K. Himatsingka     | 11,235,044         |
| 9       | Mr. Aditya Himatsingka   | 2,483,200          |
| 10      | Mr. Shrikant Himatsingka | 3,233,964          |

## 5. Shareholder/Investors Grievance Committee

The Company had set up a Shareholder/ Investors Grievance Committee on 13th January 2001. This comprises of three Directors and the chairman is an independent non-executive Director.

During the year 2007-2008, two meetings of the committee were held. The Chairman of the Committee was present in all the meetings.

The minutes of the Shareholder/Investors Grievance Committee meetings are placed before the Board of Directors in the subsequent Board meeting.

Constitution of Shareholder/ Investors Grievance Committee as on 31.03.2008 and related information:

| Name of the Director | Category                             | No. of Meeting Attended |
|----------------------|--------------------------------------|-------------------------|
| Mr. Rajiv Khaitan    | Chairman, Non-Executive, Independent | 2                       |
| Mr. A.K. Himatsingka | Promoter Executive                   | 2                       |
| Mr. A.K. Dasgupta    | Non-Executive, Independent           | 1                       |

|  |     |
|--|-----|
| Number of complaints received during the financial year ended 31st March, 2008   | 91  |
| Number of complaints that were resolved to the satisfaction of shareholders during the financial year ended 31st March, 2008 | 91  |
| Number of pending share transfers as on 31st March, 2008   | Nil |

## 6. General Body Meetings

The last three Annual General Meetings of the Company were held on the following dates, time and venue.

| Date                 | Year    | Type                          | Time      | Venue  | No. of special Resolutions passed |
|----------------------|---------|-------------------------------|-----------|--|-----------------------------------|
| 26th September, 2007 | 2006-07 | Annual General Meeting        | 3.30 p.m. | Hotel the Grand Ashok, Kumarakrupa Road, High Grounds, Bangalore-560 001 | 1                                 |
| 28th July, 2006      | 2005-06 | Annual General Meeting        | 3.30 p.m. |  | Nil                               |
| 5th October, 2005    | 2005-06 | Extraordinary General Meeting | 3.30 p.m. |  | 2                                 |
| 27th August, 2005    | 2004-05 | Annual General Meeting        | 3.30 p.m. |  | NIL                               |

None of the special resolution were put through postal ballot last year. No special resolution requiring a postal ballot is being proposed for the ensuing Annual General Meeting.

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## 7. Means of communication

- a. The relevant information relating to the Directors who would be appointed/ re-appointed at the ensuing Annual General Meeting is given in the Notice convening the Annual General Meeting.
- b. The Quarterly/ Half-yearly and Annual Financial Results of the Company are forwarded to the Listed Stock Exchanges and were published in Business Standard – English Newspaper (all editions) and Udayavani – Kannada Newspaper, Bangalore.
- c. Pursuant to clause 51 of the Listing agreement, all data related to quarterly financial results, shareholding pattern, etc. are hosted on the Electronic Data Information Filing and Retrieval (EDIFAR) website [www.sebiedifar.nic.in](http://www.sebiedifar.nic.in) maintained by SEBI in association with the National Informatics Centre, within the time frame prescribed in this regard.
- d. The Company's financial results and official news releases were also displayed on our website [www.himatsingka.co.in](http://www.himatsingka.co.in),

The website of the Company displays the Investor Updates and presentations made to the institutional investors and analysts from time to time.

## 8. Share Transfer Committee

The Company has a Share Transfer Committee. This comprises three Directors. The Committee deals with various matters relating to share transfer, share transmission, issue of duplicate share certificates, the approval of the split and consolidation requests, the dematerialisation and rematerialisation of shares as well as other matters that relate to the transfer and registration of shares.

The members of this committee are Mr. D K Himatsingka, Mr. A K Himatsingka and Mr. Aditya Himatsingka.

## 9. Code for Prevention of Insider Trading

The Company has adopted a code of conduct for Prevention of Insider Trading in the shares of the Company. The code, inter alia, prohibits purchase/sale of shares of the Company by employees while in possession of unpublished price sensitive information in relation to the Company.

## 10. Secretarial Audit

A qualified practicing Company Secretary carried out quarterly secretarial audits to reconcile the total admitted capital with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) and the total issued and listed capital. The audit confirms that the total issued/paid up capital is in agreement with the total number of shares in physical form and the total number of dematerialized shares held with NSDL and CDSL.

## 11. Compliance

The certificate regarding compliance obtained from our statutory auditors M/s. Deloitte Haskins & Sells is given elsewhere in this Annual Report.

## 12. Compliance Officer

The name and designation of the Compliance Officer of the Company is Mr. Amit Jain, Associate Vice President – Treasury, Taxation & Company Secretary. His contact details are :-

Telephone : 080 22378000, Fax No. 080 - 4147 9384

e-mail ID : [corporate@himatsingka.com](mailto:corporate@himatsingka.com)

## 13. Disclosures

- a. Subsidiary Companies:
  - i) None of the Company's Indian Subsidiary companies fall under the definition of "material non listed Indian subsidiary".
  - ii) The Audit Committee of the Company reviews the financial statements and in particular the investments made by unlisted subsidiary companies of the Company.
  - iii) The minutes of the board meetings of unlisted subsidiary companies are periodically placed before the Board of the company. The Board is periodically informed about all significant transactions and arrangements entered into by the unlisted subsidiary companies of the company.

b. Related party transactions

The statutory disclosure requirements relating to related party transactions have been complied with in the Annual Accounts (Note 20 of Schedule 17).

There were no material transactions during the year 2007-2008 that are prejudicial to the interest of the Company.

c. Disclosure of Accounting Treatment

There is no deviation in following the treatments prescribed in any Accounting Standard in preparation of financial statements for the year 2007-08.

d. Board Disclosures- Risk Management

The risk assessment and minimization procedures are in place and the Board is regularly informed about the business risks and the steps taken to mitigate the same. A report on Risk Management is included elsewhere in this Annual Report.

e. Proceeds from Preferential Issue:

During the year, the Company has made a preferential issue of 5,800,000 warrants convertible to equity shares at Rs.130/- each to promoter/ promoters group . The details of the proceeds received are given below:

|  | Rs.                |
|--|--------------------|
| 10% paid for 58,00,000 warrants                                  | 75,400,000         |
| 256000 warrants each converted into equivalent equity shares, on |                    |
| 28.11.2007   | 29,952,000         |
| 2.1.2008   | 29,952,000         |
| 31.1.2008  | 29,952,000         |
| 7.3.2008   | 29,952,000         |
| <b>Total amount received during the year is</b>                  | <b>195,208,000</b> |

f. The Management Discussion and Analysis report is included elsewhere in this Annual Report.

#### 14. Statutory Compliance, Penalties and Strictures

The Company complied with all the requirements of the Stock Exchanges/ SEBI/ and other statutory authorities on all matters related to the capital markets during the last three years. There were no penalties or strictures imposed on the Company by the Stock Exchanges, the SEBI or any statutory authority relating to the above.

#### 15. General Shareholders' information

Registered Office: 10/24, Kumarakrupa Road, High Grounds, Bangalore 560 001

##### Annual General Meeting

|                            |   |
|----------------------------|---|
| Date and Time              | 23rd September, 2008 at 3.30 pm   |
| Venue                      | Hotel Grand Ashok, Kumarakrupa Road, High Grounds, Bangalore – 560 052  |
| Financial year             | 1st April to 31st March   |
| <b>Financial Results</b>   |   |
| First Quarter              | June, 2008  |
| Second Quarter             | September, 2008   |
| Third Quarter              | December, 2008  |
| Fourth Quarter             | March, 2009   |
| Date of Book Closure       | 18th September, 2008 to 23rd September, 2008 (both days inclusive)  |
| Incorporation              | Himatsingka Seide was incorporated at Bangalore, in the State of Karnataka, on 23rd January, 1985   |
| Listing on Stock Exchanges | The Company's Equity shares are listed on the following Stock Exchanges in India<br>Bangalore Stock Exchange Ltd<br>Stock Exchange Towers, No. 51, 1st Cross, J C Road, Bangalore 560 027 |

|              |  |
|--------------|--|
|              | Bombay Stock Exchange Ltd,<br>Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai 400 001<br>National Stock Exchange of India Ltd<br>Exchange Plaza, 5th Floor, Plot No. C/1, G Block<br>Bandra-Kurla Complex, Bandra (E), Mumbai 400 051<br><br><b>International Listing</b><br>SOCIÉTÉ DE LA BOURSE DE LUXEMBOURG<br>Société Anonyme<br>11, av de la Porte-Neuve<br>L-2227 Luxembourg<br><br>The Company's Global Depository Shares are listed at Euro MTF market on the Luxembourg Stock Exchange |
| Listing Fees | Paid for 2007-2008 and 2008-2009 for all the above stock exchanges   |

| Stock Code                                    | Stock Exchange Code | Reuters Code |
|---|---------------------|--------------|
| The Stock Exchange, Mumbai                    | 514043              | HMSD.BO      |
| National Stock Exchange                       | HIMATSEIDE          | HMSD.NS      |
| Bangalore Stock Exchange                      | HIMATSEIDE          |              |
| Demat ISIN in NSDL and CDSL for Equity shares | INE049A01027        |              |
| CUSIP No for Rule144A GDRs                    | 43289Q 10 4         |              |
| CUSIP No for International GDRs               | 43289Q 20 3         |              |

The monthly high and low quotations and volume of shares traded at Bombay and National Stock Exchanges during the year were as follows:

| Month          | Bombay Stock Exchange |           |                   | National Stock Exchange |           |                   |
|----------------|-----------------------|-----------|-------------------|-------------------------|-----------|-------------------|
|                | High (Rs.)            | Low (Rs.) | Volume (Nos.)     | High (Rs.)              | Low (Rs.) | Volume (Nos.)     |
| April 2007     | 124.90                | 112.00    | 127,494           | 126.50                  | 113.10    | 226,956           |
| May 2007       | 135.00                | 101.50    | 761,172           | 125.00                  | 106.10    | 897,678           |
| June 2007      | 121.25                | 103.05    | 150,100           | 121.90                  | 101.00    | 700,404           |
| July 2007      | 139.85                | 115.15    | 772,340           | 139.00                  | 117.00    | 1,299,386         |
| August 2007    | 130.35                | 110.30    | 199,637           | 131.00                  | 111.00    | 342,822           |
| September 2007 | 114.90                | 98.15     | 949,770           | 114.00                  | 98.50     | 1,461,823         |
| October 2007   | 114.00                | 96.15     | 2,950,559         | 114.00                  | 95.00     | 3,043,211         |
| November 2007  | 110.70                | 96.50     | 449,219           | 109.95                  | 98.05     | 368,361           |
| December 2007  | 121.85                | 97.20     | 3,919,138         | 122.00                  | 96.60     | 4,638,322         |
| January 2008   | 135.00                | 77.05     | 5,035,200         | 135.40                  | 74.15     | 5,409,089         |
| February 2008  | 90.70                 | 70.35     | 789,186           | 90.70                   | 69.85     | 1,296,577         |
| March 2008     | 79.90                 | 54.50     | 1,076,427         | 79.50                   | 54.50     | 1,093,634         |
| <b>Total</b>   |                       |           | <b>17,180,242</b> |                         |           | <b>20,778,263</b> |

Stock Split 1 equity share of Rs.10/- each split into 2 equity shares of Rs.5/- each in October 2005

Bonus History 1994 1999 2005  
1:2 1:1 1:1

Share Transfers and other communication regarding share certificates, dividends, and change of address, etc., may be addressed to  
Karvy Computershare Private Limited  
Plot No.17 to 24, Near Image Hospital  
Vittalrao Nagar, Madhapur  
Hyderabad – 500 081  
Phone : (040) 23420815 to 18 & 2311 4074  
Fax : (040) 2342 0814  
E-mail : madhusudhan@karvy.com

### Share Transfer System

Share transfers are registered and returned within a period of 10/15 days from the date of receipt if the documents are in order. In compliance with the Listing Agreement with the Stock Exchanges, a Practicing Company Secretary carries out audit of the system of transfer and a certificate to that effect is issued.

| Transfer period in days | 2007 - 2008    |               |
|-------------------------|----------------|---------------|
|                         | No. of shares  | Percentage    |
| 1 - 10                  | 372,400        | 92.94         |
| 11 - 20                 | 5,450          | 1.36          |
| 21 - 30                 | 20,836         | 5.20          |
| 31 and above            | 2,000          | 0.50          |
| <b>Total</b>            | <b>400,686</b> | <b>100.00</b> |

#### Investors services

complaints received during the year

| Nature of complaints                        | Received | Cleared |
|---|----------|---------|
| 1 Non-receipt of share certificates         | 18       | 18      |
| 2 Non-receipt of bonus shares               | Nil      | Nil     |
| 3 Letters from Stock Exchanges, SEBI, etc., | Nil      | Nil     |
| 4 Non-receipt of dividend warrants          | 67       | 67      |
| 5 Non-receipt of Electronic Credits         | Nil      | Nil     |
| 6 Non-receipt of Annual Report              | 6        | 6       |

The company attended to most of the investors' grievances/ correspondence within seven days from the date of receipt of the same during the year 2007-08.

#### Distribution of shareholdings as on 31st March 2008

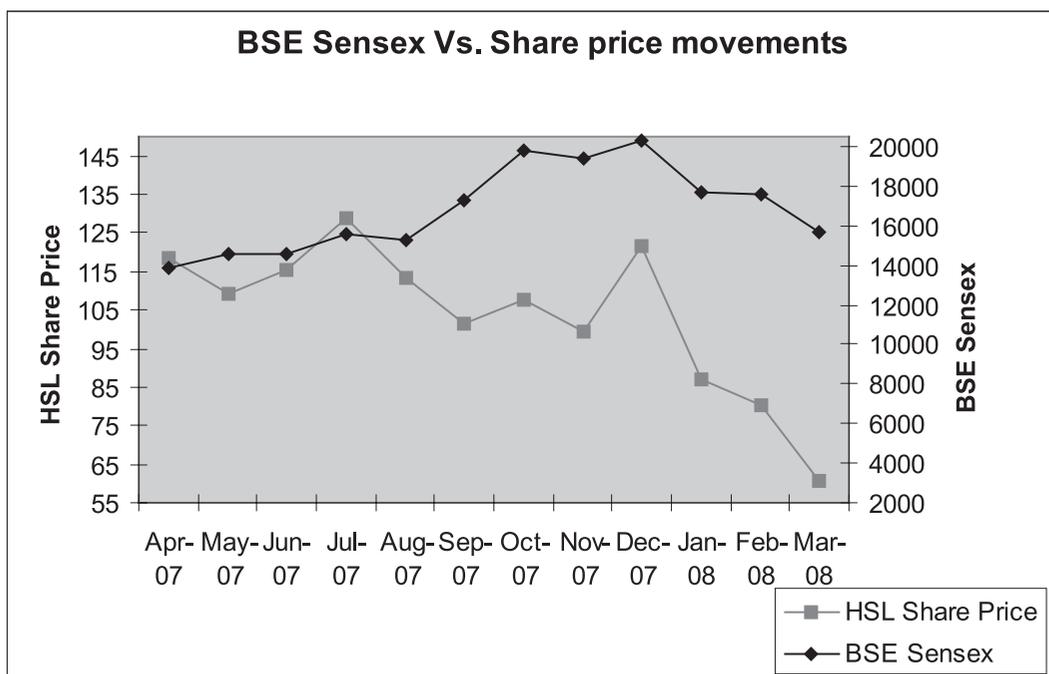
| No. of equity shares | No. of share holders | % of share holders | No. of shares held | % of shareholding |
|----------------------|----------------------|--------------------|--------------------|-------------------|
| 1 – 5000             | 14451                | 80.89              | 3,458,445          | 3.52              |
| 5001 – 10000         | 1548                 | 8.67               | 2,404,559          | 2.44              |
| 10001 – 20000        | 879                  | 4.92               | 2,652,368          | 2.70              |
| 20001 – 30000        | 333                  | 1.86               | 1,695,259          | 1.72              |
| 30001 – 40000        | 147                  | 0.82               | 1,054,041          | 1.07              |
| 40001 – 50000        | 121                  | 0.68               | 1,105,527          | 1.12              |
| 50001- 100000        | 194                  | 1.09               | 2,780,722          | 2.82              |
| 100001 and above     | 191                  | 1.07               | 83,306,239         | 84.61             |
| <b>Total</b>         | <b>17864</b>         | <b>100.00</b>      | <b>98,457,160</b>  | <b>100.00</b>     |

#### Shareholding Pattern as on 31st March 2008

| Category Code | Category of Shareholder  | No. of Shareholders | No. of Equity shares | As a percentage of (A+B+C) |
|---------------|--|---------------------|----------------------|----------------------------|
| (A)           | Shareholding of Promoter and Promoter Group <sup>1</sup>               |                     |                      |                            |
| 1.            | Indian   |                     |                      |                            |
| (a)           | Individuals/ Hindu Undivided Family                                    | 23                  | 27,477,268           | 27.91                      |
| (b)           | Central Government/ State Government(s)                                | --                  | --                   | --                         |
| (c)           | Bodies Corporate   | 12                  | 22,439,109           | 22.79                      |
| (d)           | Financial Institutions/ Banks  | --                  | --                   | --                         |
| (e)           | Any Other (Specify)  | --                  | --                   | --                         |
|               | <b>Sub Total (A)(1)</b>  | <b>35</b>           | <b>49,916,377</b>    | <b>50.70</b>               |
| 2.            | Foreign  |                     |                      |                            |
| (a)           | Individual (Non-Resident Individual/ Foreign Individual)               | 1                   | 237,800              | 0.24                       |
| (b)           | Bodies Corporate   | --                  | --                   | --                         |
| (c)           | Institutions   | --                  | --                   | --                         |
| (d)           | Any Other (Specify)  | --                  | --                   | --                         |
|               | <b>Sub Total (A)(2)</b>  | <b>1</b>            | <b>237,800</b>       | <b>0.24</b>                |
|               | <b>Total Shareholding of Promoter and Promoter Group (A)(1)+(A)(2)</b> | <b>36</b>           | <b>50,154,177</b>    | <b>50.94</b>               |
| (B)           | Public Shareholding <sup>2</sup>                                       |                     |                      |                            |
| 1.            | Institutions   |                     |                      |                            |
| (a)           | Mutual Funds/UTI   | 11                  | 8,747,597            | 8.88                       |
| (b)           | Financial Institutions/ Banks  | 10                  | 40,080               | 0.04                       |
| (c)           | Central Government/ State Government(s)                                | --                  | --                   | --                         |

|  |  |               |                   |               |
|--|--|---------------|-------------------|---------------|
| (d)  | Venture Capital Funds  | --            | --                | --            |
| (e)  | Insurance Companies  | 2             | 1,041,286         | 1.06          |
| (f)  | Foreign Institutional Investors  | 24            | 10,364,685        | 10.53         |
| (g)  | Foreign Venture Capital Investors  | --            | --                | --            |
| (h)  | Any Other (Specify)  | --            | --                | --            |
| <b>Sub-Total (B)(1)</b>                        |  | <b>47</b>     | <b>20,193,648</b> | <b>20.51</b>  |
| <b>2.</b>                                      | <b>Non-Institutions</b>  |               |                   |               |
| (a)  | Bodies Corporate   | 749           | 5,239,516         | 5.32          |
| (b)  | Individuals  | 16,455        | 12,488,354        | 12.68         |
|  | i. Individual Shareholders holding nominal share capital up to Rs.1 lakh   |               |                   |               |
|  | ii. Individual shareholders holding nominal share capital in excess of Rs.1 lakh                                 | 95            | 8,189,881         | 8.32          |
| (c)  | Any other (specify)  |               |                   |               |
|  | - NRI/OCB  | 404           | 1,627,282         | 1.65          |
|  | - Clearing Member  | 77            | 304,302           | 0.31          |
| <b>Sub-Total (B)(2)</b>                        |  | <b>17,780</b> | <b>27,849,335</b> | <b>28.29</b>  |
| <b>Total Public Shareholding (B)(1)+(B)(2)</b> |  | <b>17,827</b> | <b>48,042,983</b> | <b>48.80</b>  |
| <b>Total (A)+(B)</b>                           |  | <b>17,863</b> | <b>98,197,160</b> | <b>99.74</b>  |
| (C)  | Shares held by Custodians and against which Depository Receipts have been issued<br>- The Bank of New York (GDR) | 1             | 260,000           | 0.26          |
| <b>Grand Total</b>                             |  | <b>17,864</b> | <b>98,457,160</b> | <b>100.00</b> |

#### Share price movements



#### Dematerialisation of shares and liquidity

The equity shares of the company are available for dematerialisation with National Securities Depository Limited (NSDL) and Central Depository Services of India Limited (CDSL). The equity shares of the company have been notified by SEBI for settlement only in the demat form for all investors from 21st March 2000.

As on 31st March 2008, 97.44% of the company's share capital is dematerialized and the rest is in Physical form. The company's shares were regularly traded on the National Stock Exchange and Mumbai Stock Exchange.

Shares held in demat and physical mode as on March 31, 2008

| Category           | Number of     |                   | % to total equity |
|--------------------|---------------|-------------------|-------------------|
|                    | Shareholders  | Shares            |                   |
| Demat Mode         |               |                   |                   |
| NSDL               | 13,298        | 93,965,990        | 95.44             |
| CDSL               | 3,363         | 1,975,351         | 2.00              |
| <b>Total</b>       | <b>16,661</b> | <b>95,941,341</b> | <b>97.44</b>      |
| Physical Mode      | 1203          | 2,515,819         | 2.56              |
| <b>Grand Total</b> | <b>17,864</b> | <b>98,457,160</b> | <b>100.00</b>     |

#### Outstanding GDRs/ADRs/Warrants or any convertible instruments

As on 31st March, 2008, 260,000 GDR's were outstanding. Each GDR represents 1 underlying equity shares. Since the underlying equity shares represented by GDR's have been allotted in full, the outstanding GDR's have no impact on the equity of the Company.

The Company during the financial year has issued 5,800,000 warrants on a preferential basis to the promoters/promoter group as per the SEBI (Disclosure and Investor Protection) Guidelines, 2000 entitling the warrant holders to apply for an equivalent number of fully paid equity shares of Rs.10 each at a price of Rs.130/- per share. In terms of the special resolution, the said warrants have been issued upon payment of 10% of the amount. The balance 90% of the amount is payable on exercise of the option to convert warrants into equity shares, anytime within 18 months from the date of issue of the warrants.

During the financial year, out of the said 5,800,000 warrants, 1,024,000 warrants were converted into equivalent number of equity shares upon payment of the balance 90% of the amount. As on 31st March, 2008, there were 4,776,000 warrants outstanding.

#### Unclaimed Dividends

Pursuant to Section 205C of the Companies Act, 1956, dividends that are unpaid/unclaimed for a period of seven years from the date they became due for payment are required to be transferred by the Company to the Investor Education and Protection Fund (IEPF) administered by the Central Government. Given below are the dates of declaration of dividend and corresponding dates when unpaid/unclaimed dividends are due for transfer to IEPF:

| Financial Year | Type of dividend | Dividend per share (Rs.) | Date of declaration of dividend | Due date for transfer to IEPF |
|----------------|------------------|--------------------------|---------------------------------|-------------------------------|
| 2001           | Final            | 3.00                     | September 15,2001               | October 22,2008               |
| 2002           | Interim          | 3.00                     | November 24,2001                | December 31,2008              |
|                | Final            | 3.00                     | August 3, 2002                  | September 9, 2009             |
| 2003           | Dividend         | 7.00                     | August 8, 2003                  | September 14, 2010            |
| 2004           | Interim          | 4.00                     | October 22, 2003                | November 28, 2010             |
|                | Final            | 6.00                     | July 31, 2004                   | September 6, 2011             |
| 2005           | Interim          | 5.00                     | October 29, 2004                | December 5,2011               |
|                | Final            | 5.00                     | August 27, 2005                 | October 3, 2012               |
| 2006           | Interim          | 1.25                     | January 21, 2006                | February 27, 2013             |
|                | Final            | 1.25                     | July 28, 2006                   | September 3, 2013             |
| 2007           | 1st Interim      | 1.25                     | October 28, 2006                | December 4, 2013              |
|                | 2nd Interim      | 1.25                     | March 12, 2007                  | April 18, 2014                |

Members who have so far not encashed their dividend warrants are requested to write to the Company/Registrar to claim the same, to avoid transfer to IEPF. Members are advised that no claims shall lie against the said Fund or the Company for the amounts of dividend so transferred to the said Fund.

|                 |    |   |
|-----------------|----|---|
| Plant locations | 1. | 23A KIADB Industrial Area<br>Veerapura Village<br>Doddaballapur Taluk<br>Bangalore District                       |
|                 | 2. | Plot No. 1, SEZ, Textile Specific<br>KIADB Industrial Area<br>Gorur Road<br>Hanumanthapura PO<br>Hassan - 573 201 |

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Investors' correspondence may be addressed to Mr. Amit Jain, Associate Vice President – Treasury, Taxation & Company Secretary, Himatsingka Seide Limited, 10/24, Kumarakrupa Road, High Grounds, Bangalore 560 001. Phone (080) 2237 8000 Fax (080) 4147 9384/ 2237 8058, e-mail: corporate@himatsingka.com

**Mandatory/Non Mandatory Requirements**

The Company has complied with all the mandatory requirements of clause 49 of the Listing agreement relating to Corporate Governance. At present, the Company has not adopted the non-mandatory requirements of clause 49.

**Declaration**

As provided under Clause 49 of the Listing Agreement with the Stock Exchanges, all Board members and Senior Management Personnel have affirmed compliance with Himatsingka Seide Limited Code of Business Conduct and Ethics for the year ended March 31, 2008.

Bangalore  
July 26, 2008

Dinesh Himatsingka  
Managing Director

## Board of Directors

Himatsingka Seide Limited

### Board of Directors

Dilip J. Thakkar  
Chairman

A.K. Himatsingka  
Vice Chairman

A.K. Dasgupta

Rajiv Khaitan

Dr. K.R.S. Murthy

David Rasquinha  
Nominee Director of  
Export-Import Bank of India

D.K. Himatsingka  
Managing Director

Aditya Himatsingka  
Executive Director

Shrikant Himatsingka  
Executive Director

### Audit Committee

Dilip J. Thakkar  
Chairman

Rajiv Khaitan  
Member

Dr. K.R.S. Murthy  
Member

David Rasquinha  
Member

### Shareholders/ Investors

#### Grievance Committee

Rajiv Khaitan  
Chairman

A.K. Himatsingka  
Member

A.K. Dasgupta  
Member

### Investment Committee

D.K. Himatsingka  
Member

A.K. Himatsingka  
Member

Rajiv Khaitan  
Member

### Share Transfer Committee

A.K. Himatsingka  
Member

D.K. Himatsingka  
Member

Aditya Himatsingka  
Member

### Mergers & Acquisitions Committee

Dilip J. Thakkar  
Member

A.K. Himatsingka  
Member

D.K. Himatsingka  
Member

### Remuneration Committee

Rajiv Khaitan  
Chairman

Dr. K.R.S. Murthy  
Member

A.K. Dasgupta  
Member

### Senior Executives

Pradeep Mukherjee  
President Global Sales & Marketing

Jayshree Poddar  
Design Director

K.P. Pradeep  
Chief Financial Officer

Y. R. Wilson Maria Doss  
Vice President (HR)

A. V. Nair  
Vice President (Operations)

Bharat Ram  
Vice President (Retail)  
(Himatsingka Wovens Pvt. Ltd)

### Company Secretary

Amit Jain

### Bankers

Canara Bank

Hongkong & Shanghai  
Banking Corporation Ltd

Deutsche Bank

ICICI Bank Ltd

ING Vysya Bank Ltd

Kotak Mahindra Bank Ltd

### Auditors

Messrs Deloitte Haskins & Sells

### Registered Office

10/24, Kumarakrupa Road  
High Grounds  
Bangalore - 560 001

## Directors' Report

### Himatsingka Seide Limited

Your Directors are pleased to present the annual report on business and operations of your Company, together with audited financial statements and auditors' report for the financial year ended 31st March, 2008.

#### Year in retrospect

##### Financials

The year 2007-08 has been an eventful year for your Company. Your Company has commissioned on 12th October, 2007 its new bed linen manufacturing facility, located at the Hassan Special Economic Zone in Karnataka. The state of the art integrated plant with weaving, processing and making up facilities has an annual installed capacity of 20 million meters.

During the year, your Company through its wholly owned subsidiary, Himatsingka America Inc., New York, successfully completed two overseas acquisitions by acquiring 80% stake in Divatex Home Fashions Inc., New York and 100% stake in DWI Holdings Inc., USA. This marks a significant step towards becoming a global home textile company.

On the retail front, the ATMOSPHERE brand made its international debut by opening a store in Dubai, followed by another in Singapore. Himatsingka Wovens Pvt Ltd, the wholly owned subsidiary, also commissioned a made ups unit at Apparel Park, Doddaballapur, Bangalore.

During the year, the export market turned sluggish due to recessionary conditions in USA. The core silk and silk blended fabric business has reported a negative growth of 1.85% year on year. Appreciation of Rupee against USD during the year resulted in lower realization.

For 2007-08, overall sales grew by 33.60% and stands at Rs.232.68 crores, as compared to Rs.174.16 crores in 2006-07. On account of the recent commissioning of bed linen facility, capacity utilization was low and the impact of start up expenses was significant. The bed linen division reported a loss of Rs.40.25 crores on a turnover of Rs.61.32 crores for the year.

Other income stood at Rs.16.97 crores as against Rs.27.06 crores in the previous year.

The Company has made a provision of Rs.27.77 crores towards mark – to – market loss on a foreign exchange derivative contract with a bank.

As a result, for the year under review, the Company reported a loss of Rs.26.04 crores as against a profit of Rs.54.61 crores in the previous year. The Company is confident that operational performance will improve going forward, as the new bed linen plant stabilizes.

##### Dividend

Your Directors have not recommended dividend on the Equity Shares, in view of the loss incurred during the year.

|   | (Rs. crores) |         |
|---|--------------|---------|
| Financial Results (Stand-alone)           | 2007-08      | 2006-07 |
| Sales                                     | 232.68       | 174.16  |
| Other income                              | 16.97        | 27.06   |
| Total income                              | 249.65       | 201.22  |
| EBITDA and Exceptional item               | 34.29        | 75.43   |
| Profit Before Tax                         | (28.89)      | 60.93   |
| Provision for Taxation                    | (2.86)       | 6.33    |
| Profit After Tax                          | (26.04)      | 54.61   |
| Profit brought forward from Previous Year | 120.61       | 99.78   |
| Profit available for Appropriation        | 94.57        | 154.39  |
|   |              |         |
| <b>Appropriations</b>                     |              |         |
| Transfer to General Reserve               | Nil          | 6.00    |
| Proposed Dividend                         | Nil          | 24.36   |
| Corporate Dividend Tax                    | Nil          | 3.42    |
| Profit carried to Balance Sheet           | 94.57        | 120.61  |

##### Consolidated Financial Results

Reflecting the growth initiatives undertaken by the Company, during the year, your Company's consolidated total income grew significantly and stood at Rs.892.31 crores as compared to Rs.244.58 crores in the previous year. The new initiatives contributed to the numbers, for only part of the year. As mentioned earlier, consolidated result was also impacted by loss

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from the bed linen division, provision for mark to market loss on a foreign exchange derivative contract, certain acquisition related expenses and start up expenses of Atmosphere business at Singapore. As a result, the consolidated loss for the year was Rs.23.99 crores as compared to profit of Rs.61.43 crores in the previous year.

#### **Preferential issue of Warrants to the Promoters/ Promoter Group**

The shareholders at the Annual General Meeting held on 26th September, 2007, had approved the issue of warrants convertible to Equity shares to Promoters/ Promoter Group in accordance with the provisions of Chapter XIII of Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000. The Warrant Committee, a committee of the Board of Directors, has allotted 58,00,000 warrants to promoters/ promoter group on 9th October, 2007. As per terms of the issue,

- Warrants are convertible in to equity shares at Rs.130/- within 18 months of date of issue, at the option of the warrant holder.
- 10% of the issue price (Rs.7.54 crores) has been received by the Company upfront.

Out of the above, the Company has received application along with the balance money of Rs.11.98 crores for conversion of 10,24,000 warrants in four installments approved on 28th November, 2007, 2nd January, 2008, 31st January, 2008 and 7th March, 2008. These shares have been listed on stock exchanges.

Post the above conversion, 47,76,000 warrants are outstanding.

#### **Prospects**

USA and Europe are the key markets for the Company's products. The economic data from these markets suggest softness in their economies. We believe that our strategy of forward integration in our bed linen business and proven design and technological expertise in silk furnishing will help mitigate the situation to a certain extent.

#### **Growth initiatives during the year**

##### **Bed Linen Project**

The new bed linen facility located at the Hassan Special Economic Zone (SEZ) in Karnataka with an annual capacity of 20 Million meters has started commercial production on 12th October, 2007 and is expected to stabilize during the current year. The Rs.437 crores project has been financed by a term loan of Rs.300 crores sanctioned by Export Import Bank of India and Canara Bank under the Technology Upgradation Fund (TUF), Government of India Scheme. An interest subsidy of 5% is available under this scheme. Additionally, the project will enjoy tax benefits of an SEZ.

The Company is setting up a captive 12.5 MW coal based co-generation power plant at Hassan SEZ. This will meet the power and steam requirements of the Bed Linen plant. We expect the plant to be commissioned by August 2009. Post-commissioning the power and fuel costs are expected to be significantly lower. The investment has been estimated at Rs.78 crores, to be funded by loan of around Rs.60 crores and the balance through internal accruals.

#### **Acquisitions**

Your Company through its wholly owned subsidiary, Himatsingka America Inc., New York, acquired 80% stake in Divatex Home Fashions Inc., New York (Divatex) on 30th June, 2007. The enterprise value for the transaction was USD 75 Million. Himatsingka has paid USD 57 Million for this stake.

Divatex is among the top three distributors of bed linen products in the USA. The Company is headquartered in New York and operates a large warehousing and distribution facility out of South Carolina.

Divatex total income post-acquisition is USD 111 Million in the consolidated results for the year ended 31st March, 2008.

On 18th October, 2007, your Company completed the acquisition of a 100% stake in DWI Holdings Inc., USA, through its wholly owned subsidiary, Himatsingka America Inc. The enterprise value for the transaction was USD 30 Million.

DWI has the licenses for the sourcing, marketing and distribution of luxury home textile brands – **Calvin Klein, Barbara Barry and Royal Sateen**. These brands are amongst the most prestigious and recognized home textile labels in the North American market with Calvin Klein being the second largest luxury bedding brand distributed through departmental stores in the United States. In addition, the Hospitality division of DWI caters to the unique needs of five star and deluxe properties around the world.

DWI Holdings Inc., turnover post-acquisition is USD 18 Million in the consolidated results for the year ended 31st March, 2008.

In addition to the acquisition of Giuseppe Bellora S.p.A. in February 2007, these two acquisitions are in line with the Company's strategy to invest in high end brands and distribution networks in North America and European markets. The investments in these acquisitions along with the Bed Linen production facility give the Company a capability to be an end-to-end integrated home textile player in a relatively short time frame.

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## **Performance of subsidiary companies**

### **Himatsingka Wovens Private Limited (HWPL)**

The retail initiative under the brand name "ATMOSPHERE" is undertaken by Himatsingka Wovens Private Limited, a wholly owned subsidiary. The Company recorded a growth in sales of 46.74% in the current year. EBIDTA was at Rs.3.93 crores as compared to Rs.4.01 crores in the previous year. During this year, new made-ups facility at Apparel Park – Dodaballapur was capitalized. As a result interest and depreciation costs were higher. Profit after tax was consequently lower at Rs.0.78 crores versus Rs.2.53 crores in the previous year.

During the year, the Company launched its third store in Mumbai (Powai) which brings the total number of stores in India to 12.

The Company also launched its first international store at Dubai in May, 2007. The Dubai Store has met with encouraging response from interior designers and retail customers from all over GCC. The Dubai store has executed orders for palaces, high end hotels and local high networth individuals.

Our second international store at Singapore was launched in October, 2007. Singapore is the hub for interior design firms which design hotels, offices and residential projects all over South East Asia, North Asia, India and the Middle East.

### **Himatsingka America Inc. (HimA)**

HimA is a wholly-owned subsidiary which markets products of our silk division in the USA. HimA is also the holding Company for Divatex and DWI Holdings.

The Company posted a revenue of Rs.22.93 Crores (Rs.27.77 Crores in 2006-07) and incurred a loss of Rs.5.6 crores (Profit of Rs.0.18 crores in 2006-07) during the year. One time acquisition related costs and interest on funds borrowed for acquisition of Divatex and DWI Holdings have resulted in loss during the year.

### **Divatex Home Fashions Inc.**

For the period ended 31st March, 2008, Divatex recorded total income of USD 111 Million (Rs.446.13 crores) and profit after tax of USD 4 million (Rs.16.3 crores). Since the acquisition was completed in July 2007, the results are consolidated only for such period.

### **DWI Holdings Inc.**

For the period ended 31st March, 2008, DWI Holding recorded sales of USD 18 Million (Rs.71.72 crores) and profit after tax of USD 0.36 million (Rs.1.43 crores). Since the acquisition was completed in October 2007, the results are consolidated only for such period.

### **Giuseppe Bellora SpA (GB)**

Giuseppe Bellora SpA. is a 70% subsidiary of the Company. For the year ended March 31, 2008, Giuseppe Bellora SpA and its subsidiaries has recorded sales of Euro 28.04 Million (Rs.160 crores) compared to Euro 3.1 Million (Rs.18.30 crores) for the period February 20, 2007 to 31st March, 2007 and a loss after minority interest of Euro 0.47 Million (Rs.2.71 Crores) compared to profit of Euro 1.06 Million (Rs.6.21 crores) for the period February 20, 2007 to March 31, 2007.

### **Twill & Oxford LLC**

Twill & Oxford LLC is a subsidiary of the Company, which operates the ATMOSPHERE store at Dubai. For the year ended March 31, 2008, the Company posted sales of Rs.4.15 crores and made a loss of Rs.2.26 crores. The results reflect financial performance from the start of the Company w.e.f. July 2007.

### **Himatsingka Singapore Pte Limited (HSPL)**

HSPL is a wholly owned subsidiary of HWPL and operates a store at Singapore, retailing the ATMOSPHERE brand. For the year ended March 31, 2008, the Company posted sales of Rs.0.19 crores and made a loss of Rs.2.32 crores. The results reflect financial performance from the start of the Company w.e.f. October 2007.

A Statement pursuant to Section 212 of the Companies Act, 1956 is attached.

In response to the Company's application, the Central Government has granted exemption (under Section 212(8) of the Companies Act, 1956) from attaching to the balance sheet of the Company, the accounts and other documents of all its subsidiaries. However, the consolidated financial statements of the Company, which include results of the said subsidiaries, are included in this Annual Report. Further, a statement containing the particulars prescribed under the terms of the said exemption for each of the Company's subsidiaries, is also enclosed. Copies of the audited annual accounts of the Company's subsidiaries for the year ended 31st March, 2008, can be sought by any member of the Company or its subsidiaries on making a written request to the Company in this regard. The Annual Accounts of the subsidiary companies are also available for inspection for any member at the Company's and/ or its subsidiaries registered office.

## **Finance**

The Company's surplus funds continue to be invested prudently. As on March 31, 2008, the Company had invested Rs.17.79 crores in various schemes of mutual funds.

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In accordance with the provisions of the Investor Education and Protection Fund (awareness and protection of investor) Rules, 2001, unpaid and unclaimed dividend amounting to Rs.3.73 lakhs for the financial year 1999-00 2nd interim dividend and 2000-01 interim dividend was transferred to the Investor Education and Protection Fund.

### **Personnel**

Industrial relations were cordial throughout the year. We continue to train and motivate our workforce, to enhance their productivity and contribution to the growth of the Company.

### **Research and Development**

Research and Development continues to provide valuable support to our exports and has helped us to keep pace with a dynamically changing market. We continue to give in-house research and innovation the highest priority.

### **Awards**

The Company received the "Largest Silk Exporter" Award from the Indian Silk Export Promotion Council for the fourteenth consecutive year.

### **Environment, Safety, Energy Conservation and Technology Absorption**

Safety and environmental protection remain a key concern to the Company. Investments are continuously made in projects that reduce/treat waste and increase energy efficiencies.

We regularly upgrade our effluent treatment and water recycling plants to keep abreast with technological advancements. By avoiding carcinogenic azo class dyes, we ensure eco-friendly production and worker safety. Our endeavour has been to maximize the efficient use of energy and ensure the safe and responsible discharge of residual wastes, while minimizing any adverse environmental impact and waste generation.

Information under section 217(1)(e) read with Companies (Disclosure of particulars in the report of Directors) Rules, 1988 are given in the Annexure, forming part of this report.

### **Corporate Governance**

We comply with the corporate governance code as prescribed by the stock exchanges and SEBI. You will find a detailed report on corporate governance as part of this annual report. The auditor's certificate on compliance with the mandatory recommendations on corporate governance is annexed to this report.

### **Auditors' Report**

The auditors in their report for the year ended 31st March, 2008, has drawn attention to Note Nos 25 (3)(ii) and 25 (3)(iii) of Schedule 17 to the accounts. In this regard, Directors submit as under:

During the past year the Company has witnessed significant volatility in the foreign exchange markets. The Company being predominantly in exports is exposed to foreign currency fluctuations on foreign currency assets and forecasted cash flows denominated in foreign currency. It therefore follows a policy of covering the risks arising out of foreign exchange fluctuations through a combination of forward contracts and options. During the year ended 31st March, 2008, apart from forward contracts, the Company entered into three foreign exchange derivative contracts. As explained in the Notes to Accounts, one of the contracts is currently the subject matter of legal dispute between the Bank and Company. The Company is confident, based on its legal advice, that the above matter will be settled in its favor. As regards another contract, the determination of the liability is dependent on the occurrence of a future uncertain event. Accordingly, no provision has been made for the above contracts.

The Company will continue to monitor these contracts within their duration.

### **Directors' Responsibility Statement**

As required by the provisions of Section 217(2AA) of the Companies Act, 1956, the Directors' Responsibility Statement is attached as Annexure, forming part of this report.

### **Foreign Exchange Earnings and Outgoings**

|   |       | (Rs. crores) |
|---|-------|--------------|
| Earnings – Export (FOB Value)                   |       | 224.30       |
| Interest earned on Fixed Deposits               |       | 5.67         |
| Reimbursement of expenses                       |       | 1.94         |
| Outgo - Import of Raw Material and other Inputs | 55.65 |              |
| Other Expenditure                               | 8.78  | 64.43        |
| Net Foreign Exchange Earnings from Operations   |       | 167.48       |
| Import of Capital Goods                         |       | 216.34       |

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### **Directors**

Sri. N. Vaghul resigned from the Board of Directors with effect from 1st April, 2008, in view of his advancing age and wish to reduce his commitments. He has been the Chairman of the Company since 2002. The Board placed on record its deep appreciation for the valuable guidance provided by him during his tenure as Chairman.

Sri. Dilip J Thakkar was appointed as a Chairman of the Board at its meeting held on 16th April, 2008. He is also Chairman of the Audit Committee of the Board.

In accordance with the provisions of the Companies Act, 1956, and Articles of Association of the Company, Sri. Dilip J Thakkar and Sri. Aditya Himatsingka retire by rotation and being eligible, offer themselves for re-appointment.

Mr Shrikant Himatsingka was reappointed as Executive Director for a further period of 5 years w.e.f. 3rd June, 2008. His reappointment will be placed as one of the agenda in the ensuing Annual General Meeting.

### **Particulars of Employees**

Information as per Section 217 (2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975, is given as an Annexure, forming part of this report.

### **Public Deposits**

The Company has not accepted any deposits from the public during the year within the meaning of Section 58A of the Companies Act, 1956.

### **Auditors**

Messrs Deloitte Haskins & Sells., Chartered Accountants, the Company's Auditors, retire at the ensuing Annual General Meeting and are eligible for re-appointment. Members are requested to appoint the auditors and fix their remuneration for the current year.

### **Cost Auditors**

Pursuant to the directives of the Central Government under the provisions of Section 233B of the Companies Act, 1956, in respect of the audit of Cost Records of the Company, M/s. Rao, Murthy & Associates, Cost Accountants, have been appointed as the Cost Auditor for the financial year ended March 31, 2008.

### **Acknowledgement**

Your Directors wish to place on record their appreciation of the unstinting efforts made by all employees in ensuring excellent all-round operational performance. We also wish to thank our Customers, Vendors, Shareholders and Bankers for their continued support. Your Directors would like to express their grateful appreciation to the Central Government and Government of Karnataka for their continued co-operation and assistance.

For and on behalf of the Board

Place : Bangalore  
Date : July 26, 2008

Dilip J Thakkar  
Chairman

|   |
|---|
| <b>Annexures to the Directors' Report</b> |
|---|

|                                  |
|----------------------------------|
| <b>Himatsingka Seide Limited</b> |
|----------------------------------|

**Directors' Responsibility Statement**

We, the Directors of Himatsingka Seide Limited, confirm the following:

That in the preparation of the Annual Accounts, the applicable accounting standards have been followed and that no material departures have been made from the same;

That the Directors had selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period;

That the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

That the Directors had prepared the annual accounts on a going concern basis.

For and on behalf of the Board

Place : Bangalore  
Date : July 26, 2008

**Dilip J Thakkar**  
Chairman

**Additional Information as required under Section 217(1)(e) of The Companies Act, 1956 read with Companies (Disclosure of Particulars in the Report of Directors) Rules, 1988:**

**Conservation of Energy:**

| <b>A. Power &amp; Fuel Consumption:</b>  |          | Current Year | Previous Year  |
|--|----------|--------------|----------------|
| 1. a. Electricity Purchased  | Units    | 24,519,782   | 11,061,139     |
| Total Amount   | Rs.      | 125,052,644  | 53,858,132     |
| Rate/Unit  | Rs.      | 5.10         | 4.87           |
| b. Own Generation  |          |              |                |
| i. Through Diesel Generator  | Units    | 287,035      | 3,641,234      |
| Units/Ltr. Of Diesel Oil   | Units    | 3.00         | 3.56           |
| Cost/Unit  | Rs.      | 9.10         | 9.25           |
| ii. Through Steam Turbine/Generator  |          | NIL          | NIL            |
| 2. Coal  |          | NIL          | NIL            |
| 3. Furnace Oil   |          |              |                |
| Quantity   | KL       | 3,539        | 1,120          |
| Total Amount   | Rs.      | 77,038,971   | 19,586,829     |
| Average Rate per KL  | Rs.      | 21,769       | 17,495         |
| 4. Other/Internal Generation   |          |              |                |
| a. Liquefied Petroleum Gas   |          |              |                |
| Quantity   | Kg       | 131,309      | 70,240         |
| Total Amount   | Rs.      | 5,459,530    | 2,619,456      |
| Average Rate per kg  | Rs.      | 41.58        | 37.29          |
| <b>B. Consumption:</b>   |          |              |                |
| Product a. Natural Silk/Blended Fabrics (per meter)  |          |              |                |
| Electricity  | Unit     | 6.79         | 6.31           |
| Furnace Oil  | Litre    | 0.75         | 0.70           |
| Coal/Others  |          | NIL          | NIL            |
| Reasons for variation: Due to changes in product-mix.  |          |              |                |
| b. Spun Silk/ Blended Yarns (per Kg)   |          |              |                |
| Electricity  | Units/Kg | 25.56        | 21.66          |
| Furnace Oil  | Litre    | Nil          | NIL            |
| Liquefied Petroleum Gas  | Rs./Kg   | 17.36        | 12.27          |
| Coal/Others  |          | NIL          | NIL            |
| Reasons for variation: Due to changes in product-mix. LPG costs are impacted due to higher prices. |          |              |                |
| c. Cotton/ Bedlinen  |          |              |                |
| Electricity  | Unit/set | 10.36        | Not Applicable |
| Furnace Oil  | Litre    | 2.63         | Not Applicable |
| Liquefied Petroleum Gas  | Rs./set  | 2.48         | Not Applicable |
| Coal/ others   |          | Nil          | Not Applicable |

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**C. 1. Energy Conservation Measures taken:**

- i. Regular preventive maintenance of electric motors
- ii. Installation of additional power capacitors
- iii. Lighting energy savers installed
- iv. Installation of high efficiency and low power-consuming light fittings
- v. Installation of capacitors at load centers
- vi. Modification of motor circuit and lowering the capacity (HP) of twisting machines
- vii. Modification of Compressed air lines, inter linking & Grid of compressed lines
- viii. Optimizing/ Adjusting the humidity plant fans blade angle.

**2. Impact of the measures taken for reduction of energy consumption and consequent impact on the cost of production:**

- i. Improvement in productivity
- ii. Improvement in the life of electrical equipments
- iii. Improved efficiency and product quality
- iv. Reduction in electrical energy consumption and better illumination
- v. Better power factor, better utilization of power plant and lower demand in Kva
- vi. Optimization of compressor utilization.
- vii. Reduction in power requirement & Better utilization of the plants.

**Research & Development (R&D)**

**a. Specific areas in which the Company carried out R&D:**

- i. Improvement in the quality of current products
- ii. Innovation of new products and processes
- iii. Development and appraisal of alternative raw materials
- iv. Indigenous substitutes for imported inputs

**b. Benefits derived as a result of the above R&D:**

Improvement in the product quality and development of intricate fabric designs and weaves

**c. Future Plan of Action:**

Progression of R&D efforts towards quality enhancement, evolution of new designs and reduction in operational costs

**d. Expenditure on R&D:**

(Rs. crores)

|   |       |
|---|-------|
| Capital   | -     |
| Recurring   | 2.86  |
| Total   | 2.86  |
| Total R&D expenditure as a percentage of turnover | 1.23% |

**Technology Absorption**

**a. Efforts in brief made towards technology absorption, adoption and innovations:**

- i. Continuous interaction with R&D divisions of overseas designers and buyers
- ii. Adaptation of sophisticated technologies in developing new products and designs
- iii. Installation of Quantum Clearers in winding machines to eliminate foreign fibre contamination in spun yarn

**b. Benefits derived as a result of the above efforts:**

- i. Quality improvement
- ii. Reduced costs and increased productivity

**c. Information regarding imported technology:**

Not Applicable

**Statement of Particulars of Employees pursuant to the provisions of Section 217 (2A) of the Companies Act, 1956.**

**Employed for the Full Year:**

| Name (Age)                          | Designation/<br>Nature of Duties         | Remuneration<br>received (Rs.) | Qualification<br>(Experience)                      | Date of<br>commencement<br>of employment | Previous employment  |
|-------------------------------------|--|--------------------------------|--|--|--|
| Sri. Dinesh Himatsingka<br>(59)     | Managing Director                        | 2,811,840                      | B.A.(Hons.)<br>(32 years)                          | 01.08.1985                               | Managing Director, Bihar<br>Mercantile Union Ltd.  |
| Sri. Aditya Himatsingka<br>(44)     | Executive Director                       | 2,705,920                      | B.Com (Hons.)<br>Diploma in Textiles<br>(22 years) | 01.01.1988                               | -  |
| Sri. A.K. Himatsingka<br>(67)       | Vice Chairman and<br>Whole Time Director | 2,705,920                      | B.Com<br>(48 years)                                | 01.04.1999                               | Wholetime Director, Bihar<br>Mercantile Union Ltd.   |
| Sri. Mohan Rao<br>(55)              | President (Group<br>Operations)          | 15,375,162*                    | B.Tech<br>(30years)                                | 04.07.1988                               | General Manager, Gherzi<br>Eastern Ltd.  |
| Ms. Jayshree Poddar<br>(51)         | Design Director                          | 69,92,733                      | B.Sc. Diploma in Textile<br>Designing (31 years)   | 03.08.1987                               | Chief Designer, Bihar<br>Mercantile Union Ltd.   |
| Sri. Shrikant Himatsingka<br>(28)   | Executive Director                       | 1,466,259                      | B.S.(Economics) (7 years)                          | 15.05.2001                               | -  |
| Sri. Pradeep Mukherjee<br>(59)      | President (Global<br>Sales & Marketing)  | 5,376,790                      | B.Tech. (Mech). DMS<br>(35 years)                  | 18.09.2006                               | Vice-President –Planning,<br>Product Development &<br>Exports, Bombay Dyeing<br>& Manufacturing Ltd. |
| Sri. Rajesh Kunnath<br>(42)         | Sr. Vice President<br>(Finance) & CFO    | 4,860,034                      | B. Com, FCA (17 years)                             | 17.08.2006                               | Vice-President – Finance,<br>Bennett Coleman & Co.<br>Ltd.   |
| Sri. Y.R Wilson Maria Doss.<br>(49) | Vice-President –<br>Corporate HR         | 4,211,032                      | MSW (23 years)                                     | 01.09.2006                               | Vice-President – Human<br>resources, Arvind Brands<br>Ltd.   |
| Sri. A Vijay Nair<br>(52)           | Sr. Vice President<br>(Operations)       | 2,882,712                      | B.Sc, Dip in Textile<br>Texhnology (29 years), MBA | 21.05.2006                               | Senior Vice President,<br>Cheslind Textiles Ltd.   |

**Employed for part of the year:**

| Name (Age)                | Designation /<br>Nature of Duties                   | Remuneration<br>received (Rs.) | Qualification<br>(Experience)                     | Date of<br>commencement<br>of employment | Previous employment   |
|---------------------------|---|--------------------------------|---|--|---|
| Sri. Pradeep K.P.<br>(37) | Vice President<br>Finance & Financial<br>Controller | 12,40,611                      | A.C.A, A.I.C.W.A, CS<br>(Inter), B.Com (15 years) | 2.11.2007                                | Director Finance<br>Fidelity Business<br>Services India Ltd |

\* includes gratuity & leave encashment

Note:

The remuneration includes Salaries, Commission, Allowances, Contribution to Provident/Pension/Superannuation Fund, Reimbursement of Medical Expenses and Perquisites as per I.T.Rules.

The appointment of the Managing Director, Vice Chairman and Executive Directors is on contractual basis. Other appointments are on regular basis. Sri Shrikant Himatsingka is also the Managing Director of Himatsingka Wovens Private Limited without drawing any remuneration.

Sri. Dinesh Himatsingka is related to Sri. A.K. Himatsingka, and Sri. Shrikant Himatsingka, Directors of the Company.

Sri. A.K. Himatsingka is related to Sri. D.K. Himatsingka and Sri. Aditya Himatsingka, Directors of the Company.

Sri. Aditya Himatsingka is related to Sri. A.K. Himatsingka, Director of the Company.

Sri. Shrikant Himatsingka is related to Sri. D.K. Himatsingka, Managing Director of the Company.

|                           |
|---------------------------|
| Certificate               |
| Himatsingka Seide Limited |

**TO THE MEMBERS OF HIMATSINGKA SEIDE LIMITED**

We have examined the compliance of conditions of Corporate Governance by **Himatsingka Seide Limited** ("the Company"), for the year ended on March 31, 2008, as stipulated in Clause 49 of the Listing Agreement of the Listing Agreement of the said Company with the Stock Exchange.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination has been limited to a review of the procedures and implementations thereof, adopted by the Company for ensuring compliance with the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us and the representations made by the Directors and the Management, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in Clause 49 the above-mentioned listing agreement.

We further state that such compliance is neither an assurance as to the future viability of the Company nor of the efficiency or effectiveness with which the Management has conducted the affairs of the Company.

For DELOITTE HASKINS & SELLS  
Chartered Accountants

V. Srikumar  
Partner  
Membership No. : 84494

Place : Bangalore  
Date : July 26, 2008

## Auditors' Report

Himatsingka Seide Limited

### TO THE MEMBERS OF HIMATSINGKA SEIDE LIMITED

1. We have audited the attached Balance Sheet of **Himatsingka Seide Limited** as at March 31, 2008, the Profit and Loss Account and the Cash Flow Statement of the Company 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.
2. We conducted our audit in accordance with generally accepted auditing standards in India. These Standards require that we plan and perform the audit to obtain reasonable assurance 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.
3. We draw attention to:
  - a. Note 25 (3)(ii) of Schedule 17 to the accounts regarding the plaint filed by the Company in the Court of the Principal Civil Judge at Bangalore, based on legal advice, for declaring a transaction with a Bank, *inter alia*, as void *ab initio*, unenforceable and not binding on the Company. The ultimate outcome of the matter cannot presently be determined and no provision for any liability or any consequential adjustments that may result has been made in the financial statements.
  - b. Note 25 (3) (iii) of Schedule 17 to the accounts. As explained in the note, the liability, if any, that may arise under the referenced contract with a Bank is dependent on the exchange rate between two currencies during a specified period in the future. Because of this significant uncertainty the Company has not provided for any liability that may arise on account of this contract in the financial statements.
4. 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.
5. Further to our comments in the Annexure referred to above, we report that:
  - a. we have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
  - b. 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;
  - c. 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;
  - d. in our opinion, the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in compliance with the Accounting Standards referred to in Section 211 (3C) of the Companies Act, 1956.
  - e. on the basis of the written representations from the directors as on March 31, 2008 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2008 from being appointed as a director under Section 274 (1)(g) of the Companies Act, 1956;
  - f. in our opinion and to the best of our information and according to the explanations given to us, the said accounts 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:
    - i. in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2008;
    - ii. in the case of the Profit and Loss Account, of the loss for the year ended on that date; and
    - iii. 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 : June 29, 2008

## Annexure to the Auditors' Report

Himatsingka Seide Limited (Referred to in our report of even date)

The nature of the company's business/activities during the year is such that clauses iii(d), iii(f) and iii(g), vi, x, xii, xiii, xiv, xix, and xx are not applicable to the Company.

- i. 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, which in our opinion provides for physical verification of all the fixed assets at reasonable intervals. According to the information and explanations given to us no material discrepancies were noticed on such verification.
  - c. The fixed assets disposed off during the year, in our opinion, do not constitute a substantial part of the fixed assets of the Company and such disposal has, in our opinion, not affected the going concern status of the Company.
- ii. In respect of its inventories:
  - a. As per explanations given to us, inventories were physically verified during the year by the management at reasonable intervals.
  - 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 noticed on such verification.
- iii. In respect of loans, secured or unsecured, granted by the Company to 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 granted unsecured loans to three subsidiaries. At the year-end, the outstanding balances of such loans granted and the maximum amount involved during the year is Rs.1,185,751,710.
  - b. The rate of interest and other terms and conditions of such loans are, in our opinion, *prima facie*, not prejudicial to the interests of the company.
  - c. There are no stipulations with regard to the payment of interest or repayment of the principal as per the terms of the loans.
- iv. According to the information and explanation given to us, the Company has not taken any loans from companies, firms or other parties covered in the Register maintained under section 301 of the Companies Act 1956.
- v. In our opinion and according to the information and explanations given to us, and having regard to the explanations that some of the Company's transactions of sale and purchase involve goods and materials of a specialized nature for which comparative quotes 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 and services and we have not observed any continuing failure to correct major weaknesses in such internal controls.
- vi. In respect of contracts or arrangements entered in the register maintained in pursuance of section 301 of the Companies Act 1956, to the best of our knowledge and belief and according to the information and explanations given to us:
  - a. The particulars of contracts or arrangements referred to Section 301 that needed to be entered into the register, maintained under the said section have been so entered.
  - b. In our opinion and according to the information and explanations give to us, transactions of sale and purchase made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the Companies Act, 1956 and exceeding Rs.500,000 in the value are covered by our comments in paragraph (v) above.
  - c. Other transactions (excluding loans reported under paragraph (iii) and transactions reported in (vi) (b) above) in excess of Rs.500,000 in respect of any party, the transaction have been made at prices which are, *prima facie*, reasonable having regard to the prevailing market price at the relevant time.

- vii. In our opinion, the Company has an adequate internal audit system commensurate with the size and the nature of its business.
- viii. We have broadly reviewed the books of account and records maintained by the Company relating to the manufacture of textiles pursuant to the order made by the central government for the maintenance of cost records under section 209(1)(d) of the Companies Act 1956, and are of the opinion that, *prima facie*, the prescribed accounts and records have been made and maintained. We have, however, not made a detailed examination of the records with a view to determining whether they are accurate or complete.
- ix. In respect of statutory dues:
- (a) According to the information and explanations given to us, the Company has been generally regular in depositing undisputed statutory dues, including Provident Fund, Employees' State Insurance, Income-tax, Sales-tax, Wealth Tax, Service Tax, Custom Duty, Excise Duty, cess and any other material statutory dues with the appropriate authorities during the year.
- (b) According to the information and explanations given to us, dues of sales tax, income tax, customs duty, wealth tax, service tax, excise duty and cess which have not been deposited as on 31st March 2008 on account of any dispute are given below:

| Name of statute | Nature of the dues | Amount (Rs.) | Period to which the amount relates | Forum where dispute is pending       |
|-----------------|--------------------|--------------|------------------------------------|--------------------------------------|
| Income tax Act  | Income tax         | 3,922,872    | Financial year 1993 -1994          | Supreme Court                        |
| Income tax Act  | Income tax         | 5,131,648    | Financial year 2003 -2004          | Commissioner of Income Tax (Appeals) |

- x. In our opinion and according to the information and explanations given to us, the Company has not defaulted in the repayment of dues to financial institutions and banks.
- xi. In our opinion and according to the information and explanations given to us, the terms and conditions of the guarantees given by the Company for loans taken by others from financial institutions, are not *prima facie* prejudicial to the interest of the company.
- xii. To the best of our knowledge and belief and according to the information and explanations given to us, in our opinion, 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.
- xiii. According to the information and explanations given to us, and on an overall examination of the balance sheet of the Company, funds raised on short term basis have, *prima facie*, not been used during the year for long term investment.
- xiv. According to the information and explanations given to us, the price at which the Company has made preferential allotment of shares to parties and companies covered in the Register maintained under Section 301 of the Companies Act, 1956 is not *prima facie* prejudicial to the interests of the Company.
- xv. 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 : June 29, 2008

|                                  |                      |
|----------------------------------|----------------------|
| <b>Balance Sheet</b>             |                      |
| <b>Himatsingka Seide Limited</b> | As at March 31, 2008 |

|   | Sch No | As at<br>31.03.2008<br>Rupees | As at<br>31.03.2007<br>Rupees |
|---|--------|-------------------------------|-------------------------------|
| <b>SOURCES OF FUNDS</b>   |        |                               |                               |
| <b>Shareholders' Funds</b>  |        |                               |                               |
| Share Capital   | 1      | 492,285,800                   | 487,165,800                   |
| Monies received against Share Warrants (Refer Note 28 of Schedule 17)                                   |        | 62,088,000                    | -                             |
| Reserves and Surplus  | 2      | 5,387,083,392                 | 5,523,887,543                 |
|   |        | <b>5,941,457,192</b>          | <b>6,011,053,343</b>          |
| <b>Loan Funds</b>   |        |                               |                               |
| Secured Loans   | 3      | 3,970,879,816                 | 2,241,953,215                 |
| Deferred Tax Liability (Net)  |        | -                             | 36,600,000                    |
| <b>TOTAL</b>  |        | <b>9,912,337,008</b>          | <b>8,289,606,558</b>          |
| <b>APPLICATION OF FUNDS</b>   |        |                               |                               |
| <b>Fixed Assets</b>   |        |                               |                               |
| Gross Block   | 4      | 5,945,429,812                 | 2,395,017,566                 |
| Less : Depreciation   |        | 1,492,841,473                 | 1,342,388,914                 |
| Net Block   |        | 4,452,588,339                 | 1,052,628,652                 |
| Capital Work in Progress [includes capital advances of Rs.151,968,837 (previous year Rs.571,215,522 ) ] |        | 464,477,164                   | 2,507,631,790                 |
|   |        | 4,917,065,503                 | 3,560,260,442                 |
| <b>Investments</b>  | 5      | 2,084,101,039                 | 1,310,993,713                 |
| <b>Current Assets, Loans and Advances</b>   |        |                               |                               |
| Inventories   | 6      | 1,004,508,417                 | 492,641,584                   |
| Sundry Debtors  | 7      | 592,594,759                   | 414,850,984                   |
| Cash and Bank Balances  | 8      | 85,607,750                    | 2,241,038,915                 |
| Loans and Advances  | 9      | 2,188,775,513                 | 732,478,488                   |
|   |        | 3,871,486,439                 | 3,881,009,971                 |
| <b>Less: Current Liabilities and Provisions</b>   | 10     |                               |                               |
| Current Liabilities   |        | 380,725,149                   | 207,287,833                   |
| Provisions  |        | 579,590,824                   | 259,306,584                   |
| <b>Net Current Assets</b>   |        | 2,911,170,466                 | 3,414,415,554                 |
| Miscellaneous Expenditure (to the extent not written off or adjusted)                                   |        |                               |                               |
| Voluntary Retirement Scheme   |        | -                             | 3,936,849                     |
| <b>TOTAL</b>  |        | <b>9,912,337,008</b>          | <b>8,289,606,558</b>          |
| Notes forming part of accounts  | 17     |                               |                               |
| Significant Accounting Policies   | 18     |                               |                               |

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

As per our report attached  
for Deloitte Haskins & Sells  
Chartered Accountants

for and on behalf of the Board of Directors

Dilip J. Thakkar  
Chairman

A.K. Himatsingka  
Vice-Chairman

D.K. Himatsingka  
Managing Director

V. Srikumar  
Partner  
Membership No.84494  
Bangalore, June 29, 2008

Pradeep K.P.  
Chief Financial Officer  
Bangalore, June 29, 2008

Amit Jain  
Company Secretary

## Profit And Loss Account

**Himatsingka Seide Limited** For the year ended March 31, 2008

|  | Sch<br>No | For the year ended<br>31.03.2008<br>Rupees | For the year ended<br>31.03.2007<br>Rupees |
|--|-----------|--|--|
| <b>INCOME</b>  |           |  |  |
| Export Sales   | I         | 2,286,002,179                              | 1,581,236,909                              |
| Local Sales  |           | 216,249,944                                | 185,729,292                                |
| Less: Excise Duty  |           | 29,129,751                                 | 25,331,187                                 |
|  | II        | 187,120,193                                | 160,398,105                                |
| Net Sales  | (I+II)    | 2,473,122,372                              | 1,741,635,014                              |
| Other Income   | 11        | 169,687,625                                | 270,564,635                                |
|  |           | <b>2,642,809,997</b>                       | <b>2,012,199,649</b>                       |
| <b>EXPENDITURE</b>   |           |  |  |
| Materials Consumed   | 12        | 1,593,647,455                              | 709,742,443                                |
| (Increase)/Decrease in stock   | 13        | (288,547,925)                              | (97,475,100)                               |
| Manufacturing Expenses   | 14        | 393,408,759                                | 175,160,002                                |
| Personnel Expenses   | 15        | 440,746,496                                | 269,870,651                                |
| Administration, Selling and Other Expenses   | 16        | 300,693,943                                | 242,959,777                                |
|  |           | <b>2,439,948,728</b>                       | <b>1,300,257,773</b>                       |
| <b>Profit before Interest, Depreciation, Exceptional item and Tax</b>                        |           | <b>202,861,269</b>                         | <b>711,941,876</b>                         |
| Interest (Net)   |           | 136,999,268                                | 39,907,838                                 |
| Depreciation   |           | 269,033,552                                | 142,964,735                                |
| Exceptional item (Refer Note 25(3) of Schedule 17)   |           | 277,698,663                                | -  |
|  |           | <b>(480,870,214)</b>                       | <b>529,069,303</b>                         |
| Less: Pre-operative Expenses (net of income) capitalised<br>( Refer Note 10 of Schedule 17 ) |           | (191,912,202)                              | (80,322,134)                               |
| <b>Profit/(Loss) before Tax</b>  |           | <b>(288,958,012)</b>                       | <b>609,391,437</b>                         |
| Provision for Taxation   |           |  |  |
| Current tax  |           | 12,902,500                                 | 48,900,000                                 |
| Deferred tax   |           | (36,600,000)                               | 9,900,000                                  |
| Fringe Benefit Tax   |           | 8,020,000                                  | 4,500,000                                  |
| Minimum Alternate Tax credit availed   |           | (12,902,500)                               | -  |
| <b>Profit/(Loss) after Tax</b>   |           | <b>(260,378,012)</b>                       | <b>546,091,437</b>                         |
| Balance brought forward  |           | 1,206,118,360                              | 997,772,325                                |
| <b>Profit available for appropriation</b>  |           | <b>945,740,348</b>                         | <b>1,543,863,762</b>                       |
| Transferred to General Reserve   |           | -  | 60,000,000                                 |
| Dividend   |           |  |  |
| Interim  |           | -  | 243,582,900                                |
| Tax on Distributed Profits   |           | -  | 34,162,502                                 |
| <b>Balance carried to Balance Sheet</b>  |           | <b>945,740,348</b>                         | <b>1,206,118,360</b>                       |
| Weighted Average number of Equity Shares   |           | 97,643,696                                 | 97,433,160                                 |
| Basic and Diluted earnings per equity share (Rs.)<br>(Face value of Rs.5 per share)          |           | (2.67)                                     | 5.60                                       |
| Notes forming part of accounts   | 17        |  |  |
| Significant Accounting Policies  | 18        |  |  |

The schedules referred to above and the notes thereon form an integral part of the Profit and Loss Account.

As per our report attached  
for Deloitte Haskins & Sells  
Chartered Accountants

for and on behalf of the Board of Directors

Dilip J. Thakkar  
Chairman

A.K. Himatsingka  
Vice-Chairman

D.K. Himatsingka  
Managing Director

V. Srikumar  
Partner  
Membership No.84494  
Bangalore, June 29, 2008

Pradeep K.P.  
Chief Financial Officer

Amit Jain  
Company Secretary

Bangalore, June 29, 2008

## Statement of Cash Flows

**Himatsingka Seide Limited** For the year ended March 31, 2008

|   | Sch<br>No | For the year Ended<br>31.03.2008<br>Rupees | For the year Ended<br>31.03.2007<br>Rupees |
|---|-----------|--|--|
| <b>A. CASH FLOW FROM OPERATING ACTIVITIES:</b>  |           |  |  |
| Net Profit/(Loss) before Tax  |           | (288,958,012)                              | 609,391,437                                |
| (Profit)/Loss on Sale of Assets   |           | 5,179,444                                  | 375,579                                    |
| (Profit)/Loss on Sale of Investments  |           | (16,571,694)                               | (19,147,584)                               |
| Depreciation and amortisation   |           | 263,687,983                                | 140,443,439                                |
| Amortisation of Miscellaneous Expenditure   |           | 3,936,849                                  | 5,249,132                                  |
| Diminution in value of Investments  |           | 1,369,876                                  | 399,410                                    |
| Unrealised exchange loss/(gain)   |           | 44,149,112                                 | (8,776,070)                                |
| Exceptional Item (Refer Note 25(3) of Schedule 17)  |           | 277,698,663                                | -  |
| Interest Income   |           | (115,957,719)                              | (186,756,725)                              |
| Dividend Income   |           | (14,293,581)                               | (49,573,659)                               |
| Interest Expense  |           | 90,497,132                                 | 4,471,565                                  |
| <b>Operating Profit/(Loss) before Working Capital Changes</b>                             |           | <b>250,738,053</b>                         | 496,076,524                                |
| Decrease/(Increase) in Trade and Other Receivables  |           | (172,743,837)                              | (111,229,348)                              |
| Decrease/(Increase) in Inventories  |           | (511,866,833)                              | (67,848,792)                               |
| Decrease/(Increase) in Loans and Advances   |           | (293,106,737)                              | (65,097,066)                               |
| Increase/(Decrease) in Trade Payables   |           | 172,231,438                                | 101,105,692                                |
| Cash generated from operations  |           | (554,747,916)                              | <b>353,007,010</b>                         |
| Income Tax Paid (including Fringe Benefit Tax)  |           | (57,067,050)                               | (95,050,592)                               |
| <b>Net Cash from operations</b>   |           | <b>(611,814,966)</b>                       | <b>257,956,418</b>                         |
| <b>B. CASH FLOW FROM INVESTING ACTIVITIES:</b>  |           |  |  |
| Investment in wholly owned subsidiary   |           | (1,104,445,750)                            | -  |
| Investment in subsidiaries  |           | -  | (691,285,442)                              |
| Purchase of Investments   |           | (1,313,156,449)                            | (3,237,024,532)                            |
| Sale of Investments   |           | 1,659,696,692                              | 3,902,013,406                              |
| Loans given to subsidiaries (Net)   |           | (976,860,300)                              | (64,328,250)                               |
| Purchase of Fixed Assets  |           | (1,587,796,319)                            | (2,545,185,253)                            |
| Sale Proceeds of Fixed Assets   |           | 9,100,438                                  | 14,899,540                                 |
| Interest received   |           | 116,264,763                                | 190,398,863                                |
| Dividend received   |           | 14,511,994                                 | 56,486,793                                 |
| <b>Net Cash from Investing Activities</b>   |           | <b>(3,182,684,931)</b>                     | <b>(2,374,024,875)</b>                     |
| <b>C. CASH FLOW FROM FINANCING ACTIVITIES:</b>  |           |  |  |
| Reimbursement of expenses relating to the issue of GDR                                    |           | -  | 6,588,147                                  |
| Interest Paid   |           | (276,213,712)                              | (8,421,685)                                |
| Subsidy/Subvention Received   |           | 6,204,479                                  | 3,717,808                                  |
| Proceeds of Long Term Borrowings  |           | 900,859,285                                | 1,848,225,234                              |
| Repayment of Long Term Borrowings   |           | (41,086,647)                               | (4,687,500)                                |
| Proceeds from issue of shares   |           | 133,120,000                                | -  |
| Proceeds from issue of share warrants   |           | 62,088,000                                 | -  |
| Proceeds/(Repayment) of Short Term Borrowings   |           | 861,018,876                                | -  |
| Dividends Paid  |           | (6,923,113)                                | (358,907,831)                              |
| Tax on Distributed Profits  |           | -  | (51,243,753)                               |
| <b>Net Cash from Financing Activities</b>   |           | <b>1,639,067,168</b>                       | <b>1,435,270,420</b>                       |
| Total Increase/(Decrease) in Cash And Cash Equivalents                                    |           | (2,155,432,729)                            | (680,798,037)                              |
| Effect of Exchange differences on restatement of foreign currency Cash & Cash Equivalents |           | 1,564                                      | -  |
| <b>Cash And Cash Equivalents at the beginning of the period</b>                           |           | <b>2,241,038,915</b>                       | <b>2,921,836,952</b>                       |
| <b>Cash And Cash Equivalents at the end of the year</b>                                   |           | <b>85,607,750</b>                          | <b>2,241,038,915</b>                       |
| Notes forming part of accounts  | 17        |  |  |
| Significant Accounting Policies   | 18        |  |  |

As per our report attached  
for Deloitte Haskins & Sells  
Chartered Accountants

for and on behalf of the Board of Directors

Dilip J. Thakkar  
Chairman

A.K. Himatsingka  
Vice-Chairman

D.K. Himatsingka  
Managing Director

V. Sri Kumar  
Partner  
Membership No.84494  
Bangalore, June 29, 2008

Pradeep K.P.  
Chief Financial Officer  
Bangalore, June 29, 2008

Amit Jain  
Company Secretary

## Schedules To Balance Sheet

Himatsingka Seide Limited As at March 31, 2008

|   | As at<br>31.03.2008<br>Rupees | As at<br>31.03.2007<br>Rupees |
|---|-------------------------------|-------------------------------|
| <b>Schedules to Accounts</b>  |                               |                               |
| <b>Schedule 1</b>   |                               |                               |
| <b>SHARE CAPITAL</b>  |                               |                               |
| Authorised  |                               |                               |
| 104,000,000 Equity Shares of Rs.5 each (Previous year 100,000,000 equity shares of Rs.5 each)                                   | 520,000,000                   | 500,000,000                   |
| Issued  |                               |                               |
| 98,496,160 Equity Shares of Rs.5 each fully called up (Previous year 97,472,160 equity shares of Rs.5 each)                     | 492,480,800                   | 487,360,800                   |
| Subscribed & Paid Up  |                               |                               |
| 98,457,160 Equity Shares of Rs.5 each fully paid up (Previous year 97,433,160 equity shares of Rs.5 each)                       | 492,285,800                   | 487,165,800                   |
| (Out of the above 63,723,800 shares of Rs.5 each have been issued as Bonus shares by capitalisation of Reserves)                | <b>492,285,800</b>            | 487,165,800                   |
| <b>Schedule 2</b>   |                               |                               |
| <b>RESERVES AND SURPLUS</b>   |                               |                               |
| Share Premium Account   |                               |                               |
| As per last Balance Sheet   | 2,639,571,264                 | 2,632,983,117                 |
| Add:  |                               |                               |
| Additions during the year on issue of Share Warrants  | 128,000,000                   | -                             |
| Reimbursement of expenses relating to issue of Global Depository Shares   | -                             | 6,588,147                     |
|   | 2,767,571,264                 | 2,639,571,264                 |
| General Reserve   |                               |                               |
| As per last Balance Sheet   | 1,678,197,919                 | 1,618,197,919                 |
| Add: Transfer from Profit and Loss Account  | -                             | 60,000,000                    |
| Less: Adjustment for Transitional provision under Accounting Standard -15 "Employee Benefits"<br>(Refer Note 26 of Schedule 17) | 4,426,139                     | -                             |
|   | 1,673,771,780                 | 1,678,197,919                 |
| Profit and Loss Account   | 945,740,348                   | 1,206,118,360                 |
|   | <b>5,387,083,392</b>          | 5,523,887,543                 |
| <b>Schedule 3</b>   |                               |                               |
| <b>SECURED LOANS</b>  |                               |                               |
| Term Loan from Financial Institution  |                               |                               |
| (Secured by charge over moveable and certain immovable Fixed assets, both present and future)                                   | 1,601,725,853                 | 1,249,837,734                 |
| [Repayable within one year - Rs.109,346,591 (Previous year - Rs.41,164,773)]  |                               |                               |
| Term Loan from Bank   |                               |                               |
| (Secured by charge over moveable and certain immovable Fixed assets, both present and future)                                   | 1,500,000,000                 | 991,200,000                   |
| [Repayable within one year - Rs.45,454,545(Previous year - Rs. Nil)]  |                               |                               |
| Working Capital Loan from Bank  |                               |                               |
|   | 869,153,963                   | -                             |
| Interest Accrued and Due  |                               |                               |
|   | -                             | 915,481                       |
|   | <b>3,970,879,816</b>          | 2,241,953,215                 |

**Schedule 4**  
**FIXED ASSETS**

(Amount in Rupees)

| Particulars              | Gross Block          |                                |               | Depreciation         |                      |                    | Netblock             |                    |                      |                      |                      |
|--------------------------|----------------------|--------------------------------|---------------|----------------------|----------------------|--------------------|----------------------|--------------------|----------------------|----------------------|----------------------|
|                          | As at<br>01/04/2007  | Additions /<br>(Deletions)     | Adjustments** | As at<br>31/03/2008  | Up to<br>31/03/2007  | For the Year       | On Deletions         | Adjustments**      | Up to<br>31/03/2008  | As at<br>31/03/2008  | As at<br>31/03/2007  |
| LAND *                   | 74,737,926           | -                              | -             | 74,737,926           | -                    | -                  | -                    | -                  | -                    | 74,737,926           | 74,737,926           |
| LEASEHOLD LAND           | 63,762,334           | 45,189,680                     | (2,021,642)   | 106,930,372          | 768,642              | 2,534,321          | -                    | (2,021,642)        | 1,281,321            | 105,649,051          | 62,993,692           |
| BUILDINGS                | 251,952,796          | 779,551,352                    | 2,166,914     | 1,033,671,062        | 71,813,095           | 20,092,709         | -                    | -                  | 91,905,804           | 941,765,258          | 180,139,701          |
| PLANT AND MACHINERY      | 1,899,958,577        | 2,794,334,752<br>(115,804,805) | 5,699,948     | 4,584,188,472        | 1,212,549,697        | 226,891,284        | (101,524,923)        | -                  | 1,337,916,258        | 3,246,272,214        | 687,408,680          |
| FURNITURE AND FIXTURES   | 34,729,809           | 29,983,568<br>(9,189,208)      | (2,863,204)   | 52,660,965           | 21,021,660           | 6,491,943          | (9,189,208)          | (2,863,204)        | 15,461,191           | 37,199,774           | 13,708,149           |
| LEASEHOLD IMPROVEMENTS   | 8,110,010            | 1,103,384                      | -             | 9,213,394            | 1,389,928            | 1,842,674          | -                    | -                  | 3,232,602            | 5,980,792            | 6,720,082            |
| OFFICE EQUIPMENTS        | 48,093,162           | 24,483,568                     | (2,941,703)   | 69,635,027           | 30,075,277           | 9,053,434          | -                    | (2,941,703)        | 36,187,008           | 33,448,019           | 18,017,885           |
| VEHICLES                 | 13,672,952           | 759,955                        | (40,313)      | 14,392,594           | 4,770,415            | 2,127,187          | -                    | (40,313)           | 6,857,289            | 7,535,305            | 8,902,537            |
| <b>Total</b>             | <b>2,395,017,566</b> | <b>3,550,412,246</b>           | <b>-</b>      | <b>5,945,429,812</b> | <b>1,342,388,914</b> | <b>269,033,552</b> | <b>(110,714,131)</b> | <b>(7,866,862)</b> | <b>1,492,841,473</b> | <b>4,452,586,339</b> | <b>1,052,628,652</b> |
| Capital work in Progress |                      |                                |               |                      |                      |                    |                      |                    |                      | 464,477,164          | 2,507,631,790        |
| Previous Year            | 2,151,956,630        | 243,060,936                    | -             | 2,395,017,566        | 1,211,922,094        | 142,964,735        | (12,497,915)         | -                  | 1,342,388,914        | 1,052,628,652        | 940,034,536          |

\*Land includes Rs.1,791,106 being the share in land jointly owned with others

\*\*Adjustments during the year relates to capitalisation of depreciation provided on the assets put to use during the period of setting up of the project Rs. 7,866,862 (related to current year Rs.5,345,566 and previous year Rs.2,521,296)

Additions during the year include Rs.293,767,117 being preliminary and pre-operative expenses transferred from Capital Work in Progress.

Capital work in Progress includes Rs.Nil (previous year 2,521,296) towards depreciation on assets put to use for the Captive Power Plant.

**Schedule 5**  
**INVESTMENTS**

Long Term, Trade, Unquoted

In Subsidiary Companies

Himatsingka Wovens Private Limited

Equity shares of Rs.100 each fully paid up

| As at 31.3.2008 |             | As at 31.3.2007 |            |
|-----------------|-------------|-----------------|------------|
| Numbers         | Rupees      | Numbers         | Rupees     |
| 1,250,000       | 116,412,000 | 500,000         | 41,412,000 |

Himatsingka America Inc

Equity shares of USD 10,000 each fully paid up

|       |               |     |            |
|-------|---------------|-----|------------|
| 2,700 | 1,098,520,750 | 150 | 69,075,000 |
|-------|---------------|-----|------------|

Twill & Oxford LLC

Equity shares of AED 100 each fully paid up

|       |           |       |           |
|-------|-----------|-------|-----------|
| 1,470 | 3,735,000 | 1,470 | 3,735,000 |
|-------|-----------|-------|-----------|

Giuseppe Bellora Spa

Equity shares of Euro 1 each fully paid up

|           |             |           |             |
|-----------|-------------|-----------|-------------|
| 7,515,501 | 687,550,442 | 7,515,501 | 687,550,442 |
|-----------|-------------|-----------|-------------|

Current, Non - Trade, Quoted

6.75% US64 (Tax Free) Bonds, Units of Rs.100 each

|         |            |         |            |
|---------|------------|---------|------------|
| 108,807 | 11,454,238 | 108,807 | 11,454,238 |
|---------|------------|---------|------------|

6.60% US64 (Tax Free) Bonds, Units of Rs.100 each

|        |           |        |           |
|--------|-----------|--------|-----------|
| 50,000 | 5,250,000 | 50,000 | 5,250,000 |
|--------|-----------|--------|-----------|

Current, Non - Trade , Unquoted

(Units of Mutual Funds)

Birla Bond Plus - Institutional - Fortnightly Dividend

|   |   |           |            |
|---|---|-----------|------------|
| - | - | 3,094,415 | 32,535,300 |
|---|---|-----------|------------|

Birla Cash Plus - Institutional Premium - Fortnightly Dividend

|   |   |           |            |
|---|---|-----------|------------|
| - | - | 2,122,100 | 21,382,708 |
|---|---|-----------|------------|

Birla Sunlife Buy India Fund- Plan A (Dividend option)

|         |            |         |            |
|---------|------------|---------|------------|
| 786,164 | 20,000,000 | 786,164 | 20,000,000 |
|---------|------------|---------|------------|

Birla Sunlife Liquid Plus - Institutional - (Growth Option)

|         |            |   |   |
|---------|------------|---|---|
| 663,508 | 10,018,905 | - | - |
|---------|------------|---|---|

Chola Fixed Maturity Plan Series 6 Quarterly Plan 2 (Dividend option)

|   |   |           |            |
|---|---|-----------|------------|
| - | - | 2,006,809 | 20,068,087 |
|---|---|-----------|------------|

DSP Merrill Lynch Liquid Plus - Institutional Plan - Growth

|   |   |        |            |
|---|---|--------|------------|
| - | - | 48,936 | 50,793,738 |
|---|---|--------|------------|

DWS Credit Opportunities Cash Fund - Fortnightly Dividend

|           |            |   |   |
|-----------|------------|---|---|
| 4,950,103 | 50,000,000 | - | - |
|-----------|------------|---|---|

Franklin Templeton Fixed Tenure-Series V (Growth Option)13 mth

|   |   |           |            |
|---|---|-----------|------------|
| - | - | 3,000,000 | 30,000,000 |
|---|---|-----------|------------|

HSBC Liquid Plus - Institutional Plus - Monthly Dividend

|   |   |           |            |
|---|---|-----------|------------|
| - | - | 9,245,810 | 92,655,699 |
|---|---|-----------|------------|

JM Money Manager Fund - Super Plus Plan - Growth

|   |   |           |            |
|---|---|-----------|------------|
| - | - | 2,000,000 | 20,000,000 |
|---|---|-----------|------------|

Kotak Flexi Debt Scheme - Growth

|   |   |           |            |
|---|---|-----------|------------|
| - | - | 2,737,326 | 30,000,000 |
|---|---|-----------|------------|

Kotak Fixed Maturity Plan 3 Months Series 13

|   |   |           |            |
|---|---|-----------|------------|
| - | - | 2,000,000 | 20,000,000 |
|---|---|-----------|------------|

Prudential ICICI Blended Plan A (Dividend option)

|           |            |           |            |
|-----------|------------|-----------|------------|
| 2,000,000 | 20,000,000 | 2,000,000 | 20,000,000 |
|-----------|------------|-----------|------------|

Reliance Liquidity Fund - Monthly Dividend Payout Option

|   |   |           |            |
|---|---|-----------|------------|
| - | - | 3,285,116 | 35,078,140 |
|---|---|-----------|------------|

SBI Debt Fund Series - 90 days- Feb 07- Dividend

|   |   |           |            |
|---|---|-----------|------------|
| - | - | 5,067,289 | 50,672,891 |
|---|---|-----------|------------|

Tata Floater Fund - Weekly Dividend Payout

|           |            |   |   |
|-----------|------------|---|---|
| 1,058,505 | 10,673,123 | - | - |
|-----------|------------|---|---|

Templeton Floating Rate Income Fund Long Term Plan Super Institutional - Growth option

|           |            |   |   |
|-----------|------------|---|---|
| 5,029,000 | 52,895,521 | - | - |
|-----------|------------|---|---|

Templeton Fixed Horizon Fund - 3 month Plan - Institutional - Dividend Reinvest

|   |   |           |            |
|---|---|-----------|------------|
| - | - | 2,000,000 | 20,000,000 |
|---|---|-----------|------------|

Templeton India Short Term Income Plan - Institutional - Monthly Dividend

|   |   |        |            |
|---|---|--------|------------|
| - | - | 29,098 | 30,369,531 |
|---|---|--------|------------|

|               |               |
|---------------|---------------|
| 2,086,509,979 | 1,312,032,774 |
|---------------|---------------|

Less : Diminution in value of investments

|           |           |
|-----------|-----------|
| 2,408,940 | 1,039,061 |
|-----------|-----------|

|                      |                      |
|----------------------|----------------------|
| <b>2,084,101,039</b> | <b>1,310,993,713</b> |
|----------------------|----------------------|

Total Unquoted

|               |               |
|---------------|---------------|
| 2,068,691,672 | 1,295,328,536 |
|---------------|---------------|

Total Quoted (Market value Rs.15,409,367,

Previous Year Rs.15,665,177)

|            |            |
|------------|------------|
| 15,409,367 | 15,665,177 |
|------------|------------|

|   | As at 31.3.2008<br>Rupees | As at 31.3.2007<br>Rupees |
|---|---------------------------|---------------------------|
| <b>Schedule 6</b>   |                           |                           |
| <b>INVENTORIES</b>  |                           |                           |
| Raw Material  | 306,594,998               | 142,019,521               |
| Stores and Spares   | 82,046,219                | 23,302,788                |
| Work-in-Process   | 502,652,867               | 262,275,099               |
| Finished Goods  | 113,214,333               | 65,044,176                |
|   | <b>1,004,508,417</b>      | <b>492,641,584</b>        |
| <b>Schedule 7</b>   |                           |                           |
| <b>SUNDRY DEBTORS (UNSECURED CONSIDERED GOOD)*</b>  |                           |                           |
| Outstanding for more than six months  | -                         | -                         |
| Other Debts   | 592,594,759               | 414,850,984               |
|   | <b>592,594,759</b>        | <b>414,850,984</b>        |
| * Sundry Debtors include dues from subsidiaries:  |                           |                           |
| Himatsingka Wovens Private Limited  | 92,253,537                | 96,493,978                |
| Himatsingka America Inc.  | 53,932,444                | 61,200,804                |
| Giuseppe Bellora Spa  | 19,000,172                | -                         |
| Divatex Home Fashions Inc   | 160,041,986               | -                         |
| DWI Holdings Inc  | 4,839,382                 | -                         |
|   | <b>330,067,521</b>        | <b>157,694,782</b>        |
| <b>Schedule 8</b>   |                           |                           |
| <b>CASH AND BANK BALANCES</b>   |                           |                           |
| Cash and stamps in hand   | 1,041,735                 | 1,302,528                 |
| Cheques in hand   | 713,782                   | 243,511                   |
| With Scheduled Banks  | -                         | -                         |
| in Current Account  | 83,852,233                | 180,229,574               |
| in Deposit Account  | -                         | 2,059,263,302             |
|   | <b>85,607,750</b>         | <b>2,241,038,915</b>      |
| <b>Schedule 9</b>   |                           |                           |
| <b>LOANS AND ADVANCES</b>   |                           |                           |
| (unsecured considered good)   |                           |                           |
| Advance Taxes (Includes Minimum Alternate tax credit)   | 375,340,896               | 305,371,346               |
| Loans to Subsidiaries   |                           |                           |
| Himatsingka Wovens Private Limited  |                           |                           |
| [Maximum amount outstanding during the year Rs.355,058,510<br>(Previous Year - Rs.216,358,510)]   | 355,058,510               | 210,358,510               |
| Twill & Oxford LLC  |                           |                           |
| [Maximum amount outstanding during the year Rs.38,319,400<br>(Previous Year - Rs.18,779,200)]   | 28,293,200                | 18,779,200                |
| Himatsingka America Inc.  |                           |                           |
| [Maximum amount outstanding during the year Rs.903,162,000<br>(Previous Year - Rs.Nil)]   | 802,400,000               | -                         |
| Advances recoverable in cash or in kind or for value to be received*  | 570,535,910               | 162,325,330               |
| Deposits  | 57,146,997                | 35,644,102                |
|   | <b>2,188,775,513</b>      | <b>732,478,488</b>        |
| * Includes Rs.2,468,097 (Previous year Rs.990,374) due from Twill & Oxford LLC, a subsidiary [Maximum amount outstanding during the year Rs.2,468,097 (Previous year Rs.990,374)]                   |                           |                           |
| * Includes Rs.11,211,616 (Previous year Rs. Nil) due from Himatsingka America Inc, a wholly owned subsidiary [Maximum amount outstanding during the year Rs.37,172,449 (Previous year Rs. Nil)]     |                           |                           |
| * Includes Rs.4,373,385 (Previous year Rs.Nil) due from Himatsingka Wovens Private Ltd, a wholly owned subsidiary [Maximum amount outstanding during the year Rs.5,604,502 (Previous year Rs. Nil)] |                           |                           |
| * Includes Rs.151,480,211** (Previous year Rs. Nil) due from Giuseppe Bellora Spa, a subsidiary [Maximum amount outstanding during the year Rs.151,879,500 (Previous year Rs. Nil)]                 |                           |                           |
| ** Includes Rs.151,419,500 Share application money paid to Giuseppe Bellora Spa, a subsidiary.  |                           |                           |
| * Includes Rs.4,948,504 receivable from Directors (Previous year Rs. Nil) [Maximum outstanding during the year Rs.4,948,504 (Previous year Rs. Nil)]  |                           |                           |

**Schedule 10****CURRENT LIABILITIES AND PROVISIONS**

## Current Liabilities:

## Sundry Creditors

Micro and Small Enterprises

Others \*

Advances Received

Interest accrued but not due on loans

Other Liabilities

Unpaid Dividend

A

\* Sundry Creditors include dues to subsidiaries:

Himatsingka Wovens Private Limited

Himatsingka America Inc.

Sundry Creditors includes book overdraft of Rs. Nil  
(Previous year Rs.22,411,071)

## Provisions:

Gratuity

Compensated Absences

Provision for loss on Derivatives (Refer Note 25(3) of Schedule 17)

Tax (Including Fringe Benefit Tax)

B

TOTAL (A + B)

As at 31.3.2008  
RupeesAs at 31.3.2007  
Rupees

577,226

353,092,990

1,333,939

7,295,555

12,183,040

6,242,399

380,725,149

13,717,938

2,718,791

7,964,553

37,455,108

277,698,663

256,472,500

579,590,824

**960,315,973**

169,895

182,251,112

381,902

3,405,898

7,913,514

13,165,512

207,287,833

-

4,231,361

3,350,769

20,405,815

-

235,550,000

259,306,584

466,594,417

## Schedules To Profit and Loss Account

**Himatsingka Seide Limited** For the year ended March 31, 2008

|   | For the year Ended<br>31.03.2008<br>Rupees | For the year Ended<br>31.03.2007<br>Rupees |
|---|--|--|
| <b>Schedule 11</b>  |  |  |
| <b>OTHER INCOME</b>   |  |  |
| Foreign currency Fluctuation  | -  | 12,707,732                                 |
| Interest from Banks [TDS Rs.11,522,987 (Previous year Rs.37,151,285)] | 56,476,583                                 | 182,983,738                                |
| Interest from Others [TDS Rs.7,720,765 (Previous year Rs. Nil)]       | 59,481,136                                 | 3,772,987                                  |
| Dividend from current non trade investment                            | 14,293,581                                 | 49,573,660                                 |
| Profit on sale of current Investments                                 | 16,571,694                                 | 19,147,584                                 |
| Miscellaneous Income [TDS Rs.61,800 (Previous year Rs.67,173)]        | 22,864,631                                 | 2,378,934                                  |
|   | <b>169,687,625</b>                         | <b>270,564,635</b>                         |
| <b>Schedule 12</b>  |  |  |
| <b>MATERIALS CONSUMED</b>   |  |  |
| Raw Materials   |  |  |
| Opening Stock   | 142,019,521                                | 179,417,044                                |
| Add: Purchases  | 1,593,029,823                              | 642,957,258                                |
| Total   | 1,735,049,344                              | 822,374,302                                |
| Less: Closing Stock   | 306,594,998                                | 142,019,521                                |
| Raw Materials Consumed  | 1,428,454,346                              | 680,354,781                                |
| Dyes, Chemicals and Accessories Consumed                              | 165,193,109                                | 29,387,662                                 |
|   | <b>1,593,647,455</b>                       | <b>709,742,443</b>                         |
| <b>Schedule 13</b>  |  |  |
| <b>(INCREASE)/DECREASE IN STOCK</b>                                   |  |  |
| Opening Stock   |  |  |
| Work in Process   | 262,275,099                                | 187,177,397                                |
| Finished Goods  | 65,044,176                                 | 42,666,778                                 |
|   | 327,319,275                                | 229,844,175                                |
| Closing Stock   |  |  |
| Work in Process   | 502,652,867                                | 262,275,099                                |
| Finished Goods  | 113,214,333                                | 65,044,176                                 |
|   | 615,867,200                                | 327,319,275                                |
|   | <b>(288,547,925)</b>                       | <b>(97,475,100)</b>                        |
| <b>Schedule 14</b>  |  |  |
| <b>MANUFACTURING EXPENSES</b>   |  |  |
| Power and Fuel  | 256,943,566                                | 117,552,938                                |
| Stores and Spares consumed  | 50,055,474                                 | 35,589,153                                 |
| Repairs and Maintenance - Building                                    | 8,575,626                                  | 3,695,615                                  |
| Repairs and Maintenance - Machinery                                   | 20,192,344                                 | 9,311,352                                  |
| Other Manufacturing Expenses  | 57,641,749                                 | 9,010,944                                  |
|   | <b>393,408,759</b>                         | <b>175,160,002</b>                         |

|   | For the year Ended<br>31.03.2008<br>Rupees | For the year Ended<br>31.03.2007<br>Rupees |
|---|--|--|
| <b>Schedule 15</b>  |  |  |
| <b>PERSONNEL EXPENSES</b>   |  |  |
| Wages, Salaries and Other Allowances                                  | 329,807,269                                | 214,867,661                                |
| Contribution to Provident and Other Funds                             | 38,283,309                                 | 27,698,918                                 |
| Workmen and Staff welfare Expenses                                    | 72,655,918                                 | 27,304,072                                 |
|   | <b>440,746,496</b>                         | <b>269,870,651</b>                         |
| <b>Schedule 16</b>  |  |  |
| <b>ADMINISTRATION, SELLING AND OTHER EXPENSES</b>                     |  |  |
| Rent  | 21,392,020                                 | 16,572,146                                 |
| Travelling and Conveyance   | 54,554,679                                 | 50,830,176                                 |
| Communication Expenses  | 8,163,344                                  | 5,258,597                                  |
| Printing and Stationery   | 5,884,288                                  | 4,065,420                                  |
| Insurance   | 6,864,622                                  | 7,301,368                                  |
| Rates and Taxes   | 8,800,655                                  | 4,279,318                                  |
| Professional and Other Service Charges [Refer Note 11 of Schedule 17] | 39,654,024                                 | 32,094,696                                 |
| Bank Charges  | 5,079,751                                  | 4,121,741                                  |
| Contribution and Donation   | 442,500                                    | 2,465,000                                  |
| Freight Outward   | 40,826,509                                 | 19,614,163                                 |
| Commission on Sales   | 51,506,219                                 | 53,896,138                                 |
| Other Selling Expenses  | 24,672,439                                 | 28,291,023                                 |
| Foreign currency Fluctuation  | 12,787,028                                 | -  |
| Loss on sale of assets  | 5,179,444                                  | 375,579                                    |
| Other Expenses  | 13,516,545                                 | 13,395,002                                 |
| Diminution in value of Investments                                    | 1,369,876                                  | 399,410                                    |
|   | <b>300,693,943</b>                         | <b>242,959,777</b>                         |

**Schedule 17****NOTES ON ACCOUNTS**

|   | 31.03.2008 |             | 31.03.2007 |             |
|---|------------|-------------|------------|-------------|
|   | Qty.       | Rupees      | Qty.       | Rupees      |
| 1. Estimated amount of contracts remaining to be executed on Capital Account and not provided for (Net of advances) |            | 219,331,658 |            | 645,225,605 |
| Note : The above amount does not include value of Materials to be supplied to the ongoing civil work                |            |             |            |             |
| 2. Contingent liabilities :   |            |             |            |             |
| i) Contingent liabilities not provided for :  |            |             |            |             |
| Income tax  |            | 62,035,266  |            | 62,035,266  |
| Entry tax   |            | 999,979     |            | 5,717,551   |
| ii) Corporate guarantee given towards credit facilities on behalf of Subsidiaries                                   |            |             |            |             |
| Financial Institutions  |            | 141,500,000 |            | 141,500,000 |
| Banks   |            | 190,590,000 |            | -           |
| Others  |            | 822,263,700 |            | -           |
| 3. Production Data :  |            |             |            |             |
| Class of Goods  |            |             |            |             |
| i) Fabrics  |            |             |            |             |
| Installed Capacity (Mtrs)*  | 2,094,953  |             | 2,150,115  |             |
| Production (Mtrs) @   | 1,565,951  |             | 1,600,202  |             |
| @ Includes samples (Mtrs)   | 2,704      |             | 3,263      |             |
| \$ Internal Consumption (Mtrs)  | 567        |             | -          |             |
| ii) Yarns   |            |             |            |             |
| Installed Capacity (Kgs)*   | 250,000    |             | 250,000    |             |
| Production (Kgs) \$   | 183,554    |             | 213,266    |             |
| \$ Internal Consumption (Kgs)   | 49,264     |             | 72,899     |             |
| iii) Bedlinen   |            |             |            |             |
| I. Installed Capacity :   |            |             |            |             |
| a) Fabrics :  |            |             |            |             |
| Weaving (Mtrs)  | 15,660,000 |             | -          |             |
| Process House (Mtrs)  | 20,880,000 |             | -          |             |
| b) Sheet Sets :   |            |             |            |             |
| Madeup Sets (Nos)   | 2,958,000  |             | -          |             |
| II. Actual Production *   |            |             |            |             |
| a) Fabric (Mtrs) : (includes production during trial production period - 2,821)**                                   | 204,313    |             | -          |             |
| b) Sheet Sets (Nos) : (includes production during the trial production period - 216,008)**                          | 1,042,514  |             | -          |             |

\* As certified by management based on the current product mix and relied on by the Auditors, being a technical matter.

\*\* Commercial production started from Oct 12, 2007

**Schedule 17****NOTES ON ACCOUNTS**

|  | 31.03.2008 |                      | 31.03.2007 |                    |
|--|------------|----------------------|------------|--------------------|
|  | Qty.       | Rupees               | Qty.       | Rupees             |
| <b>4. Raw materials and chemicals consumed :</b>   |            |                      |            |                    |
| a) Silk Yarn (Kgs)   | 281,645    | 296,411,403          | 306,560    | 419,013,311        |
| b) Silk Waste/Tops(Kgs)  | 221,956    | 186,537,211          | 218,727    | 199,702,463        |
| c) Cotton Fabric [includes consumption during trial production 3,724,818 mtrs value Rs.228,710,169 (Previous year 19,639 mtrs value Rs.1,491,988)] | 6,162,656  | 624,745,257          | 19,639     | 1,491,988          |
| d) Cotton Yarn (includes consumption during trial production 561,981 Kgs value Rs.40,321,378)  | 1,518,085  | 290,339,366          |            |                    |
| e) Others [includes consumption during trial production Rs.36,680,554 (Previous year Rs.211,336)]  |            | 195,614,219          |            | 89,534,681         |
|  |            | <u>1,593,647,456</u> |            | <u>709,742,443</u> |
| <b>5. Value of imported and indigenous raw materials and chemicals consumed and percentage of each to the total consumption:</b>                   |            |                      |            |                    |
| Raw Material and chemicals:  |            |                      |            |                    |
| Imported (includes consumption during trial production Rs.6,624,492)   | 33%        | 524,386,009          | 89%        | 632,641,023        |
| Indigenous [includes consumption during trial production Rs.299,321,058 (Previous year Rs.1,703,324)]  | 67%        | 1,069,261,446        | 11%        | 77,101,420         |
| Total  | 100%       | 1,593,647,455        | 100%       | 709,742,443        |
| <b>6. Value of imported and indigenous stores and spares consumed and percentage of each to the total consumption:</b>                             |            |                      |            |                    |
| Stores and spares:   |            |                      |            |                    |
| Imported (includes consumption for trial production Rs.485,332)  | 33%        | 16,292,140           | 47%        | 16,885,654         |
| Indigeneous [includes consumption for trial production Rs.4,179,431 (Previous year Rs.1,890,537)]  | 67%        | 33,763,334           | 53%        | 18,703,498         |
| Total  | 100%       | 50,055,474           | 100%       | 35,589,152         |
| <b>7. CIF value of imports:</b>  |            |                      |            |                    |
| Capital Goods  |            | 2,163,372,227        |            | 1,538,844,429      |
| Coponents, Spares and others*  |            | 30,504,623           |            | 20,711,210         |
| Raw Materials and chemicals*   |            | 526,018,934          |            | 563,725,634        |
| * Does not include Goods-In-Transit as on 31.03.08   |            | 23,119,908           |            | 30,377,605         |
| <b>8. Turnover, Opening and Closing stocks:</b>  |            |                      |            |                    |
| Silk Division  |            |                      |            |                    |
| a) Fabrics (Mtrs)  |            |                      |            |                    |
| Turnover   | 1,569,667  | 1,460,912,073        | 1,577,386  | 1,488,472,707      |
| Opening Stock  | 81,310     | 42,808,468           | 61,757     | 28,204,594         |
| Closing Stock  | 74,324     | 38,568,570           | 81,310     | 42,808,468         |
| b) Yarns (Kgs)   |            |                      |            |                    |
| Turnover   | 143,151    | 252,626,705          | 135,218    | 253,162,307        |
| Opening Stock  | 18,306     | 22,235,708           | 13,157     | 14,462,184         |
| Closing Stock  | 9,445      | 9,348,838            | 18,306     | 22,235,708         |

**Schedule 17****NOTES ON ACCOUNTS**

|   | 31.03.2008    |             | 31.03.2007    |        |
|---|---------------|-------------|---------------|--------|
|   | Qty.          | Rupees      | Qty.          | Rupees |
| Bed Linen Division  |               |             |               |        |
| a) Fabrics (Mtrs)   |               |             |               |        |
| Turnover (includes sales during trial production period 2,821 Mtrs at Rs.1,006,628)   | 204,313       | 39,281,942  |               |        |
| Opening Stock   | -             | -           |               |        |
| Closing Stock   | -             | -           |               |        |
| b) Sheet Sets (Nos)   |               |             |               |        |
| Turnover (includes trial production sales of 215,650 sets value Rs.145,347,676)   | 990,000       | 720,301,652 |               |        |
| Opening Stock   | -             | -           |               |        |
| Closing Stock   | 52,514        | 65,296,926  |               |        |
| 9. Foreign currency Earnings and Expenditure:   |               |             |               |        |
| EARNINGS  |               |             |               |        |
| Exports on F.O.B basis *  | 2,243,008,307 |             | 1,560,939,701 |        |
| Interest on fixed deposits  | -             |             | 21,257,357    |        |
| Interest on ICD   | 56,710,047    |             |               |        |
| Reimbursement of expenses relating to the issue of GDR (credited to Share Premium Account)  | -             |             | 6,588,147     |        |
| Reimbursement of expenses relating to trade fair and sampling activity  | 19,357,529    |             |               |        |
| * Note : Exports include Rs.141,855,717 sales during trial production period  |               |             |               |        |
| EXPENDITURE   |               |             |               |        |
| Foreign Travel  | 8,007,067     |             | 11,361,067    |        |
| Commission on Export Sales  | 51,757,869    |             | 53,981,598    |        |
| Professional and Other Service Charges( Previous year figures includes Rs.4,958,838 debited to Investments )  | 5,867,461     |             | 11,963,137    |        |
| Others  | 13,185,280    |             | 25,320,541    |        |
| Professional Charges & Foreign Travel Capitalised under Capital Work in Progress  | 4,024,758     |             | 6,677,937     |        |
| Trade fair expenses (Reimbursable from Divatex and DWI Holdings)  | 4,920,554     |             |               |        |
| 10.The Company has setup a Bed-linen plant at Hassan, Karnataka. The following costs and incomes arising during the project period are capitalised. |               |             |               |        |
| Raw Materials Consumed *  | 269,031,547   |             | 1,491,988     |        |
| Dyes and Chemicals  | 27,716,459    |             | 211,336       |        |
| Trims and Accessories   | 8,964,095     |             | -             |        |
| Power and Fuel  | 51,536,488    |             | 10,535,768    |        |
| Stores and Spares consumed  | 4,664,763     |             | 1,890,537     |        |
| Other manufacturing expenses  | 12,228,692    |             | 36,846        |        |
| Salary, wages and Other Allowances  | 22,101,302    |             | 14,507,868    |        |
| Workmen and Staff welfare Expenses  | 3,395,759     |             | 1,891,879     |        |
| PF Contribution   | 1,542,744     |             | 1,306,333     |        |
| Rent  | 1,034,463     |             | 2,289,597     |        |
| Travelling & conveyance   | 6,085,463     |             | 4,907,001     |        |
| Communication Expenses  | 532,751       |             | 265,020       |        |
| Rates & Taxes   | 4,083,552     |             | 261,624       |        |
| Professional and Other Service Charges  | 1,895,149     |             | 2,494,737     |        |

**Schedule 17****NOTES ON ACCOUNTS**

|   | 31.03.2008 |                    | 31.03.2007 |                                     |
|---|------------|--------------------|------------|-------------------------------------|
|   | Qty.       | Rupees             | Qty.       | Rupees                              |
| Other Expenses  |            | 2,416,629          |            | 274,032                             |
| Depreciation  |            | 5,345,567          |            | 2,521,296                           |
| Borrowing Costs [ net of subsidy under TUFS Rs.60,991,985<br>(Previous year Rs.44,148,776) ]                              |            | 46,502,136         |            | 35,436,273                          |
| Total Expenses  |            | 469,077,559        |            | 80,322,135                          |
| Less: Income during trial production period   |            |                    |            |                                     |
| Export sales  |            | 146,120,799        |            | -                                   |
| Local Sales   |            | 233,505            |            | -                                   |
| Less: Stock of WIP and FG transferred to P&L  |            | 130,811,053        |            | -                                   |
|   |            | <u>191,912,202</u> |            | <u>80,322,135</u>                   |
| * Raw Materials Consumed  |            |                    |            |                                     |
| Particulars   |            |                    |            |                                     |
| Fabric (Mtrs)   | 3,724,818  | 228,710,169        | 19,639     | 1,491,988                           |
| Yarn (Kgs)  | 561,981    | 40,321,378         | -          | -                                   |
| Total   |            | 269,031,547        |            | 1,491,988                           |
| 11. Professional and Other Services Charges include payments made to :  |            |                    |            |                                     |
| a) Statutory Auditor :  |            |                    |            |                                     |
| Audit Fees  |            | 2,900,000          |            | 1,850,000                           |
| Tax audit fees  |            | 175,000            |            | 175,000                             |
| Other Services  |            | 235,000            |            | 113,500                             |
| Service Tax   |            | 550,020            |            | 317,167                             |
| Out of Pocket Expenses  |            | 10,425             |            | 22,145                              |
| Amounts paid to Auditors include payments of Rs. Nil<br>(Previous Year Rs.320,608) made to erstwhile Auditors.            |            |                    |            |                                     |
| b) Cost Auditor :   |            |                    |            |                                     |
| Audit Fees  |            | 115,000            |            | 90,000                              |
| Service Tax   |            | 14,214             |            | 11,124                              |
| 12. Remittance in Foreign Currency on Account of Dividends:<br>(including credits to the Non-Resident External Accounts). |            |                    |            |                                     |
| a) Number of Non resident shareholders:   | -          |                    |            | 380                                 |
| b) Number of Equity shares held :   | -          |                    |            | 18,250,824                          |
| c) Amount of Dividend paid :  | -          |                    |            | 22,813,530                          |
| d) Year to which dividend relates :   | -          |                    |            | 2005-2006<br>(Final dividend)       |
| a) Number of Non resident shareholders:   | -          |                    |            | 388                                 |
| b) Number of Equity shares held :   | -          |                    |            | 11,001,330                          |
| c) Amount of Dividend paid :  | -          |                    |            | 13,751,663                          |
| d) Year to which dividend relates :   | -          |                    |            | 2006-2007<br>(Interim dividend)     |
| a) Number of Non resident shareholders:   | -          |                    |            | 378                                 |
| b) Number of Equity shares held :   | -          |                    |            | 15,234,310                          |
| c) Amount of Dividend paid :  | -          |                    |            | 19,042,888                          |
| d) Year to which dividend relates :   | -          |                    |            | 2006-2007<br>(2nd Interim dividend) |

**Schedule 17****NOTES ON ACCOUNTS**

## 13. Interest

|   | 31.03.2008         | 31.03.2007        |
|---|--------------------|-------------------|
|   | Qty. Rupees        | Qty. Rupees       |
| On Fixed Loans [net of subsidy under TUFs Rs.136,323,495 (previous year Rs.51,488,181)]   | 96,267,514         | 39,857,035        |
| [Interest for the preliminary period Rs.46,502,136 (net of subsidy under TUFs Rs.60,991,985) (previous year Rs.35,436,273) (net of subsidy under TUFs Rs.44,148,776)] |                    |                   |
| Interest on working capital borrowings [net of interest subvention Rs.6,780,606 (previous year Rs.Nil)]   | 40,731,754         | 50,803            |
| Total   | <u>136,999,268</u> | <u>39,907,838</u> |

14. Design and development expenditure of revenue nature Rs.28,587,515 (Previous Year Rs.21,555,874) has been accounted for in the respective heads of the Profit and Loss Account.

15. Advances recoverable in cash or in kind or for value to be received includes Rs.59,23,504 (Previous Year Rs.1,155,000). Maximum amount outstanding during the year Rs.61,03,504 (Previous Year Rs.1,335,000)

Dues from Officers -

|  |           |           |
|--|-----------|-----------|
| Directors                                    | 4,948,504 | -         |
| Secretary                                    | 975,000   | 1,155,000 |
| Maximum amount outstanding during the year - | -         | -         |
| Directors                                    | 4,948,504 | -         |
| Secretary                                    | 1,155,000 | 1,335,000 |

## 16. Leases:

The company's significant leasing agreement is mainly in respect of the corporate office premises and vehicles provided to employees.

a) the total of future minimum lease payments under non-cancellable operating leases due:

|   |            |            |
|---|------------|------------|
| not later than one year                           | 15,988,007 | 14,178,036 |
| later than one year and not later than five years | 40,461,492 | 47,843,931 |
| later than five years                             | -          | -          |

b) lease payments recognised in the statement of profit and loss for the year:

|            |            |
|------------|------------|
| 21,392,020 | 16,572,146 |
|------------|------------|

## 17. Deferred Tax

Deferred Tax Liabilities (Net) as at March 31, 2008, comprises:

|   |   |                    |
|---|---|--------------------|
| Timing Differences on account of depreciation | - | 44,500,000         |
| Other Timing Differences                      | - | <u>(7,900,000)</u> |
|   |   | <u>36,600,000</u>  |

In the absence of virtual certainty the company has restricted the recognition of deferred tax asset arising from unabsorbed depreciation loss and business loss to the extent of the opening deferred tax liability.



**Schedule 17****NOTES ON ACCOUNTS**

## 19. Details of Investments bought and sold during the year

|   | 31.03.2008 |             | 31.03.2007 |             |
|---|------------|-------------|------------|-------------|
|   | Numbers    | Cost Rupees | Numbers    | Cost Rupees |
| ABN Amro Fixed Term Plan - Series 2- Quarterly Plan - D (Dividend)        | -          | -           | 2,000,000  | 20,000,000  |
| ABN Amro Money Plus - IP (WD)   | 6,020,483  | 60,205,432  | -          | -           |
| Birla Cash Plus - Institutional Premium - Fortnightly Dividend            | -          | -           | 2,975,571  | 29,982,444  |
| Birla Sunlife Liquid Plus - IP (FD)                                       | 3,116,777  | 32,708,081  | -          | -           |
| Birla Sunlife Liquid Plus - IP (G)  | 2,851,268  | 42,527,535  | -          | -           |
| Canliquid - Institutional Plan (Weekly Dividend option)                   | -          | -           | 5,473,900  | 55,000,000  |
| Chola Fixed Maturity Plan Series 3 Quarterly Plan II (Dividend)           | -          | -           | 2,003,582  | 20,035,819  |
| Chola Fixed Maturity Plan Series 4 Quarterly Plan II (Dividend)           | -          | -           | 2,006,086  | 20,060,864  |
| Chola Fixed Maturity Plan Series 5 Quarterly Plan 2 (Dividend)            | -          | -           | 2,006,468  | 20,064,676  |
| Deutsche Money Plus Fund - Institutional Plan - Monthly Dividend          | -          | -           | 5,004,409  | 50,044,087  |
| Deutsche Money Plus Fund - Regular Plan - Monthly Dividend                | -          | -           | 9,093,720  | 91,772,230  |
| DWS Credit Opportunities Cash Fund (WD)                                   | 5,124,692  | 51,448,857  | -          | -           |
| DWS Credit Opportunities Cash Fund (G)                                    | 1,095,385  | 11,458,059  | -          | -           |
| DWS Insta Cash Plus Fund - IP (WD)  | 9,416,421  | 95,361,378  | -          | -           |
| DWS Insta Cash Plus Fund - IP (G)   | 7,863,831  | 95,426,015  | -          | -           |
| DSP Merrill Lynch Fixed Term Plan - Series I B - Dividend                 | -          | -           | 584        | 583,882     |
| DSP Merrill Lynch Liquidity Fund - Institutional Plan (Weekly dividend)   | -          | -           | 102,811    | 102,936,149 |
| DSP Merrill Lynch Liquid Plus - Institutional Plan - Weekly Dividend      | -          | -           | 85,775     | 85,787,624  |
| Fidelity Cash Fund - Institutional Plan (Monthly Dividend)                | -          | -           | 2,000,490  | 20,000,000  |
| Grindlays Super Saver Income Fund - Medium Term (Fortnightly Dividend)    | -          | -           | 3,000,509  | 30,064,970  |
| Grindlays FRF - LT- Inst Plan B- (WD)                                     | 6,150,776  | 61,606,390  | -          | -           |
| Grindlays FRF - LT- Inst Plan B- (G)                                      | 5,071,091  | 61,623,391  | -          | -           |
| HDFC Fixed Maturity Plan 3M June 2006 (1) - Institutional Plan (Dividend) | -          | -           | 2,007,111  | 20,071,115  |
| HDFC Fixed Maturity Plan 3M May 2006 (1) - Institutional Plan (Dividend)  | -          | -           | 2,000,000  | 20,000,000  |
| HDFC Fixed Maturity Plan 3M Sept 2006 (1) - Institutional Plan (Dividend) | -          | -           | 2,007,493  | 20,074,928  |
| HDFC Fixed Maturity Plan 90D Dec 2006 (2) - Weekly (Dividend)             | -          | -           | 2,007,774  | 20,077,739  |
| HDFC Liquid Fund Premium Plan (Growth)                                    | -          | -           | 3,507,369  | 50,000,000  |
| HSBC Cash Fund - Institutional Plus (Growth)                              | 11,283,867 | 139,564,242 | 8,481,417  | 97,464,209  |
| HSBC Cash Fund - Inst Plus Plan (WD)                                      | 6,880,643  | 69,040,839  | -          | -           |
| HSBC Cash Fund - Institution Plus (Monthly Dividend option)               | -          | -           | 16,230,222 | 162,986,580 |
| HSBC Fixed Term Series 3 (Dividend Reinvest)                              | -          | -           | 58,393     | 583,925     |
| HSBC Fixed Term Series VII (Dividend Reinvest)                            | -          | -           | 18,278     | 182,781     |
| HSBC Fixed Term Series VIII (Dividend Reinvest)                           | -          | -           | 51,678     | 516,777     |
| HSBC Liquid Plus Fund - Institutional (Weekly Dividend)                   | -          | -           | 2,008,605  | 20,116,034  |
| ING Vysya Fixed Maturity Fund Series X - Dividend                         | -          | -           | 2,148,220  | 21,482,200  |
| ING Vysya Fixed Maturity Fund Series XIV - Dividend                       | -          | -           | 4,076,976  | 40,769,757  |
| ING Vysya Liquid Fund - Institutional (Weekly dividend)                   | -          | -           | 4,052,982  | 40,761,929  |
| ING Vysya Liquid Fund - Institutional (Growth)                            | -          | -           | 1,886,654  | 21,482,200  |
| ICICI Prudential Flexible Income Plan (WD)                                | 5,002,151  | 52,790,482  | -          | -           |
| ICICI Prudential Flexible Income Plan (G)                                 | 2,606,730  | 37,805,205  | -          | -           |
| ICICI Prudential Floating Rate - Plan D (G)                               | 4,476,436  | 50,000,000  | -          | -           |
| Kotak Bond Short Term Plan (Monthly Dividend)                             | -          | -           | 48,365     | 486,398     |
| Kotak Fixed Maturity Plan 3M Series 3 (Dividend)                          | -          | -           | 1,000,000  | 10,000,000  |
| Kotak Liquid - Institutional Premium Plan - (Daily Dividend)              | -          | -           | 4,375,454  | 53,503,493  |
| Kotak FMP 3 Months - Series 13 (DR)                                       | 19,454     | 194,606     | -          | -           |
| LIC Liquid Fund (Growth option)   | -          | -           | 10,431,720 | 135,252,827 |
| LIC Fixed Maturity Plan Series 8 - 3 months -dividend Plan                | -          | -           | 2,525,283  | 25,252,827  |





**Schedule 17**

**Notes on Accounts**

20. Related Party Transactions (contd.):

| Particulars  | Wholly Owned Subsidiaries |             | Other Subsidiaries |             | Key Management Personnel/ Relatives |            | Enterprises owned or significantly influenced by key management personnel /Directors or their relatives |            | Total         |
|--|---------------------------|-------------|--------------------|-------------|-------------------------------------|------------|---|------------|---------------|
|  | 31.03.2008                | 31.03.2007  | 31.03.2008         | 31.03.2007  | 31.03.2008                          | 31.03.2007 | 31.03.2008  | 31.03.2007 |               |
| <b>Professional Fees</b>                               |                           |             |                    |             |                                     |            |   |            |               |
| Khaitan & Co   | -                         | -           | -                  | -           | -                                   | -          | 77,500  | 1,914,500  | 1,914,500     |
| Gherzi Eastern Limited                                 | -                         | -           | -                  | -           | -                                   | -          | 448,500   | 5,723,106  | 5,723,106     |
| <b>Reimbursement of Expenses received</b>              |                           |             |                    |             |                                     |            |   |            |               |
| Himatsingka Wovens Private Ltd                         | 482,085                   | 155,452     | -                  | -           | -                                   | -          | -   | -          | 482,085       |
| Twill & Oxford LLC.                                    | -                         | -           | 951,955            | 673,440     | -                                   | -          | -   | -          | 951,955       |
| Himatsingka America Inc                                | 78,420,730                | -           | -                  | -           | -                                   | -          | -   | -          | 78,420,730    |
| Giuseppe Bellora S.p.A                                 | -                         | -           | 460,000            | -           | -                                   | -          | -   | -          | 460,000       |
| <b>Reimbursement of Expenses incurred by</b>           |                           |             |                    |             |                                     |            |   |            |               |
| Himatsingka America Inc                                | 192,556                   | -           | -                  | -           | -                                   | -          | -   | -          | 192,556       |
| Himatsingka Wovens Private Ltd                         | 951,955                   | 673,440     | -                  | -           | -                                   | -          | -   | -          | 951,955       |
| <b>Inter Corporate Loans given during the year</b>     |                           |             |                    |             |                                     |            |   |            |               |
| Himatsingka Wovens Private Ltd                         | 185,500,000               | 96,000,000  | -                  | -           | -                                   | -          | -   | -          | 185,500,000   |
| Twill & Oxford LLC.                                    | -                         | -           | 19,540,200         | 18,779,200  | -                                   | -          | -   | -          | 19,540,200    |
| Himatsingka America Inc                                | 903,162,000               | -           | -                  | -           | -                                   | -          | -   | -          | 903,162,000   |
| <b>Inter Corporate Loans recovered during the year</b> |                           |             |                    |             |                                     |            |   |            |               |
| Himatsingka Wovens Private Ltd                         | 40,800,000                | 51,000,000  | -                  | -           | -                                   | -          | -   | -          | 40,800,000    |
| Himatsingka America Inc                                | 79,600,000                | -           | -                  | -           | -                                   | -          | -   | -          | 79,600,000    |
| Twill & Oxford LLC.                                    | -                         | -           | 7,765,380          | -           | -                                   | -          | -   | -          | 7,765,380     |
| <b>Interest received on Inter Corporate Loan</b>       |                           |             |                    |             |                                     |            |   |            |               |
| Twill & Oxford LLC.                                    | -                         | -           | 2,469,638          | 316,934     | -                                   | -          | -   | -          | 2,469,638     |
| Himatsingka Wovens Private Ltd                         | 5,604,502                 | -           | -                  | -           | -                                   | -          | -   | -          | 5,604,502     |
| Himatsingka America Inc                                | 54,240,409                | -           | -                  | -           | -                                   | -          | -   | -          | 54,240,409    |
| <b>Investments made during the year</b>                |                           |             |                    |             |                                     |            |   |            |               |
| Giuseppe Bellora S.p.A                                 | -                         | -           | -                  | 687,550,442 | -                                   | -          | -   | -          | 687,550,442   |
| Twill & Oxford LLC.                                    | -                         | -           | -                  | 3,735,000   | -                                   | -          | -   | -          | 3,735,000     |
| Himatsingka Wovens Private Ltd                         | 75,000,000                | -           | -                  | -           | -                                   | -          | -   | -          | 75,000,000    |
| Himatsingka America Inc                                | 1,029,445,750             | -           | -                  | -           | -                                   | -          | -   | -          | 1,029,445,750 |
| <b>Payment towards Share Application Money</b>         |                           |             |                    |             |                                     |            |   |            |               |
| Giuseppe Bellora S.p.A                                 | -                         | -           | 151,419,500        | -           | -                                   | -          | -   | -          | 151,419,500   |
| <b>Lease deposit refunded during the year</b>          |                           |             |                    |             |                                     |            |   |            |               |
| Bihar Mercantile Union Limited                         | -                         | -           | -                  | -           | -                                   | -          | 7,500,000   | -          | 7,500,000     |
| <b>Guarantee given</b>                                 |                           |             |                    |             |                                     |            |   |            |               |
| Himatsingka Wovens Private Ltd                         | -                         | 141,500,000 | -                  | -           | -                                   | -          | -   | -          | 141,500,000   |
| Giuseppe Bellora S.p.A                                 | -                         | -           | 190,590,000        | -           | -                                   | -          | -   | -          | 190,590,000   |
| Himatsingka America Inc                                | 822,263,700               | -           | -                  | -           | -                                   | -          | -   | -          | 822,263,700   |

**Schedule 17**

**Notes on Accounts**

**20. Related Party Transactions (contd.):**

| Particulars  | Wholly Owned Subsidiaries |             | Other Subsidiaries |            | Key Management Personnel/<br>Relatives |            | Enterprises owned or significantly<br>influenced by key management<br>personnel /Directors or their<br>relatives |             | Total      |
|--|---------------------------|-------------|--------------------|------------|--|------------|--|-------------|------------|
|  | 31.03.2008                | 31.03.2007  | 31.03.2008         | 31.03.2007 | 31.03.2008                             | 31.03.2007 | 31.03.2008   | 31.03.2007  |            |
| Outstanding as on March 31, 2008                   |                           |             |                    |            |  |            |  |             |            |
| <b>Amounts Receivable:</b>                         |                           |             |                    |            |  |            |  |             |            |
| <b>For Sale of Goods</b>                           |                           |             |                    |            |  |            |  |             |            |
| Himatsingka America Inc                            | 53,932,444                | 61,200,804  | -                  | -          | -                                      | -          | 53,932,444   | 61,200,804  |            |
| Himatsingka Wovens Private Ltd                     | 92,253,537                | 96,493,978  | -                  | -          | -                                      | -          | 92,253,537   | 96,493,978  |            |
| Satin Reed (America) Inc                           | -                         | -           | -                  | -          | -                                      | 9,252,511  | 9,252,511  | 10,478,485  | 10,478,485 |
| Divatex Home Fashions Inc                          | -                         | -           | 160,041,986        | -          | -                                      | -          | 160,041,986  | -           | -          |
| Giuseppe Bellora S.p.A                             | -                         | -           | 19,000,172         | -          | -                                      | -          | 19,000,172   | -           | -          |
| DWI Holding Inc                                    | 4,839,382                 | -           | -                  | -          | -                                      | -          | 4,839,382  | -           | -          |
| <b>Interest receivable on Inter Corporate Loan</b> |                           |             |                    |            |  |            |  |             |            |
| Twill & Oxford LLC.                                | -                         | -           | 2,468,097          | 316,934    | -                                      | -          | 2,468,097  | 316,934     |            |
| Himatsingka Wovens Private Ltd                     | 4,334,522                 | -           | -                  | -          | -                                      | -          | 4,334,522  | -           | -          |
| Himatsingka America Inc                            | 11,211,616                | -           | -                  | -          | -                                      | -          | 11,211,616   | -           | -          |
| <b>Advances Recoverable</b>                        |                           |             |                    |            |  |            |  |             |            |
| Khaitan & Co                                       | -                         | -           | -                  | -          | -                                      | 189,796    | 189,796  | 189,796     | 189,796    |
| Gherzi Eastern Limited                             | -                         | -           | -                  | -          | -                                      | 700,000    | 700,000  | 11,762,706  | 11,762,706 |
| Twill & Oxford LLC.                                | -                         | -           | -                  | 673,440    | -                                      | -          | -  | 673,440     | 673,440    |
| Himatsingka Wovens Private Ltd                     | 38,863                    | -           | -                  | -          | -                                      | -          | 38,863   | -           | -          |
| Giuseppe Bellora S.p.A                             | -                         | -           | 151,480,211        | -          | -                                      | -          | 151,480,211  | -           | -          |
| <b>Inter coporate Loan</b>                         |                           |             |                    |            |  |            |  |             |            |
| Himatsingka Wovens Private Ltd                     | 355,058,510               | 210,358,510 | -                  | -          | -                                      | -          | 355,058,510  | 210,358,510 |            |
| Twill & Oxford LLC.                                | -                         | -           | 28,293,200         | 18,779,200 | -                                      | -          | 28,293,200   | 18,779,200  |            |
| Himatsingka America Inc                            | 802,400,000               | -           | -                  | -          | -                                      | -          | 802,400,000  | -           | -          |
| <b>Lease Rent Deposit</b>                          |                           |             |                    |            |  |            |  |             |            |
| Bihar Mercantile Union Limited                     | -                         | -           | -                  | -          | -                                      | 360,000    | 360,000  | 7,860,000   | 7,860,000  |
| <b>Receivable</b>                                  |                           |             |                    |            |  |            |  |             |            |
| A K Himatsingka                                    | -                         | -           | -                  | -          | 527,873                                | -          | 527,873  | -           | -          |
| D K Himatsingka                                    | -                         | -           | -                  | -          | 3,536,568                              | -          | 3,536,568  | -           | -          |
| Aditya Himatsingka                                 | -                         | -           | -                  | -          | 446,953                                | -          | 446,953  | -           | -          |
| Shrikant Himatsingka                               | -                         | -           | -                  | -          | 437,109                                | -          | 437,109  | -           | -          |

**Schedule 17**

**Notes on Accounts**

**20. Related Party Transactions (contd.):**

| Particulars                    | Wholly Owned Subsidiaries |            | Other Subsidiaries |            | Key Management Personnel/ Relatives |            | Enterprises owned or significantly influenced by key management personnel /Directors or their relatives |            | Total     |
|--------------------------------|---------------------------|------------|--------------------|------------|-------------------------------------|------------|---|------------|-----------|
|                                | 31.03.2008                | 31.03.2007 | 31.03.2008         | 31.03.2007 | 31.03.2008                          | 31.03.2007 | 31.03.2008  | 31.03.2007 |           |
| <b>Amounts Payable</b>         |                           |            |                    |            |                                     |            |   |            |           |
| Himatsingka Wovens Private Ltd | 13,717,938                | -          | -                  | -          | -                                   | -          | 13,717,938  | -          | -         |
| Himatsingka America Inc        | 2,718,791                 | 4,231,361  | -                  | -          | -                                   | -          | 2,718,791   | -          | 4,231,361 |
| A K Himatsingka                | -                         | -          | -                  | -          | 128,712                             | -          | -   | -          | 128,712   |
| D K Himatsingka                | -                         | -          | -                  | -          | 436,137                             | -          | -   | -          | 436,137   |
| Aditya Himatsingka             | -                         | -          | -                  | -          | 128,712                             | -          | -   | -          | 128,712   |
| Shrikant Himatsingka           | -                         | -          | -                  | -          | 128,712                             | -          | -   | -          | 128,712   |

Note: The above figures includes transactions during trial production.

**Notes:**

- 1) Related party relationship is as identified by the company on the basis of information available with them and accepted by the auditors.
- 2) No amount is/has been written back during the year in respect of debts due/from/to a related party.

**Names of the Related Parties:**

**Wholly Owned Subsidiaries**

Himatsingka Wovens Private Ltd  
Himatsingka America Inc  
DWI Holdings

**Other Subsidiaries:**

Giuseppe Bellora SpA  
Giuseppe Bellora America Inc.  
B.P.Venture Srl  
Interbrands Srl  
Twill & Oxford LLC  
GBT Srl  
B.P.Venture Portugal LDA  
Himatsingka Singapore Pte  
Divatex Home Fashions Inc

**Key Management Personnel**

Whole time directors  
A.K.Himatsingka  
D.K.Himatsingka  
Aditya Himatsingka  
Shrikant Himatsingka

**Enterprises owned or significantly influenced by key management personnel/Directors or their relatives**

Bihar Mercantile Union Limited  
Satin Reed (America) Inc  
Gherzi Eastern Limited  
Khatian & Co

**Schedule 17****NOTES ON ACCOUNTS**

21(a) Computation of Net Profit in accordance with Section 349 of the Companies Act, 1956 and commission payable to directors :

|                                      | 31.03.2008<br>Rupees | 31.03.2007<br>Rupees |
|--------------------------------------|----------------------|----------------------|
| Profit/(Loss) before taxation        | (288,958,012)        | 609,391,437          |
| Add:                                 |                      |                      |
| Managerial Remuneration              | 9,929,939            | 22,717,210           |
| Loss on sale of Assets               | 5,179,444            | 375,579              |
| Diminution in value of Investments   | 1,369,876            | 399,410              |
|                                      | (272,478,753)        | 632,883,636          |
| Less:                                |                      |                      |
| Profit on sale of Investments/Assets | 16,571,694           | 19,147,584           |
| Net profit                           | (289,050,447)        | 613,736,052          |

Remuneration to Whole Time Directors:

|  |            |            |
|--|------------|------------|
| Eligible under Section 309   |            | 61,373,605 |
| Eligible under Schedule XIII of Companies Act                          | 10,824,480 |            |
| Restricted to  | 9,689,939  | 21,224,710 |
| of which commission payable to   |            | 9,206,041  |
| Dinesh Himatsingka (Managing Director) @ 0.75% of the above profits    |            |            |
| Ajoy Kumar Himatsingka (Vice Chairman) @ 0.25% of the above profits    |            |            |
| Aditya Himatsingka (Executive Director) @ 0.25% of the above profits   |            |            |
| Shrikant Himatsingka (Executive Director) @ 0.45% of the above profits |            |            |

Remuneration to Non Whole Time Directors:

|                                  |   |           |
|----------------------------------|---|-----------|
| Eligible under Section 309       | - | 6,137,361 |
| Restricted to Commission payable | - | 1,287,500 |

(b) Managerial Remuneration

|                                     |           |            |
|-------------------------------------|-----------|------------|
| i. to Whole Time Directors          |           |            |
| Salary and allowances               | 8,430,000 | 10,609,467 |
| Commission                          | -         | 9,206,041  |
| Perquisites                         | 35,459    | 255,282    |
| Contribution to Provident Fund      | 924,480   | 853,920    |
| Contribution to Superannuation Fund | 300,000   | 300,000    |
|                                     | 9,689,939 | 21,224,710 |
| ii. to Non Whole Time Directors     |           |            |
| Sitting Fees                        | 240,000   | 205,000    |
| Commission                          | -         | 1,287,500  |
|                                     | 9,929,939 | 22,717,210 |

22. During 2003-04, the Khata in respect of one of the Company's properties was merged with those of other adjacent properties to facilitate better utilisation of the property by joint construction and entitlement of proportionate undivided share of the amalgamated property.

23. There is no amount due and outstanding as at Balance sheet date to be credited to the Investor Education and Protection Fund.

24. Notes relating to Cash Flow Statement

1. The cash flow statement has been prepared under the "Indirect Method" as set out in the Companies (Accounting Standards) Rules, 2006.
2. Cash And Cash Equivalents include balances with scheduled banks on dividend account Rs.6,242,399 (Previous year Rs.13,165,512) which are not available for use by the company.
3. Cash And Cash Equivalents at March 31, 2008 includes Rs. Nil (Previous year Rs.1,746,763,303) representing unutilised monies out of issue of Global Depository Shares. These monies were utilised for the purposes for which GDS were issued.

**Schedule 17****NOTES ON ACCOUNTS**

25. Details of Forward covers, Options and Derivative transactions:

1. a. The following are the outstanding Forward Exchange Contracts entered into by the company as on 31st March, 2008:

**i. Export of Goods****Current Year**

| Currency   | Amount     | Buy/Sell | USD Equivalent | Rupee Equivalent |
|------------|------------|----------|----------------|------------------|
| USD * INR  | 12,200,000 | Sell     |                | 490,634,500      |
| EURO * USD |            | Sell     |                |                  |
| EURO * INR | 6,750,000  | Sell     |                | 401,722,575      |
| PND * USD  | 600,000    | Sell     | 1,241,800      |                  |
| PND * INR  | 600,000    | Sell     |                | 48,390,000       |

**Previous Year**

| Currency   | Amount     | Buy/Sell | USD Equivalent | Rupee Equivalent |
|------------|------------|----------|----------------|------------------|
| USD * INR. | 11,334,486 | Sell     |                | 513,144,809      |
| EURO * USD | 4,150,000  | Sell     | 5,526,915      |                  |
| PND * INR. | 500,000    | Sell     |                | 29,931,250       |
| PND * USD  | 800,000    | Sell     | 1,555,900      |                  |

**ii. Import of Capital Goods****Current Year**

| Currency | Amount | Buy/Sell | Rupee Equivalent |
|----------|--------|----------|------------------|
| Nil      | Nil    | Buy      | Nil              |

**Previous Year**

| Currency  | Amount    | Buy/Sell | Rupee Equivalent |
|-----------|-----------|----------|------------------|
| USD * INR | 4,020,000 | Buy      | 176,850,050      |

b. Currency Swaps (other than forward exchange contracts stated above) to hedge against fluctuations in changes in exchange rate

**Current Year**

a. To sell USD 1 Million every month at 44.50 till August '09 embedded with

| Currency Option    | USD Put    | CHF Call   | Equivalent INR |
|--------------------|------------|------------|----------------|
| No. of contracts:  | 1          | 1          |                |
| Notional Principal | 37,128,713 | 44,379,950 | 1,500,000,000  |

b. To sell USD 250,000 every month If USD \* INR spot at every monthly Expiry < 44.10, else to sell USD 500,000 @ 44.10 Till July 2012

| Currency Option    | CHF put    | INR call    | Equivalent USD |
|--------------------|------------|-------------|----------------|
| No. of contracts:  | 1          | 1           |                |
| Notional Principal | 14,759,723 | 500,000,000 | 12,385,435     |

Previous Year : Nil

## Schedule 17

### NOTES ON ACCOUNTS

2. The year end foreign currency exposures that have not been hedged by a derivative instrument or otherwise are given below:

a. Amounts receivable in foreign currency on account of the following:

| Particulars                                 | 31.03.2008       |            |                | 31.03.2007       |           |                |
|---|------------------|------------|----------------|------------------|-----------|----------------|
|   | Foreign Currency | Amount     | INR Equivalent | Foreign Currency | Amount    | INR Equivalent |
| Inter Corporate Loan                        | AED              | 2,600,000  | 28,293,200     | AED              | 1,600,000 | 18,779,200     |
|   | USD              | 20,000,000 | 802,400,000    |                  | -         | -              |
| Interest receivable on Inter Corporate Loan | AED              | 226,805    | 2,468,097      | AED              | 27,112    | 316,934        |
|   | USD              | 279,452    | 11,211,616     |                  | -         | -              |
| Bank balance                                | USD              | 15,323     | 614,759        | USD              | 579       | 26,004         |
|   | EURO             | 100        | 6,352          | EURO             | 100       | 5,665          |

b. Amounts payable in foreign currency on account of the following:

| Particulars                  | 31.03.2008       |         |                | 31.03.2007       |         |                |
|------------------------------|------------------|---------|----------------|------------------|---------|----------------|
|                              | Foreign Currency | Amount  | INR Equivalent | Foreign Currency | Amount  | INR Equivalent |
| Import of goods and services | USD              | 580,787 | 23,306,982     | USD              | 834,949 | 36,421,483     |
|                              | EURO             | 6,538   | 415,368        | EURO             | 135,642 | 7,327,859      |
|                              |                  |         |                | PND              | 71,096  | 6,064,020      |
| Import of Capital goods      | PND              | 604     | 48,139         | EURO             | 475,657 | 27,596,175     |

### 3. Derivatives Contracts

Consequent to the notification issued by the Institute of Chartered Accountants of India on March 29, 2008 requiring evaluation of the derivative contracts, the Company has examined its various derivative contracts existing as at the year end as follows :

- i. The Company is exposed to foreign currency fluctuations on foreign currency assets and forecasted cash flows denominated in foreign currency and follows a policy of covering the risks arising out of foreign exchange fluctuations through a combination of forward contracts and options. During the year ended March 31, 2008, apart from forward contracts, the Company, entered into three foreign exchange derivative contracts.

The Company has accounted for marked to market loss of Rs.277,698,663 as indicated by the contracting bank in respect of a foreign exchange derivative contract other than the contracts mentioned below.

- ii. The Company entered into a contract with a bank to sell US Dollars on a monthly basis at a fixed premium over the market rate subject to certain conditions. The contract obligates the company to pay premium on a notional amount of Euro 20 million, if the EUR/USD is above a specified level on any of the settlement dates. The contract also provides for a Knock Out option if the EUR/USD trades at or below a specified level.

Subsequent to execution of this contract, the Company was advised by legal counsel that this contract was not in compliance with the stipulated statutory /legal requirements and was therefore, *inter alia*, void *ab initio*, unenforceable and not binding on the Company. Accordingly in May 2008, the Company repudiated the contract and filed a suit in the Court of the Principal Civil Judge at Bangalore.

As per communication from the above bank on March 24, 2008, the marked to market valuation indicates a loss of Rs.1,664,980,000.

The bank has filed a suit with the Debt Recovery Tribunal (DRT) Bangalore, inter alia for recovery of a sum of Rs.45,323,505 allegedly due from the Company, as on March 31, 2008.

Pending final adjudication of these cases, no provision for the same has been made in the financial statements.

- iii. The Company entered into a foreign exchange derivative contract with a bank with a duration of 60 months to sell US Dollars on a monthly basis at fixed rate subject to certain conditions. The contract also obligates the Company to pay a notional amount of Swiss Franc and receive notional amount of Rupees based on the Swiss Franc to US Dollar exchange rates during a specified monitoring period in the year 2012. There is significant uncertainty regarding the exchange rates that may be prevalent at that time and consequently the liability, if any, under the contract. Due to this uncertainty, no provision has been made in the financial statements as at March 31, 2008.

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**Schedule 17****NOTES ON ACCOUNTS**

The marked to market valuation indicated by the bank is a loss of Rs.68,500,000 as on March 31, 2008.

**26. Change in Accounting Policies****a) Fixed Asset**

The Company has adopted the Accounting Standard - 11 "The Effects of Changes in Foreign Exchange Rates" (AS-11) as issued under the Companies (Accounting Standards) Rules 2006, consequent to which exchange differences arising on restatement/ payment of foreign currency liabilities contracted for purchase of fixed assets are charged to the Profit and Loss Account.

Prior to the adoption of AS-11, the Company adjusted the exchange differences arising on restatement/payment of such liabilities against the cost of the related asset. Consequent to change in the accounting policy, the loss before tax for the year and the exchange loss for the year are higher by Rs.18,467,144.

**b) Employee Benefits**

a. The Company has adopted the revised Accounting Standard - 15 "Employee Benefits" (AS-15), with effect from April 01, 2007. In accordance with the transitional provisions contained in the Accounting Standard, the incremental liability towards compensated absences of Rs.4,426,139 has been adjusted against the opening balance of General Reserve.

b. Prior to adoption of the revised AS-15, the Company was accruing for leave salary on the basis of the encashable amount in respect of leave credits outstanding at the balance sheet date, determined actuarially. Consequent to the adoption of the revised standard the compensated absences costs and the loss before tax for the year are higher by Rs.4,816,610.

**27.A. Defined benefit obligations:**

In accordance with applicable Indian laws, the Company provides for gratuity, a defined benefit retirement plan (Gratuity Plan). The Gratuity Plan provides a lump sum payment to vested employees, at retirement or termination of employment, an amount based on the respective employee's last drawn salary and the years of employment with the Company. The Company provides the gratuity benefit through annual contributions to a fund managed by the Insurer (ICICI Pru). Under this plan, the settlement obligation remains with the Company, although the Employees Gratuity Trust administers the plan and determines the contribution premium required to be paid by the Company.

|   | <b>31.03.2008</b><br><b>Rupees</b> |
|---|------------------------------------|
| <b>Change in the benefit obligation</b>                         |                                    |
| Projected Benefit Obligation (PBO) at the beginning of the year | 45,752,004                         |
| Service cost  | 4,424,104                          |
| Interest cost   | 3,818,322                          |
| Benefits paid   | (7,203,197)                        |
| Actuarial loss  | 9,163,457                          |
| PBO at the end of the year                                      | 55,954,690                         |
| <b>Change in plan assets</b>                                    |                                    |
| Fair value of plan assets at the beginning of the year          | 42,401,235                         |
| Expected return on plan assets                                  | 3,146,562                          |
| Employer contributions  | 7,148,095                          |
| Benefits paid   | (7,203,197)                        |
| Actuarial gain  | 2,497,442                          |
| Fair value of plan assets at the end of the year                | 47,990,137                         |
| Present value of unfunded obligation                            | 7,964,553                          |
| Recognised liability  | 7,964,553                          |

**Schedule 17****NOTES ON ACCOUNTS**

|  | <b>31.03.2008</b>  |                              |
|--|--------------------|------------------------------|
|  | <b>Rupees</b>      |                              |
| <b>Net gratuity cost for the year ended March 31, 2008 is as follows:</b>              |                    |                              |
| Service cost   | 4,424,104          |                              |
| Interest cost  | 3,818,322          |                              |
| Expected return on plan assets   | (3,146,562)        |                              |
| Actuarial loss   | 6,666,015          |                              |
| Net gratuity cost  | 11,761,879         |                              |
| <b>Financial Assumptions at the valuation date:</b>                                    |                    |                              |
|  | <b>31.03.2008</b>  | <b>31.03.2007</b>            |
| a) Discount Rate ( p.a.)   | 8.15%              | 8.00%                        |
| b) Expected Rate of Return on Assets ( p.a.)   | 7.50%              | 7.50%                        |
| c) Salary Escalation Rate  | 8.00%              | 8.00%                        |
| d) Retirement Age  | 58 years           | 58 years                     |
| e) Mortality : Published rates under the LIC (1994-96) mortality tables has been used. |                    |                              |
| f) Rates of leaving service at specimen ages are as shown below:                       |                    |                              |
|  | <b>Age (Years)</b> | <b>Withdrawal Rates p.a.</b> |
|  | 21 – 44            | 8.00%                        |
|  | 45 - 57            | 1.00%                        |
| <b>B. Defined Contribution obligation</b>  |                    |                              |
|  | <b>31.03.2008</b>  | <b>31.03.2007</b>            |
|  | <b>Rupees</b>      | <b>Rupees</b>                |
| i) Provident Fund  | 24,967,211         | 12,912,795                   |
| ii) Superannuation Fund  | 3,108,952          | 1,990,467                    |

28. Pursuant to Shareholders approval in the Annual General Meeting held on September 26, 2007, the Company has on October 9,2007, allotted 5,800,000 warrants to promoters/ promoter group, at an issue price of Rs.130/- convertible into equity shares at the same price within 18 months from the date of issue. The Company has allotted 256,000 equity shares each on November 28, 2007, January 2, January 31 and March 7, 2008 on conversion of equivalent number of warrants out of the above.

29. The disclosure of Segmental information has not been made since the same is reported in the Consolidated Financial Statements.

30. Previous year figures have been regrouped/recast, wherever necessary.

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## Schedule 18

### SIGNIFICANT ACCOUNTING POLICIES

#### 1. System of Accounting

The financial statements are prepared under the historical cost convention and on accrual basis.

#### 2. Use of estimates

The preparation of the financials statements in conformity with the accounting standards generally accepted in India requires, the management to make estimates that affect the reported amount of assets and liabilities, disclosure of contingent liabilities as at the date of the financial statement and reported amounts of revenues and expenses for the year. Actual results could differ from these estimates.

#### 3. Fixed Assets

Fixed assets and intangibles are stated at cost of acquisition or construction less accumulated depreciation. Cost includes all costs relating to acquisition and installation of fixed assets including incidental expenses incurred, interest on borrowings up to the date of capitalisation/commissioning of the projects/ fixed asset.

Expenditure during construction period in respect of new projects is included under Capital work-in-progress and the same is allocated to the fixed assets on the commissioning of the respective projects.

#### 4. Depreciation

4.1 Depreciation is provided on straight line method in accordance with schedule XIV of the Companies Act, 1956, except in respect of assets referred in Para 4.2, 4.3, 4.4 and 4.5 below, based on technical estimates that indicate that the useful lives would be comparable with or higher than those arrived at using these rates.

Pursuant to revision dated 16.12.1993 in Schedule XIV of the Companies Act, 1956, the Company has been providing depreciation as per the revised rates in respect of assets acquired on or after that date and all other assets have been depreciated at the old rates.

4.2 In respect of leasehold building and improvements to leasehold premises, depreciation has been provided over the unexpired portion of the primary lease period.

4.3 Leasehold land is amortised over the period of lease.

4.4 In the following cases, where the useful lives are estimated to be lower than those considered in determining the rates specified in Schedule XIV of the Companies Act, 1956, the Company has considered higher rates of depreciation:

|                                    |     |
|------------------------------------|-----|
| EDP & Electronic Office Equipments | 25% |
| Other Office Equipments            | 15% |
| Furniture and Fixtures             | 10% |
| Vehicles                           | 15% |

4.5 In respect of assets for which impairment loss has been recognised, the depreciation charge has been adjusted to allocate the revised carrying amount, on a systematic basis over its remaining useful life.

#### 5. Impairment of Assets

At each balance sheet date, the Company reviews the carrying amounts of its fixed assets to determine whether there is any indication that those assets suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss. Recoverable amount is the higher of an asset's net selling price and value in use. In assessing value in use, the estimated future cash flows expected from the continuing use of the asset and from its disposal are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of time value of money and the risks specific to the asset.

Reversal of impairment losses recognized in prior years, if any, is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. However, the increase in carrying amount of an asset due to reversal of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized for the asset in prior years.

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## Schedule 18

### SIGNIFICANT ACCOUNTING POLICIES

#### 6. Investments

Long Term investments are stated at cost less provision for permanent diminution in value, if any.

Current Investments are carried at lower of cost and fair value.

#### 7. Inventories

Inventories of raw materials, stores and spares, Work-in-process and finished goods are valued at lower of cost and estimated net realisable value. Cost is ascertained on weighted average basis. Cost of Finished Goods and Work-in-process includes an appropriate proportion of conversion cost.

#### 8. Government Grants

Government grants are accounted on accrual basis in accordance with the terms of the grant.

#### 9. Revenue Recognition

Revenue from sale of goods is recognized on the transfer of title in the goods which generally coincides with dispatch and is stated net of discounts and sales tax but inclusive of excise duty.

Excise duty on turnover is reduced from turnover.

#### 10. Retirement Benefits

##### a. Post –Employment benefit plans :

Payments to defined contribution plans, such as provident fund are charged as an expense as they fall due.

For defined benefit schemes, the cost of providing benefits is determined using Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the Profit and Loss Account for the period in which they occur. Past Service Cost is recognised immediately.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized past service cost, and as reduced by the fair value of scheme assets.

Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

##### b. Short Term employee benefits :

The undiscounted portion of short-term employee benefits expected to be paid in exchange for the services rendered by the employees is recognized during the period when the employee renders service. These benefits include compensated absences such as paid annual leave.

#### 11. Foreign Currency

Transactions in Foreign currencies are recorded at the exchange rates prevailing on the date of the transaction. Monetary assets and liabilities in foreign currencies as at the year-end are restated at the year-end rates. Exchange differences on settlement / restatement of foreign currency monetary assets and liabilities are charged to the profit and loss account.

Premium or Discount on Forward contract is amortised over the life of such contract and is recognised as income or expense. Any profit or loss arising on cancellation, renewal or restatement of forward contract is recognised in the profit and loss account.

#### 12. Earnings Per Share

Basic earnings per share is computed by dividing net profit after tax by the weighted average number of equity shares outstanding for the period. Diluted earnings per share has not been computed as the company has not issued any dilutive potential equity shares.

#### 13. Income Tax

Income Tax comprises the current tax provision, the net change in the deferred tax asset or liability in the year and the fringe benefit tax provision.

Current income tax and fringe benefit tax expense is determined in accordance with the provisions of the Income Tax Act, 1961.

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**Schedule 18****SIGNIFICANT ACCOUNTING POLICIES**

Minimum alternate tax (MAT) paid in accordance to the tax laws, which gives rise to future economic benefits in the form of adjustment to future income tax liability, is considered as an asset if there is convincing evidence that the Company will pay normal income tax. Accordingly, MAT is recognised as an asset in the balance sheet when it is probable that future economic benefit associated with it will flow to the Company and the asset can be measured reliably.

Deferred tax assets and liabilities are recognised for the estimated future tax consequences of temporary differences between the carrying values of the assets and liabilities and their respective tax bases. Deferred tax assets in the nature of unabsorbed depreciation and losses are recognised only if there is virtual certainty of realisation. Other deferred tax assets are recognised if there is reasonable certainty of realisation.

The effect on deferred tax assets and liabilities of a change in tax rates is recognised in the income statement in the period of enactment of the change.

Advance Taxes and Provision for Tax are presented in the financial statements at gross amounts and are set off on completion of the assessment

**14. Provisions and Contingencies**

A provision is recognised when the Company has a present legal or constructive obligation as a result of past event and it is probable that an outflow of resources will be required to settle the obligation, in respect of which reliable estimate can be made. Provisions (excluding retirement benefits) are not discounted to its present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates. Contingent liabilities are not recognised but are disclosed in the notes to the financial statement. A contingent asset is neither recognised nor disclosed.

**15. Miscellaneous Expenditure**

Compensation paid to the employees under Voluntary Retirement Scheme (VRS) is amortised over a period of 24 Months.

## Balance Sheet Abstract and Company's General Business Profile

### Himatsingka Seide Limited

**1. Registration Details**

|                    |            |
|--------------------|------------|
| Registration No.   | 6647       |
| State Code         | 08         |
| Balance Sheet Date | 31.03.2008 |

**2. Capital raised during the year** (Rs. Thousands)

|                    |       |
|--------------------|-------|
| Public Issue       | -     |
| Rights Issue       | -     |
| Bonus Issue        | -     |
| Preferential Issue | 5,120 |
| Private placement  | -     |

**3. Position of Mobilisation and Deployment of Funds** (Rs. Thousands)

|                   |           |              |           |
|-------------------|-----------|--------------|-----------|
| Total Liabilities | 9,912,337 | Total Assets | 9,912,337 |
|-------------------|-----------|--------------|-----------|

**Sources of Funds**

|  |           |
|--|-----------|
| Paid up Capital                        | 492,286   |
| Monies received against Share Warrants | 62,088    |
| Reserves & Surplus                     | 5,387,083 |
| Secured Loans                          | 3,970,880 |

**Application of Funds**

|                    |           |
|--------------------|-----------|
| Net Fixed Assets   | 4,917,066 |
| Investments        | 2,084,101 |
| Net Current Assets | 2,911,170 |

**4. Performance of Company** (Rs. Thousands)

|                                   |           |
|-----------------------------------|-----------|
| Turnover (Including other income) | 2,642,810 |
| Total Expenditure                 | 2,931,768 |
| Profit/(Loss) Before Tax          | (288,958) |
| Profit/(Loss) After Tax           | (260,378) |
| Earnings Per Share (Rs.)          | (2.67)    |
| Dividend Rate (%)                 | NIL       |

**5. Generic Name of Three Principal Product of the Company**  
(as per monetary terms)

| Item Code No<br>(ITC Code) | Product Description                                    |
|----------------------------|--|
| 5007                       | Woven fabrics of silk or silk waste                    |
| 5005                       | Spun silk yarn   |
| 6302                       | Bed linen, table linen, toilet linen and kitchen linen |

**Disclosure under clause 32 of the listing agreement:**

Loans and advances in the nature of loans given to subsidiaries and associates etc:

**A) Loans and advances in the nature of loans**

| Name of the Company                | Rate of Interest p.a. | As at<br>31.03.2008 | (Rs. Thousands)<br>Maximum balance<br>during the year |
|------------------------------------|-----------------------|---------------------|---|
| Himatsingka Wovens Private Limited | 8.50%                 | 355,059             | 355,059   |
| Twill & Oxford LLC                 | 8.00%                 | 28,293              | 38,319  |
| Himatsingka America Inc.           | 8.50%                 | 802,400             | 903,162   |

Notes:

1. Loans to employees as per Company's policy are not considered.

**B) Investment by the loanee in the shares of the Company**

The above loanee has not made investments in the shares of the Company.

Dilip J. Thakkar  
Chairman

A.K. Himatsingka  
Vice-Chairman

D.K. Himatsingka  
Managing Director

Pradeep K.P.  
Chief Financial Officer

Amit Jain  
Company Secretary

Bangalore, June 29, 2008

## Statement Regarding Subsidiary Companies

**Himatsingka Seide Limited** As of March 31, 2008

| Name of the Subsidiary                      | Himatsingka Wovens Private Limited (Mar 08) | Himatsingka Singapore Pte Ltd. (Mar 08) | Twill & Oxford LLC (Mar 08) | DWI Holdings Inc. (Mar 08) | Himatsingka America Inc. (Mar 08) | Divatex Home Fashions Inc. (Mar 08) | Giuseppe Bellora S.p.A. (Mar 08) | B.P. Venture S.r.L. (Feb 08) | Giuseppe Bellora America Inc. (Mar 08) |
|---|---|---|-----------------------------|----------------------------|-----------------------------------|-------------------------------------|----------------------------------|------------------------------|--|
| 1. Issued and subscribed share capital      | 125,000                                     | 5,338                                   | 3,735                       | 1,028,467                  | 1,098,521                         | 20                                  | 681,978                          | 37,365                       | 108,967                                |
| 2. Reserves & Surplus                       | 9,589                                       | (23,191)                                | (24,947)                    | (306,888)                  | (51,630)                          | 413,922                             | (459,678)                        | (152,950)                    | (91,012)                               |
| 3. Total Assets                             | 593,022                                     | 25,507                                  | 7,081                       | 734,889                    | 2,647,598                         | 452,006                             | 1,469,405                        | (17,987)                     | 25,658                                 |
| 4. Total Liabilities                        | 593,022                                     | 25,507                                  | 7,081                       | 734,889                    | 2,647,598                         | 452,006                             | 1,469,405                        | (17,987)                     | 25,658                                 |
| 5. Investments (Other than in subsidiaries) | -   | -                                       | -                           | -                          | -                                 | -                                   | 4,776                            | -                            | -                                      |
| 6. Turnover                                 | 370,650                                     | 1,982                                   | 41,498                      | 717,081                    | 229,287                           | 4,424,878                           | 1,341,194                        | 310,313                      | 34,022                                 |
| 7. Profit/(Loss) Before Tax                 | 13,286                                      | (23,191)                                | (22,618)                    | 25,265                     | (93,775)                          | 264,454                             | (165,000)                        | (111,847)                    | (18,118)                               |
| 8. Provision for Taxation                   | 5,447                                       | -                                       | -                           | 10,968                     | (37,714)                          | 101,446                             | 2,282                            | -                            | 97                                     |
| 9. Profit/(Loss) After Tax                  | 7,839                                       | (23,191)                                | (22,618)                    | 14,297                     | (56,061)                          | 163,009                             | (167,282)                        | (111,847)                    | (18,215)                               |
| 10. Proposed Dividend                       | -   | -                                       | -                           | -                          | -                                 | -                                   | -                                | -                            | -                                      |
| 11. Exchange Rate                           | -   | Rs.28.91/ Singapore dollar              | Rs.10.87/AED                | Rs.40.12/ USD              | Rs.40.12/ USD                     | Rs.40.12/ USD                       | Rs.63.52/ Euro                   | Rs.63.52/ Euro               | Rs.40.12/ USD                          |

(Rs. Thousands)

# Auditors' Report on Consolidated Financial Statements

Himatsingka Seide Limited

## TO THE BOARD OF DIRECTORS OF HIMATSINGKA SEIDE LIMITED

1. We have audited the attached Consolidated Balance Sheet of HIMATSINGKA SEIDE LIMITED ("the Company") and its subsidiaries (the company and its subsidiaries constitute "the Group") as at March 31, 2008, the Consolidated Profit and Loss Account and the Consolidated Cash Flow Statement of the Company for the year ended on that date, both annexed thereto. These financial statements are the responsibility of the Company's management and have been prepared by the management on the basis of separate financial statements and other financial information regarding components. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with generally accepted auditing standards in India. These Standards require that we plan and perform the audit to obtain reasonable assurance 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.
3. We did not audit the financial statements of subsidiaries, whose financial statements reflect total assets (net) of Rs.7,911,188,756 as at March 31, 2008, the total revenue of Rs.7,233,633,908 and net cash flows amounting to Rs.(170,471,448) for the year then ended on that date.
  - a. the financial statements of the subsidiaries, whose financial statements reflect total assets (net) of Rs.7,911,188,576 as at March 31, 2008 and total revenues of Rs.6,893,159,138 and net cash flows amounting to Rs.(161,285,328) for the year ended on that date, have been audited by other auditors whose audit reports have been furnished to us, and our opinion, in so far as it relates to amounts included in respect of these subsidiaries is based solely on the audit report of other auditors;
  - b. the financial statements of the subsidiaries, whose financial statements reflect total revenues of Rs.340,474,770 and net cash flows amounting to Rs.(9,186,120) for the year ended on that date, have been compiled by the management and have not been subject to audit by independent auditors.
4. We draw attention to:
  - a. Note B.11 (3)(ii) of Schedule 17 to the accounts regarding the plaint filed by the Company in the Court of the Principal Civil Judge at Bangalore, based on legal advice, for declaring a transaction with a Bank, *inter alia*, as void *ab initio*, unenforceable and not binding on the Company. The ultimate outcome of the matter cannot presently be determined and no provision for any liability or any consequential adjustments that may result has been made in the financial statements.
  - b. Note B.11 (3) (iii) of Schedule 17 to the accounts. As explained in the note, the liability, if any, that may arise under the referenced contract with a Bank is dependent on the exchange rate between two currencies during a specified period in the future. Because of this significant uncertainty the Company has not provided for any liability that may arise on account of this contract in the financial statements.
5. We report that the consolidated financial statements have been prepared by the Company management in accordance with the requirements of Accounting Standard 21, "Consolidated Financial Statements" and Accounting Standard 23, "Accounting for Investments in Associates in Consolidated Financial Statements" issued under the Companies (Accounting Standards) Rules, 2006.
6. Subject to our comments in paragraph 3(b) above, based on our audit and on consideration of the report of the other auditors on separate financial statements and on the other financial information of the components, and to the best of our information and according to the explanations given to us, we are of the opinion that the attached Consolidated Financial Statements give a true and fair view in conformity with the accounting principles generally accepted in India:
  - (i) in the case of the Consolidated Balance Sheet, of the state of affairs of the Group as at March 31, 2008;
  - (ii) in the case of the Consolidated Profit and Loss Account, of the loss of the Group for the year ended on that date; and
  - (iii) in the case of the Consolidated Cash Flow Statement, of the cash flows of the Group for the year ended on that date.

For DELOITTE HASKINS & SELLS  
Chartered Accountants

Place : Bangalore  
Date : June 29, 2008

V. Srikumar  
Partner  
Membership No. 84494

## Consolidated Balance Sheet

**Himatsingka Seide Limited** As at March 31, 2008

|  | Schedule | As at<br>31.03.2008<br>Rupees | As at<br>31.03.2007<br>Rupees |
|--|----------|-------------------------------|-------------------------------|
| <b>SOURCES OF FUNDS</b>  |          |                               |                               |
| <b>Shareholders' funds</b>   |          |                               |                               |
| Share capital  | 1        | 492,285,800                   | 487,165,800                   |
| Monies received against share warrants & share application<br>(Refer Note 13 of Schedule 17) |          | 89,719,200                    | -                             |
| Reserves and surplus   | 2        | 5,402,497,436                 | 5,458,574,869                 |
|  |          | <u>5,984,502,436</u>          | <u>5,945,740,669</u>          |
| <b>Loan funds</b>  |          |                               |                               |
| Secured loans  | 3        | 5,125,634,742                 | 2,675,618,715                 |
| Unsecured loans  | 4        | 837,984,023                   | 512,757,480                   |
|  |          | 5,963,618,765                 | 3,188,376,195                 |
| Deferred tax liability (net)   |          | 14,334,399                    | 22,561,620                    |
| Minority interest  |          | 53,537,575                    | -                             |
| <b>TOTAL</b>   |          | <b>12,015,993,175</b>         | <b>9,156,678,484</b>          |
| <b>APPLICATION OF FUNDS</b>  |          |                               |                               |
| <b>Fixed assets</b>  |          |                               |                               |
| Gross block  | 5        | 7,745,085,873                 | 3,399,038,840                 |
| Less : Depreciation  |          | 2,383,984,059                 | 1,913,070,072                 |
| Net block  |          | 5,361,101,814                 | 1,485,968,768                 |
| Capital work in progress including capital advances  |          | 466,340,105                   | 2,748,820,629                 |
|  |          | <u>5,827,441,919</u>          | <u>4,234,789,397</u>          |
| Goodwill (on consolidation)  |          | 3,576,937,783                 | 1,023,650,496                 |
| <b>Investments</b>   | 6        | 214,112,620                   | 513,407,351                   |
| <b>Current assets, Loans and advances</b>  |          |                               |                               |
| Inventories  | 7        | 3,236,611,203                 | 1,236,097,000                 |
| Sundry debtors   | 8        | 1,156,163,205                 | 802,069,611                   |
| Cash and bank balances   | 9        | 153,428,693                   | 2,403,777,289                 |
| Loans and advances   | 10       | 1,111,663,975                 | 608,194,856                   |
|  |          | <u>5,657,867,076</u>          | <u>5,050,138,756</u>          |
| <b>Less: Current liabilities and provisions</b>  |          |                               |                               |
| Current liabilities  | 11       | 2,530,225,435                 | 1,245,271,540                 |
| Provisions   |          | 730,140,788                   | 431,830,194                   |
|  |          | <u>3,260,366,223</u>          | <u>1,677,101,734</u>          |
| <b>Net current assets</b>  |          | <b>2,397,500,853</b>          | <b>3,373,037,022</b>          |
| Minority interest  |          | -                             | 7,857,370                     |
| Miscellaneous expenditure<br>(to the extent not written off or adjusted)                     |          | -                             | 3,936,848                     |
| Voluntary retirement scheme  |          |                               |                               |
| <b>TOTAL</b>   |          | <b>12,015,993,175</b>         | <b>9,156,678,484</b>          |
| Notes forming part of accounts   | 17       |                               |                               |
| Significant accounting policies  | 18       |                               |                               |

As per our report attached

for and on behalf of the Board of Directors

for Deloitte Haskins & Sells  
Chartered Accountants

Dilip J. Thakkar  
Chairman

A.K. Himatsingka  
Vice-Chairman

D.K. Himatsingka  
Managing Director

V. Srikumar  
Partner  
Membership No.84494

Pradeep K.P.  
Chief Financial Officer

Amit Jain  
Company Secretary

Bangalore, June 29, 2008

Bangalore, June 29, 2008

## Consolidated Profit and Loss Account

**Himatsingka Seide Limited** For the year ended March 31, 2008

|  | Schedule | For the year ended<br>31.03.2008<br>Rupees | For the year ended<br>31.03.2007<br>Rupees |
|--|----------|--|--|
| <b>INCOME</b>  |          |  |  |
| Sales (Gross)  |          | 8,863,514,904                              | 2,092,687,743                              |
| Less: Excise duty  |          | 1,426,656                                  | 1,558,557                                  |
| Net sales  |          | 8,862,088,248                              | 2,091,129,186                              |
| Other income   | 12       | 223,850,130                                | 354,688,103                                |
| <b>TOTAL</b>   |          | <b>9,085,938,378</b>                       | <b>2,445,817,289</b>                       |
| <b>EXPENDITURE</b>   |          |  |  |
| Materials consumed   | 13A      | 2,390,573,310                              | 768,838,045                                |
| Purchase of traded goods   | 13B      | 3,405,526,043                              | 151,907,991                                |
| (Increase) in stock  | 13C      | (421,948,549)                              | (173,860,593)                              |
| Manufacturing expenses   | 14       | 702,075,725                                | 180,258,135                                |
| Personnel expenses   | 15       | 1,277,460,117                              | 352,952,732                                |
| Administration, selling and other expenses   | 16       | 1,223,350,730                              | 341,538,612                                |
| <b>TOTAL</b>   |          | <b>8,577,037,376</b>                       | <b>1,621,634,922</b>                       |
| <b>Profit before interest, depreciation, exceptional item and tax</b>                  |          | <b>508,901,002</b>                         | <b>824,182,367</b>                         |
| <b>Interest</b>  |          | 298,138,976                                | 47,744,546                                 |
| Depreciation and amortisation  | 5        | 364,116,580                                | 159,530,547                                |
| Exceptional item   |          | 256,525,000                                | -  |
|  |          | <b>(409,879,554)</b>                       | <b>616,907,274</b>                         |
| Less: Pre-operative expenses (net of income) capitalised (Refer note 7 of Schedule 17) |          | (193,468,285)                              | (82,989,004)                               |
| <b>Profit before tax</b>   |          | <b>(216,411,269)</b>                       | <b>699,896,278</b>                         |
| Provision for taxation   |          |  |  |
| -Current tax   |          | 25,267,218                                 | 53,278,750                                 |
| -Deferred tax  |          | 34,361,299                                 | 10,664,060                                 |
| -Fringe Benefit Tax  |          | 8,670,000                                  | 4,810,000                                  |
| - Minimum alternate tax credit availed   |          | (14,352,500)                               | -  |
| <b>Profit after tax before share of minority interest</b>                              |          | <b>(270,357,286)</b>                       | <b>631,143,468</b>                         |
| Less: Share of profit of minority interest (net)                                       |          | (30,486,664)                               | 16,843,624                                 |
| <b>Profit after minority interest</b>  |          | <b>(239,870,622)</b>                       | <b>614,299,844</b>                         |
| Balance brought forward  |          | 1,133,367,232                              | 956,428,605                                |
| Consolidation adjustment   |          | (2,204,065)                                | (99,615,815)                               |
| <b>Profit available for appropriation</b>  |          | <b>891,292,545</b>                         | <b>1,471,112,634</b>                       |
| Amount transferred to General reserve  |          | -  | 60,000,000                                 |
| Dividend   |          |  |  |
| Interim  |          | -  | 243,582,900                                |
| Tax on distributed profits   |          | -  | 34,162,502                                 |
| <b>Balance carried to Balance sheet</b>  |          | <b>891,292,545</b>                         | <b>1,133,367,232</b>                       |
| Weighted average number of equity shares   |          | 97,643,696                                 | 97,433,160                                 |
| Basic and diluted earnings per equity share (Rs.)                                      |          | (2.46)                                     | 6.30                                       |
| (Face value of Rs.5 per share)   |          |  |  |
| Notes forming part of accounts   | 17       |  |  |
| Significant accounting policies  | 18       |  |  |

As per our report attached

for and on behalf of the Board of Directors

for Deloitte Haskins & Sells  
Chartered Accountants

Dilip J. Thakkar  
Chairman

A.K. Himatsingka  
Vice-Chairman

D.K. Himatsingka  
Managing Director

V. Srikumar  
Partner  
Membership No.84494

Pradeep K.P.  
Chief Financial Officer

Amit Jain  
Company Secretary

Bangalore, June 29, 2008

Bangalore, June 29, 2008

## Consolidated Statement of Cash Flows

**Himatsingka Seide Limited** For the year ended March 31, 2008

|  | Sch<br>No | For the year ended<br>31.03.2008<br>Rupees | For the year ended<br>31.03.2007<br>Rupees |
|--|-----------|--|--|
| <b>A. CASH FLOW FROM OPERATING ACTIVITIES:</b>                               |           |  |  |
| Profit before tax  |           | (216,411,269)                              | 699,896,278                                |
| (Profit)/loss on sale of assets  |           | (29,900,945)                               | (64,281,921)                               |
| (Profit)/loss on sale of investments   |           | (16,571,694)                               | (19,147,584)                               |
| Depreciation and amortisation  |           | 364,116,580                                | 159,530,547                                |
| Amortisation of miscellaneous expenditure                                    |           | 3,936,848                                  | 5,249,132                                  |
| Diminution in value of investments   |           | 1,369,876                                  | 399,413                                    |
| Profit on dilution of stake in subsidiary                                    |           | (34,296,612)                               | -  |
| Provision for foreign exchange derivative contract                           |           | 277,698,663                                | -  |
| Interest income  |           | (59,982,277)                               | (186,786,451)                              |
| Dividend income  |           | (14,293,581)                               | (49,573,659)                               |
| Interest expense   |           | 298,138,976                                | 47,744,546                                 |
| <b>Operating profit before working capital changes</b>                       |           | <b>573,804,565</b>                         | <b>593,030,301</b>                         |
| (Increase) in sundry debtors   |           | (54,335,163)                               | (48,315,355)                               |
| (Increase) in inventories  |           | (733,600,999)                              | (170,584,028)                              |
| Decrease / (increase) in loans and advances                                  |           | 181,950,361                                | (123,521,944)                              |
| Increase in current liabilities and provisions                               |           | 511,353,918                                | 125,983,160                                |
| Cash generated from operations   |           | 479,172,682                                | 376,592,134                                |
| Income tax paid (including fringe benefit tax)                               |           | (208,281,843)                              | (100,459,531)                              |
| <b>Net cash from operations</b>  |           | <b>270,890,839</b>                         | <b>276,132,603</b>                         |
| <b>B. CASH FLOW FROM INVESTING ACTIVITIES:</b>                               |           |  |  |
| Purchase of investments  |           | (1,326,390,092)                            | (3,237,024,535)                            |
| Sale of investments  |           | 1,659,696,692                              | 3,902,013,406                              |
| Acquisition of subsidiaries  |           | (3,331,054,322)                            | (469,060,321)                              |
| Purchase of fixed assets   |           | (1,853,097,564)                            | (2,799,212,118)                            |
| Sale proceeds of fixed assets  |           | 58,760,230                                 | 102,231,640                                |
| Interest received  |           | 60,132,792                                 | 190,428,589                                |
| Dividend received  |           | 14,293,581                                 | 56,486,793                                 |
| <b>Net cash from investing activities</b>                                    |           | <b>(4,717,658,683)</b>                     | <b>(2,254,136,546)</b>                     |
| <b>C. CASH FLOW FROM FINANCING ACTIVITIES:</b>                               |           |  |  |
| Net Proceeds from issue of share capital                                     |           | 133,120,000                                | -  |
| Net Proceeds from issue of share warrants                                    |           | 89,719,200                                 | -  |
| Reimbursement of expenses relating to the issue of GDR                       |           | -  | 6,588,147                                  |
| Interest paid  |           | (281,159,498)                              | (40,993,141)                               |
| Proceeds from issue of share capital to minority shareholder of a subsidiary |           | 14,673,120                                 | -  |
| Proceeds of long term borrowings   |           | 1,399,859,465                              | 1,940,201,954                              |
| Repayment of Long Term Borrowings  |           | (41,086,647)                               | (59,048,400)                               |
| Proceeds / (repayments) of short term borrowings (net)                       |           | 861,018,876                                | 8,974,380                                  |
| Dividend paid  |           | (6,923,113)                                | (358,907,831)                              |
| Tax on dividend  |           | -  | (51,243,753)                               |
| <b>Net cash from financing activities</b>                                    |           | <b>2,169,221,403</b>                       | <b>1,445,571,356</b>                       |
| Total increase/(decrease) in cash and cash equivalents                       |           | (2,277,546,441)                            | (532,432,587)                              |
| Effect of exchange rates changes   |           | 27,197,845                                 | -  |
| Cash and cash equivalents at the beginning of the period                     |           | 2,403,777,289                              | 2,936,209,876                              |
| <b>Cash and cash equivalents at the end of the period</b>                    |           | <b>153,428,693</b>                         | <b>2,403,777,289</b>                       |
| Notes forming part of accounts   | 17        |  |  |
| Significant accounting policies  | 18        |  |  |

As per our report attached

for and on behalf of the Board of Directors

for Deloitte Haskins & Sells  
Chartered Accountants

Dilip J. Thakkar  
Chairman

A.K. Himatsingka  
Vice-Chairman

D.K. Himatsingka  
Managing Director

V. Srikumar  
Partner  
Membership No.84494

Pradeep K.P.  
Chief Financial Officer

Amit Jain  
Company Secretary

Bangalore, June 29, 2008

Bangalore, June 29, 2008

## Schedules To Consolidated Balance Sheet

**Himatsingka Seide Limited** As at March 31, 2008

|   | As at<br>31.03.2008<br>Rupees | As at<br>31.03.2007<br>Rupees |
|---|-------------------------------|-------------------------------|
| <b>Schedules to Consolidated Accounts</b>   |                               |                               |
| <b>Schedule 1</b>   |                               |                               |
| <b>SHARE CAPITAL</b>  |                               |                               |
| Authorised :  |                               |                               |
| 104,000,000 Equity Shares of Rs.5 each (Previous year 100,000,000 equity shares of Rs.5 each)   | 520,000,000                   | 500,000,000                   |
| Issued:   |                               |                               |
| 98,496,160 Equity Shares of Rs.5 each fully called up (Previous year 97,472,160 equity shares of Rs.5 each)   | 492,480,800                   | 487,360,800                   |
| Subscribed and paid up:   |                               |                               |
| 98,457,160 Equity Shares of Rs.5 each fully paid up (Previous year 97,433,160 equity shares of Rs.5 each)<br>(Out of the above 63,723,800 shares of Rs.5 each have been issued as Bonus shares by capitalisation of Reserves) | 492,285,800                   | 487,165,800                   |
|   | <b>492,285,800</b>            | <b>487,165,800</b>            |
| <b>Schedule 2</b>   |                               |                               |
| <b>RESERVES AND SURPLUS</b>   |                               |                               |
| Capital reserve on consolidation  | 6,674,104                     | 6,674,104                     |
| Share premium account   |                               |                               |
| As per last balance sheet   | 2,639,571,264                 | 2,632,983,117                 |
| Add:  |                               |                               |
| Additions during the year on issue of equity shares   | 128,000,000                   | -                             |
| Reimbursement of expenses relating to issue of Global depository shares   | -                             | 6,588,147                     |
|   | 2,767,571,264                 | 2,639,571,264                 |
| General reserve   |                               |                               |
| As per last balance sheet   | 1,678,197,919                 | 1,618,197,919                 |
| Add: Transfer from profit and loss account  | -                             | 60,000,000                    |
| Less: Opening employee benefits as per transitional provision   | 4,465,434                     | -                             |
|   | 1,673,732,485                 | 1,678,197,919                 |
| Legal reserve   |                               |                               |
| As per last balance sheet   | 813,960                       | -                             |
| Add:  |                               |                               |
| Foreign exchange difference   | 57,394                        | -                             |
| Consolidation adjustment  | -                             | 813,960                       |
| Less:   |                               |                               |
| Consolidation adjustment  | 193,723                       | -                             |
|   | 677,631                       | 813,960                       |
| Foreign currency translation reserve (on consolidation)   |                               |                               |
| As per last balance sheet   | (49,610)                      | -                             |
| Add:  |                               |                               |
| Movement during the period  | 62,599,017                    | (49,610)                      |
|   | 62,549,407                    | (49,610)                      |
| Profit and loss account   | 891,292,545                   | 1,133,367,232                 |
|   | <b>5,402,497,436</b>          | <b>5,458,574,869</b>          |
| <b>Schedule 3</b>   |                               |                               |
| <b>SECURED LOANS</b>  |                               |                               |
| Loans   |                               |                               |
| a. From financial institutions  | 1,701,725,853                 | 1,344,837,734                 |
| b. From banks<br>(Loans are secured against certain moveable and immovable assets of the parent company or concerned subsidiary)  | 3,398,864,830                 | 1,329,865,500                 |
| c. From others  | 19,460,541                    | -                             |
| Interest accrued and due  | 5,583,518                     | 915,481                       |
|   | <b>5,125,634,742</b>          | <b>2,675,618,715</b>          |
| <b>Schedule 4</b>   |                               |                               |
| <b>UNSECURED LOANS</b>  |                               |                               |
| Loans   |                               |                               |
| a. From banks   | 802,400,000                   | 442,408,080                   |
| b. From others  | 35,584,023                    | 67,326,120                    |
| Interest accrued and due  | -                             | 3,023,280                     |
|   | <b>837,984,023</b>            | <b>512,757,480</b>            |

**Schedule 5**  
**FIXED ASSETS**

(Figures in Rupees)

| Particulars   | Gross block          |                             |                                |                      |                      | Depreciation         |                             |                    |                      | Net block               |                      |                      |                      |
|---|----------------------|-----------------------------|--------------------------------|----------------------|----------------------|----------------------|-----------------------------|--------------------|----------------------|-------------------------|----------------------|----------------------|----------------------|
|   | As at<br>01/04/2007  | Consolidation<br>adjustment | Additions/<br>(Deletions)      | Other<br>Adjustments | As at<br>31/03/2008  | Up to<br>31/03/2007  | Consolidation<br>adjustment | For the<br>year    | On deletions         | On other<br>adjustments | Up to<br>31/03/2008  | As at<br>31/03/2008  | As at<br>31/03/2007  |
| <b>Tangible assets</b>                              |                      |                             |                                |                      |                      |                      |                             |                    |                      |                         |                      |                      |                      |
| Land (Note 1)                                       | 102,304,732          | 3,584,120                   | -                              | -                    | 105,888,852          | -                    | -                           | -                  | -                    | -                       | -                    | 105,888,852          | 102,304,732          |
| Leasehold land                                      | 77,308,570           | -                           | 45,189,680                     | (2,021,642)          | 120,476,608          | 768,642              | 2,534,321                   | -                  | -                    | (2,021,642)             | 1,281,321            | 119,195,287          | 76,539,928           |
| Buildings   | 588,438,905          | 90,400,631                  | 980,486,818<br>(11,370,652)    | 29,209,691           | 1,677,165,393        | 192,441,979          | 32,139,321                  | 32,139,321         | (8,130,560)          | 11,482,522              | 246,939,871          | 1,430,225,522        | 395,996,926          |
| Leasehold buildings                                 | -                    | 44,055,331                  | -                              | -                    | 44,055,331           | -                    | 38,708,338                  | 2,314,148          | -                    | 27,549                  | 41,050,035           | 3,005,296            | -                    |
| Plant and machinery                                 | 2,078,749,229        | 51,883,248                  | 2,889,571,445<br>(132,145,798) | 20,516,468           | 4,908,574,592        | 1,351,686,618        | 49,451,727                  | 233,663,159        | (106,437,292)        | 13,176,797              | 1,541,541,009        | 3,367,033,583        | 727,062,611          |
| Furniture and fixtures                              | 84,184,388           | (19,035,632)                | 75,201,402<br>(16,538,256)     | 1,187,936            | 124,999,838          | 45,154,738           | 8,468,890                   | 22,486,457         | (15,709,084)         | 753,436                 | 61,154,437           | 63,845,401           | 39,029,650           |
| Leasehold improvements                              | 79,458,632           | 8,236,506                   | 101,417,095                    | 3,846,700            | 192,958,933          | 43,569,106           | 11,627,670                  | 43,665,167         | -                    | 1,965,311               | 100,827,254          | 92,131,679           | 35,889,526           |
| Office equipments                                   | 295,734,752          | 94,667,697                  | 40,392,022<br>(4,646,553)      | 18,944,137           | 445,092,055          | 235,724,774          | 55,365,976                  | 21,187,960         | (4,532,806)          | 15,840,359              | 323,586,263          | 121,505,792          | 60,009,978           |
| Vehicles  | 28,091,672           | 6,857,996                   | 1,585,364<br>(7,135,484)       | 1,293,927            | 30,693,475           | 15,003,055           | 6,207,971                   | 3,631,455          | (6,784,944)          | 1,052,435               | 19,109,972           | 11,583,503           | 13,088,617           |
| Other property                                      | -                    | 36,057,430                  | 1,100,000<br>(14,672,177)      | -                    | 22,485,253           | -                    | 27,049,013                  | 2,494,592          | (14,551,236)         | 12,286                  | 15,004,635           | 7,480,618            | -                    |
| <b>Intangible assets</b>                            |                      |                             |                                |                      |                      |                      |                             |                    |                      |                         |                      |                      |                      |
| Goodwill  | 64,767,960           | -                           | 1,934,263                      | 5,983,320            | 72,695,543           | 28,721,160           | -                           | -                  | -                    | 4,788,102               | 33,489,262           | 39,206,281           | 36,046,800           |
| <b>Total</b>  | <b>3,399,038,840</b> | <b>316,707,327</b>          | <b>3,950,369,169</b>           | <b>78,970,537</b>    | <b>7,745,085,873</b> | <b>1,913,070,072</b> | <b>215,886,194</b>          | <b>364,116,580</b> | <b>(156,145,922)</b> | <b>47,057,135</b>       | <b>2,383,984,059</b> | <b>5,361,101,814</b> | <b>1,485,968,768</b> |
| Capital work in progress including capital advances |                      |                             |                                |                      |                      |                      |                             |                    |                      |                         |                      | 466,340,105          | 2,748,820,629        |
|   |                      |                             |                                |                      |                      |                      |                             |                    |                      |                         |                      | <b>5,827,441,919</b> | <b>4,234,789,397</b> |
| Previous Year                                       | 2,272,064,015        | 865,355,954                 | 281,618,871                    | -                    | 3,399,038,840        | 1,237,945,424        | 528,092,015                 | 159,530,547        | (12,497,914)         | -                       | 1,913,070,072        | 4,234,789,397        | 1,280,619,067        |

Note:

- Land includes Rs.1,791,106 (Previous year Rs.1,791,106) being the share in land jointly owned with others
- Fixed assets include Rs.126,143,045 (Previous year Rs.121,396,320) representing the net realisable value of the fixed assets held for disposal.
- Other adjustments during the year includes capitalisation of depreciation provided on the assets put to use during the period of setting up of the Bed linen project Rs.7,866,862 (related to current year Rs.5,345,566 and previous year Rs.2,521,296)

|   |     | As at<br>31.03.2008<br>Rupees | As at<br>31.03.2007<br>Rupees |
|---|-----|-------------------------------|-------------------------------|
| <b>Schedule 6</b>   |     |                               |                               |
| <b>INVESTMENTS</b>  |     |                               |                               |
| Long term investments (Unquoted)  |     |                               |                               |
| Investments in associates   |     |                               |                               |
| Milano Confezioni S.r.l.  |     | 125,079                       | 116,280                       |
| BP Venture S.r.l.   |     | 31,453,584                    | -                             |
| Investments in equity shares and debentures   |     | 4,651,111                     | 4,069,800                     |
|   | A   | 36,229,774                    | 4,186,080                     |
| Current investments   |     |                               |                               |
| Quoted  |     |                               |                               |
| Investments in units of US-64 Bonds (Market value Rs.14,295,299,<br>Previous Year- Rs.15,665,177) |     | 16,704,238                    | 16,704,238                    |
| Less: Diminution in value of investments  |     | 1,114,069                     | 1,039,064                     |
|   |     | 15,590,169                    | 15,665,174                    |
| Unquoted  |     |                               |                               |
| Investments in units of mutual funds  |     | 163,587,548                   | 493,556,096                   |
| Less: Diminution in value of investments  |     | 1,294,871                     | -                             |
|   | B   | 177,882,846                   | 509,221,271                   |
| Total   | A+B | <b>214,112,620</b>            | <b>513,407,351</b>            |
| <b>Schedule 7</b>   |     |                               |                               |
| <b>INVENTORIES</b>  |     |                               |                               |
| Raw materials   |     | 471,736,449                   | 333,102,698                   |
| Stores and spares   |     | 86,985,779                    | 23,302,788                    |
| Work in process   |     | 610,833,228                   | 369,795,760                   |
| Finished goods  |     | 2,067,055,747                 | 509,895,754                   |
|   |     | <b>3,236,611,203</b>          | <b>1,236,097,000</b>          |
| <b>Schedule 8</b>   |     |                               |                               |
| <b>SUNDRY DEBTORS</b>   |     |                               |                               |
| Unsecured considered good   |     | 1,156,163,205                 | 802,069,611                   |
| Unsecured considered doubtful   |     | 25,803,229                    | 22,965,300                    |
|   |     | 1,181,966,434                 | 825,034,911                   |
| Less: Provision for doubtful Debts  |     | 25,803,229                    | 22,965,300                    |
|   |     | <b>1,156,163,205</b>          | <b>802,069,611</b>            |

|   | As at<br>31.03.2008<br>Rupees | As at<br>31.03.2007<br>Rupees |
|---|-------------------------------|-------------------------------|
| <b>Schedule 9</b>   |                               |                               |
| <b>CASH AND BANK BALANCES</b>   |                               |                               |
| Cash and stamps on hand   | 9,111,370                     | 22,549,515                    |
| Cheques in hand   | 924,879                       | 243,511                       |
| With banks  |                               |                               |
| in current account  | 140,914,982                   | 319,767,755                   |
| in deposit account  | 2,477,462                     | 2,061,216,508                 |
|   | <b>153,428,693</b>            | <b>2,403,777,289</b>          |
| <b>Schedule 10</b>  |                               |                               |
| <b>LOANS AND ADVANCES</b>   |                               |                               |
| Advance taxes (Inclusive of Minimum Alternate Tax credit entitlement) | 539,783,670                   | 318,274,327                   |
| Advances recoverable in cash or in kind or for value to be received   | 471,838,658                   | 226,004,407                   |
| Deposits  | 100,041,647                   | 63,916,122                    |
|   | <b>1,111,663,975</b>          | <b>608,194,856</b>            |
| <b>Schedule 11</b>  |                               |                               |
| <b>CURRENT LIABILITIES AND PROVISIONS</b>                             |                               |                               |
| Current Liabilities:  |                               |                               |
| Sundry creditors  | 2,395,997,439                 | 1,022,691,200                 |
| Advances received   | 4,517,623                     | 10,622,362                    |
| Interest accrued but not due on loans                                 | 19,050,926                    | 3,716,205                     |
| Other liabilities   | 104,417,048                   | 195,076,261                   |
| Unpaid dividend   | 6,242,399                     | 13,165,512                    |
|   | <b>2,530,225,435</b>          | <b>1,245,271,540</b>          |
|   | A                             |                               |
| Provisions:   |                               |                               |
| Gratuity  | 103,807,480                   | 155,987,286                   |
| Compensated absences  | 52,747,960                    | 21,134,468                    |
| Provision for losses of subsidiaries                                  | 21,279,678                    | 13,430,340                    |
| Provision for loss on Derivatives                                     | 277,698,663                   | -                             |
| Tax (including Fringe Benefit Tax)                                    | 274,607,007                   | 241,278,100                   |
| Other provisions  | -                             | -                             |
|   | <b>730,140,788</b>            | <b>431,830,194</b>            |
|   | B                             |                               |
| TOTAL   | (A+B)                         |                               |
|   | <b>3,260,366,223</b>          | <b>1,677,101,734</b>          |

## Schedules to Consolidated Profit and Loss Account

**Himatsingka Seide Limited** For the year ended March 31, 2008

|                                      | For the year ended<br>31.03.2008<br>Rupees | For the year ended<br>31.03.2007<br>Rupees |
|--------------------------------------|--|--|
| <b>Schedule 12</b>                   |  |  |
| <b>OTHER INCOME</b>                  |  |  |
| Interest                             | 59,982,277                                 | 186,786,451                                |
| Dividend                             | 14,293,581                                 | 49,573,659                                 |
| Profit on sale of assets (net)       | 29,900,945                                 | 64,281,921                                 |
| Profit on sale of investments (net)  | 16,571,694                                 | 19,147,584                                 |
| Miscellaneous income                 | 62,603,688                                 | 20,779,375                                 |
| Commission income                    | 31,170,752                                 | -  |
| Income from services                 | 9,327,193                                  | 810,878                                    |
| Exchange fluctuation gain (net)      | -  | 13,308,235                                 |
|                                      | <b>223,850,130</b>                         | <b>354,688,103</b>                         |
| <b>Schedule 13</b>                   |  |  |
| <b>MATERIALS CONSUMED</b>            |  |  |
| Raw materials                        |  |  |
| Opening stock                        | 333,102,698                                | 183,742,218                                |
| Consolidation adjustment             | -  | 160,408,260                                |
| Add: Purchases                       | 2,364,013,952                              | 693,161,353                                |
| Total                                | 2,697,116,650                              | 1,037,311,831                              |
| Less: Closing stock                  | 471,736,449                                | 333,102,698                                |
| Raw materials consumed               | 2,225,380,201                              | 704,209,133                                |
| Dyes and chemicals consumed          | 165,193,109                                | 64,628,912                                 |
|                                      | <b>2,390,573,310</b>                       | <b>768,838,045</b>                         |
|                                      | <b>13A</b>                                 |  |
| Purchase of traded goods             | <b>3,405,526,043</b>                       | <b>151,907,991</b>                         |
|                                      | <b>13B</b>                                 |  |
| <b>(Increase)/ decrease in stock</b> |  |  |
| Opening stock                        |  |  |
| Work in process                      | 369,795,760                                | 187,177,397                                |
| Finished goods                       | 509,895,754                                | 126,150,384                                |
|                                      | 879,691,514                                | 313,327,781                                |
| Consolidation adjustment             |  |  |
| Work in process                      | -  | 87,791,400                                 |
| Finished goods                       | 1,376,248,912                              | 304,711,740                                |
|                                      | 1,376,248,912                              | 392,503,140                                |
| Closing Stock                        |  |  |
| Work in process                      | 610,833,228                                | 369,795,760                                |
| Finished goods                       | 2,067,055,747                              | 509,895,754                                |
|                                      | 2,677,888,975                              | 879,691,514                                |
|                                      | <b>(421,948,549)</b>                       | <b>(173,860,593)</b>                       |
|                                      | <b>13C</b>                                 |  |

|  | For the year ended<br>31.03.2008<br>Rupees | For the year ended<br>31.03.2007<br>Rupees |
|--|--|--|
| <b>Schedule 14</b>                                       |  |  |
| <b>MANUFACTURING EXPENSES</b>                            |  |  |
| Power and fuel   | 256,943,566                                | 117,552,938                                |
| Stores and spares consumed                               | 50,055,474                                 | 35,589,152                                 |
| Repairs and maintenance - Building                       | 8,627,559                                  | 3,695,615                                  |
| Repairs and maintenance - Machinery                      | 20,688,183                                 | 9,311,352                                  |
| Other manufacturing expenses                             | 365,760,943                                | 14,109,078                                 |
|  | <b>702,075,725</b>                         | <b>180,258,135</b>                         |
| <b>Schedule 15</b>                                       |  |  |
| <b>PERSONNEL EXPENSES</b>                                |  |  |
| Wages, salaries and other allowances                     | 1,060,029,327                              | 284,523,883                                |
| Contribution to provident and other funds                | 121,214,533                                | 40,828,783                                 |
| Workmen and staff welfare expenses                       | 96,216,257                                 | 27,600,066                                 |
|  | <b>1,277,460,117</b>                       | <b>352,952,732</b>                         |
| <b>Schedule 16</b>                                       |  |  |
| <b>ADMINISTRATION, SELLING AND OTHER EXPENSES</b>        |  |  |
| Rent   | 237,968,375                                | 57,636,400                                 |
| Travelling and conveyance                                | 122,323,934                                | 58,769,268                                 |
| Communication expenses                                   | 30,580,453                                 | 8,019,899                                  |
| Printing and stationery                                  | 12,174,683                                 | 5,421,190                                  |
| Insurance  | 30,065,902                                 | 9,476,927                                  |
| Rates and taxes  | 47,188,337                                 | 15,589,063                                 |
| Professional and other service charges                   | 182,366,324                                | 42,196,080                                 |
| Bank charges   | 58,014,357                                 | 6,920,963                                  |
| Contribution and donation                                | 1,001,840                                  | 2,465,000                                  |
| Freight outward  | 57,919,715                                 | 19,614,163                                 |
| Commission on sales                                      | 72,990,611                                 | 33,408,951                                 |
| Other selling expenses                                   | 185,227,215                                | 34,972,912                                 |
| Repairs and maintenance - Buildings and others           | 14,790,772                                 | 6,162,700                                  |
| Exchange fluctuation loss (net)                          | 1,507,978                                  | -  |
| Advertisement and publicity                              | 58,049,369                                 | 17,070,394                                 |
| Other expenses   | 54,034,239                                 | 23,415,292                                 |
| Royalty  | 55,776,750                                 | -  |
| Diminution in value of investments - Current investments | 1,369,876                                  | 399,410                                    |
|  | <b>1,223,350,730</b>                       | <b>341,538,612</b>                         |

## Notes Forming Part of Accounts

### Himatsingka Seide Limited

#### Schedule 17

##### A) a) Information on subsidiary companies and associates :

- i. The list of subsidiary companies which are included in the Consolidated Financial Statements are as under:

| Name of the entity                    | Country of incorporation | % Ownership held either directly or through subsidiaries as at March 31, 2008 | % Ownership held either directly or through subsidiaries as at March 31, 2007 |
|---------------------------------------|--------------------------|---|---|
| Himatsingka Wovens Private Limited    | India                    | 100%  | 100%  |
| Himatsingka America Inc.              | United States of America | 100%  | 100%  |
| Giuseppe Bellora S.p.A.               | Italy                    | 70%   | 70%   |
| Twill & Oxford LLC                    | United Arab Emirates     | 49%   | 49%   |
| Giuseppe Bellora America Inc.         | United States of America | 100%  | 100%  |
| B.P. Venture Srl                      | Italy                    | 15%   | 52%   |
| Interbrands Srl                       | Italy                    | -   | 100%  |
| B.P. Venture Portugal LDA             | Portugal                 | 15%   | 100%  |
| Divatex Home Fashions, Inc.           | United States of America | 80%   | -   |
| DWI Holdings, Inc.                    | United States of America | 100%  | -   |
| Himatsingka Singapore Private Limited | Singapore                | 100%  | -   |

- ii. In respect of B.P. Venture Srl, Interbrands Srl, GBT Srl & Giuseppe Bellora America Inc., ownership is held through Giuseppe Bellora S.p.A.
- iii. In respect of B.P. Venture Portugal LDA ownership is held through B.P. Venture Srl
- iv. In terms of the Memorandum and Articles of Association, the composition of the Board of Directors of Twill & Oxford LLC is controlled by the Company and hence it has been considered as subsidiary for the purpose of consolidation.
- v. In respect of Divatex Home Fashions, Inc. and DWI Holdings Inc., ownership is held through Himatsingka America Inc.
- vi. In respect of Himatsingka Singapore Private Limited, ownership is held through Himatsingka Wovens Private Limited.
- vii. GBT Srl (a subsidiary of Giuseppe Bellora S.p.A.) is under liquidation and therefore has not been considered for consolidation. Provision for losses of GBT Srl has been made in the financial statements.
- viii. During the year, the shareholding of Giuseppe Bellora S.p.A. (GB), in one of its subsidiary companies, B.P. Venture Srl (BPV) has reduced from 52% to 15%. This is in line with the strategic intent of GB to consolidate its retail operations. The reduction in the shareholding is a result of lower participation in fresh infusion of capital of BPV. Consequentially, BPV and its subsidiary are no longer subsidiaries of the Group and hence not consolidated in the above results from the date of reduction in shareholding. The exceptional items include profit on reduction of shareholding amounting to Rs.342.78 lakhs.
- ix. During the year, Interbrand Srl, a subsidiary of GB has been merged into GB with effect from April 1, 2007.
- x. Associates of the Company and the ownership interest is as follows :

|                              |                           | 31.03.2008 | 31.03.2007 |
|------------------------------|---------------------------|------------|------------|
| Name of the Entity           | Milano Confezioni S.r.L., |            |            |
| Country of Incorporation     | Italy                     |            |            |
| % Share held                 |                           | 21%        | 21%        |
| Original cost of investment  | Rupees                    | 125,079    | 116,280    |
| Carrying value of investment | Rupees                    | 125,079    | 116,280    |

Share of Reserves and surplus as on December 31, 2007 is Rs.1,620,700 (Previous year: Rs.21,635)

Ownership in Milano Confezioni S.r.L is held through Giuseppe Bellora S.p.A

The reporting date of Milano Confezioni S.r.L is 31 December 2007 which is different from the reporting date of the Company.

The financial statements of Milano Confezioni S.r.L as on the reporting date are not available.

## Schedule 17

### NOTES ON ACCOUNTS

- xi Divatex Home Fashions Inc and DWI Holdings Inc became subsidiaries of the Company during the year. The financial position and results of the subsidiary are given below:

|                                    | Divatex Home Fashions Inc | DWI Holdings Inc  |
|------------------------------------|---------------------------|-------------------|
|                                    | Rupees                    | Rupees            |
| <b>Particulars</b>                 |                           |                   |
| Date of acquisition                | 02 July 2007              | 18 October 2007   |
| <b>Liabilities</b>                 |                           |                   |
| Loans                              | -                         | 25,077,281        |
| Current liabilities and provisions | 683,157,159               | 173,804,581       |
| <b>Assets</b>                      |                           |                   |
| Fixed assets                       | 35,384,804                | 118,644,052       |
| Deferred tax asset/(liability)     | (38,064,091)              | 11,767,677        |
| Current assets                     | 1,099,778,497             | 790,049,245       |
| <b>Profit after tax</b>            | <b>162,568,227</b>        | <b>14,296,861</b> |

- b) Figures pertaining to the subsidiary companies have been regrouped / reclassified wherever necessary to bring them in line with the Company's financial statements.
- c) The Consolidated Financial Statements include the share of assets, liabilities, income and expenses aggregating to amounts indicated below, which are included on the basis of un-audited financial statements in respect of the following:

B.P. Venture S.r.L and B.P. Venture Portugal LDA (Previous year: Giuseppe Bellora America Inc., B.P. Venture S.r.L, Interbrands S.r.L. and B.P. Venture Portugal LDA)

|                                    | 31.03.2008  | 31.03.2007  |
|------------------------------------|-------------|-------------|
|                                    | Rupees      | Rupees      |
| Loans                              | -           | 8,488,440   |
| Fixed assets                       | -           | 286,223,220 |
| Current assets                     | -           | 47,035,260  |
| Current liabilities and provisions | -           | 34,825,860  |
| Income                             | 340,474,770 | 5,184,250   |
| Expenditure                        | 464,929,422 | 9,902,500   |

#### B) Notes forming part of accounts:

|   | 31.03.2008<br>Rupees | 31.03.2007<br>Rupees |
|---|----------------------|----------------------|
| 1 Estimated amount of contracts remaining to be executed on capital account and not provided for (Net of advances).   | 221,051,243          | 713,586,373          |
| 2 Contingent liabilities not provided for :   |                      |                      |
| i) - Income tax   | 62,035,266           | 73,324,073           |
| - Entry tax   | 999,979              | 5,717,551            |
| - Value added tax   | -                    | 10,348,920           |
| ii) Corporate guarantee given towards credit & other facilities on behalf of Subsidiaries & various govt authorities and others   |                      |                      |
| - Banks   | 2,477,462            | -                    |
| - Others  | 822,263,700          | -                    |
| iii) Open Letters of credit   | 46,480,344           | -                    |
| 3 Deferred Tax  |                      |                      |
| a) Deferred tax liability as at 31st March 2008 represents the tax effect of temporary differences substantially on account of differences in the written down value of fixed assets on account of differing depreciation methods and rates and other timing differences. |                      |                      |
| b) Deferred tax liabilities (Net) as at 31st March 2008, comprises  |                      |                      |
| - Timing differences on account of depreciation   | 5,157,481            | 43,597,000           |
| - Timing differences on account of accumulated depreciation   | (399,530)            | -                    |
| - Other timing differences  | 9,576,448            | (21,035,380)         |
|   | <b>14,334,399</b>    | <b>22,561,620</b>    |

**Schedule 17****NOTES ON ACCOUNTS**

|   | 31.03.2008<br>Rupees  | 31.03.2007<br>Rupees |
|---|-----------------------|----------------------|
| 4 Segment Reporting   |                       |                      |
| a) Primary Segment : Business Segment   |                       |                      |
| The Company is mainly engaged in the business of manufacturing of textiles consisting of fabric and yarn. Considering the nature of business and financial reporting of the Company, the Company has only one business segment viz; Home textile as primary reportable segment. |                       |                      |
| b) Information about Secondary Segment  |                       |                      |
| Geographic Segment  |                       |                      |
| Distribution of the Group's consolidated sales by geographic location:  |                       |                      |
| USA   | 5,881,844,102         | 592,333,774          |
| Europe  | 2,453,889,092         | 1,029,884,045        |
| India   | 329,828,729           | 252,017,107          |
| Others  | 196,526,325           | 216,894,261          |
|   | <u>8,862,088,248</u>  | <u>2,091,129,187</u> |
| Carrying amount of segment assets based on their location:  |                       |                      |
| India   | 7,897,323,260         | 4,718,294,942        |
| USA   | 4,695,072,074         | 185,851,699          |
| Europe  | 2,606,939,387         | 1,384,995,963        |
| Others  | 62,567,218            | 20,031,501           |
|   | <u>15,261,901,939</u> | <u>6,309,174,105</u> |
| Additions to fixed assets:  |                       |                      |
| India   | 3,978,170,517         | 301,717,583          |
| USA   | 18,526,155            | -                    |
| Europe  | 87,201,426            | 10,348,920           |
| Others  | 51,679,990            | -                    |
|   | <u>4,135,578,088</u>  | <u>312,066,503</u>   |
| Note: Additions to fixed assets disclosed above do not include assets on the date of acquisition in respect of new subsidiaries that have been consolidated during the year.  |                       |                      |
| 5 Leases:   |                       |                      |
| The Group's significant leasing agreement is mainly in respect of the corporate office premises and vehicles provided to employees.   |                       |                      |
| a) the total of future minimum lease payments under non-cancellable operating leases due:   |                       |                      |
| not later than one year   | 94,922,929            | 56,177,734           |
| later than one year and not later than five years   | 192,089,331           | 155,336,265          |
| later than five years   | 1,910,415             | 10,745,000           |
| b) lease payments recognised in the statement of profit and loss for the year:  | 237,968,375           | 43,286,459           |

**Schedule 17**

**NOTES ON ACCOUNTS**

**6. Related Party Transactions:**

Details of transactions with Related Parties:

| Particulars                                   | Key management personnel |            | Relatives of Key management personnel |            | Enterprises owned or significantly influenced by key management personnel / Directors or their relatives |            | Associate  |            | Total      |            |
|---|--------------------------|------------|---------------------------------------|------------|--|------------|------------|------------|------------|------------|
|   | 31.03.2008               | 31.03.2007 | 31.03.2008                            | 31.03.2007 | 31.03.2008   | 31.03.2007 | 31.03.2008 | 31.03.2007 | 31.03.2008 | 31.03.2007 |
| <b>Purchase of Fixed Assets</b>               |                          |            |                                       |            |  |            |            |            |            |            |
| A K Himatsingka                               | -                        | 6,300,000  |                                       |            |  |            |            |            | -          | 6,300,000  |
| <b>Purchase of Goods</b>                      |                          |            |                                       |            |  |            |            |            |            |            |
| Bihar Mercantile Union Limited                |                          |            |                                       |            | 2,203,525  | 4,802,952  |            |            | 2,203,525  | 4,802,952  |
| BMU International Inc.                        |                          |            |                                       |            | 14,099,190   | 3,578,939  |            |            | 14,099,190 | 3,578,939  |
| Satin Reed (America) Inc                      |                          |            |                                       |            | 19,901,672   | 44,270,540 |            |            | 19,901,672 | 44,270,540 |
| Milano Confezioni S.r.l.                      |                          |            |                                       |            |  |            | 37,917,598 | -          | 37,917,598 | -          |
| <b>Sale of Fixed Assets</b>                   |                          |            |                                       |            |  |            |            |            |            |            |
| D K Himatsingka                               | -                        | 745,765    |                                       |            |  |            |            |            | -          | 745,765    |
| Aditya Himatsingka                            | -                        | 31,112     |                                       |            |  |            |            |            | -          | 31,112     |
| <b>Sale of Goods (Net)</b>                    |                          |            |                                       |            |  |            |            |            |            |            |
| Satin Reed (America) Inc                      |                          |            |                                       |            | 14,674,913   | 21,593,127 |            |            | 14,674,913 | 21,593,127 |
| Milano Confezioni S.r.l.                      |                          |            |                                       |            |  |            | 23,301,844 | -          | 23,301,844 | -          |
| <b>Job work charges</b>                       |                          |            |                                       |            |  |            |            |            |            |            |
| Bihar Mercantile Union Limited                |                          |            |                                       |            | -  | 810,878    |            |            | -          | 810,878    |
| <b>Sales Commission</b>                       |                          |            |                                       |            |  |            |            |            |            |            |
| <b>Rent received</b>                          |                          |            |                                       |            |  |            |            |            |            |            |
| Satin Reed (America) Inc                      |                          |            |                                       |            | 955,200  | -          |            |            | 955,200    | -          |
| <b>Remuneration</b>                           |                          |            |                                       |            |  |            |            |            |            |            |
| A K Himatsingka                               | 2,705,920                | 4,296,330  |                                       |            |  |            |            |            | 2,705,920  | 4,296,330  |
| D K Himatsingka                               | 2,811,840                | 9,806,599  |                                       |            |  |            |            |            | 2,811,840  | 9,806,599  |
| Aditya Himatsingka                            | 2,705,920                | 4,223,841  |                                       |            |  |            |            |            | 2,705,920  | 4,223,841  |
| Shrikant Himatsingka                          | 1,466,259                | 2,897,940  |                                       |            |  |            |            |            | 1,466,259  | 2,897,940  |
| Amitabh Himatsingka                           |                          |            | 7,233,934                             | 9,828,471  |  |            |            |            | 7,233,934  | 9,828,471  |
| <b>Lease Rent Paid</b>                        |                          |            |                                       |            |  |            |            |            |            |            |
| Bihar Mercantile Union Limited                |                          |            |                                       |            | 67,200   | 980,533    |            |            | 67,200     | 980,533    |
| <b>Professional Fees</b>                      |                          |            |                                       |            |  |            |            |            |            |            |
| Khaitan & Co                                  |                          |            |                                       |            | 77,500   | 1,914,500  |            |            | 77,500     | 1,914,500  |
| Gherzi Eastern Limited                        |                          |            |                                       |            | 448,500  | 5,723,106  |            |            | 448,500    | 5,723,106  |
| <b>Lease deposit refunded during the year</b> |                          |            |                                       |            |  |            |            |            |            |            |
| Bihar Mercantile Union Limited                |                          |            |                                       |            | 7,500,000  | -          |            |            | 7,500,000  | -          |
| <b>Outstanding as on 31 March 2008</b>        |                          |            |                                       |            |  |            |            |            |            |            |
| <b>Amounts Receivable:</b>                    |                          |            |                                       |            |  |            |            |            |            |            |
| <b>For Sale of Goods</b>                      |                          |            |                                       |            |  |            |            |            |            |            |
| Satin Reed (America) Inc                      |                          |            |                                       |            | 9,252,511  | 10,478,485 |            |            | 9,252,511  | 10,478,485 |
| Milano Confezioni S.r.l.                      |                          |            |                                       |            |  |            | 35,056,182 | 40,232,880 | 35,056,182 | 40,232,880 |
| <b>Advances Recoverable</b>                   |                          |            |                                       |            |  |            |            |            |            |            |
| Khaitan & Co                                  |                          |            |                                       |            | 189,796  | 189,796    |            |            | 189,796    | 189,796    |
| Gherzi Eastern Limited                        |                          |            |                                       |            | 700,000  | 11,762,706 |            |            | 700,000    | 11,762,706 |

**Schedule 17**  
**NOTES ON ACCOUNTS**

6. Related Party Transactions:

Details of transactions with Related Parties (cont.):

| Particulars                    | Key management personnel |            | Relatives of Key management personnel |            | Enterprises owned or significantly influenced by key management personnel / Directors or their relatives |            | Associate  |            | Total      |            |
|--------------------------------|--------------------------|------------|---------------------------------------|------------|--|------------|------------|------------|------------|------------|
|                                | 31.03.2008               | 31.03.2007 | 31.03.2008                            | 31.03.2007 | 31.03.2008   | 31.03.2007 | 31.03.2008 | 31.03.2007 | 31.03.2008 | 31.03.2007 |
| Lease Rent Deposit             |                          |            |                                       |            |  |            |            |            |            |            |
| Bihar Mercantile Union Limited |                          |            |                                       |            | 360,000  | 7,860,000  | 360,000    |            | 360,000    | 7,860,000  |
| Receivable                     |                          |            |                                       |            |  |            |            |            |            |            |
| A K Himatsingka                | 527,873                  | -          |                                       |            |  |            | 527,873    |            | 527,873    | -          |
| D K Himatsingka                | 3,536,568                | -          |                                       |            |  |            | 3,536,568  |            | 3,536,568  | -          |
| Aditya Himatsingka             | 446,953                  | -          |                                       |            |  |            | 446,953    |            | 446,953    | -          |
| Shrikant Himatsingka           | 437,109                  | -          |                                       |            |  |            | 437,109    |            | 437,109    | -          |
| Amounts Payable                |                          |            |                                       |            |  |            |            |            |            |            |
| Purchase of Goods              |                          |            |                                       |            |  |            |            |            |            |            |
| BMU International Inc.         |                          |            |                                       |            | 157,030  | 2,047,418  | 157,030    |            | 157,030    | 2,047,418  |
| Satin Reed (America) Inc       |                          |            |                                       |            | 3,198,407  | 2,552,198  | 3,198,407  |            | 3,198,407  | 2,552,198  |
| Milano Confezioni S.r.l.       |                          |            |                                       |            |  |            | 2,506,805  | 23,023,440 | 2,506,805  | 23,023,440 |
| Remuneration                   |                          |            |                                       |            |  |            |            |            |            |            |
| A K Himatsingka                | -                        | 128,712    |                                       |            |  |            |            |            |            | 128,712    |
| D K Himatsingka                | -                        | 436,137    |                                       |            |  |            |            |            |            | 436,137    |
| Aditya Himatsingka             | -                        | 128,712    |                                       |            |  |            |            |            |            | 128,712    |
| Shrikant Himatsingka           | -                        | 128,712    |                                       |            |  |            |            |            |            | 128,712    |

Note: The above figures includes transactions during trial production.

**Names of the Related Parties:**

Key Management Personnel

Whole time directors  
A.K.Himatsingka  
D.K.Himatsingka  
Aditya Himatsingka  
Srikant Himatsingka

Relatives of Key Management Personnel

Amitabh Himatsingka

Enterprises owned or significantly influenced by key management personnel/Directors or their relatives

Bihar Mercantile Union Limited  
Satin Reed (America) Inc  
Gherzi Eastern Limited  
Khaitan & Co

Associate

Milano Confezioni S.r.l.

Notes:

- 1) Related party relationship is as identified by the company on the basis of information available with them and accepted by the auditors.
- 2) No amount is/has been written back during the year in respect of debts due/from/to a related party.

**Schedule 17****NOTES ON ACCOUNTS**

|   | 31.03.2008<br>Rupees | 31.03.2007<br>Rupees |
|---|----------------------|----------------------|
| 7 The Company has setup a Bed-linen plant at Hassan, Karnataka and new Made-Ups facility at Apparel Park in Doddaballapur, Bangalore [District]. The following costs and incomes arising during the project period are capitalised. |                      |                      |
| - Raw Materials Consumed *  | 273,906,607          | 1,491,988            |
| - Dyes and Chemicals  | 27,716,459           | 211,336              |
| - Trims and Accessories   | 8,964,095            | -                    |
| - Power and Fuel  | 53,087,822           | 10,535,768           |
| - Stores and Spares consumed  | 4,664,763            | 1,890,537            |
| - Other manufacturing expenses  | 12,678,536           | 36,846               |
| - Salary, wages and Other Allowances  | 29,191,523           | 14,507,868           |
| - Workmen and Staff welfare Expenses  | 3,395,759            | 1,891,879            |
| - PF Contribution   | 1,542,744            | 1,306,333            |
| -Rent   | 1,034,463            | 2,289,597            |
| -Travelling & conveyance  | 6,754,300            | 4,907,001            |
| -Communication Expenses   | 532,751              | 265,020              |
| -Rates & Taxes  | 4,083,552            | 261,624              |
| -Professional and Other Service Charges   | 3,357,067            | 2,494,737            |
| -Other Expenses   | 3,254,094            | 274,032              |
| -Depreciation   | 5,345,567            | 2,521,296            |
| -Borrowing Costs [ net of subsidy under TUFS Rs.60,991,985 (Previous year Rs.44,148,776) ]  | 50,158,876           | 38,103,142           |
| Total Expenses  | 489,668,978          | 82,989,004           |
| Less: Income during trial production period   |                      |                      |
| - Export sale   | 146,983,146          | -                    |
| - Local Sales   | 12,269,892           | -                    |
| - Job work services   | 3,542,264            | -                    |
| Less: Stock of WIP and FG transferred to P&L  | 133,405,391          | -                    |
|   | 193,468,285          | 82,989,004           |

**8 Change in Accounting Policies****i) Fixed Asset**

The Company has adopted the Accounting Standard - 11 "the Effects of Changes in Foreign Exchange Rates" (AS-11) as issued under the Companies (Accounting Standards) Rules 2006, consequent to which exchange differences arising on restatement/ payment of foreign currency liabilities contracted for purchase of fixed assets are charged to the Profit and Loss Account.

Prior to the adoption of AS-11, the Company adjusted the exchange differences arising on restatement/payment of such liabilities against the cost of the related asset. Consequent to change in the accounting policy, the profit before tax for the year is lower and the exchange loss for the year is higher by Rs.18,467,144/-

**ii) Employee Benefits**

a) The Company has adopted the revised Accounting Standard - 15 " Employee Benefits" (AS-15), with effect from April 01, 2007. In accordance with the transitional provisions contained in the Accounting Standard, the incremental liability towards leave salary of Rs.4,465,434/- has been adjusted against the opening balance of General Reserve.

b) Prior to adoption of the revised AS-15, the Company was accruing for leave salary on the basis of the encashable amount in respect of leave credits outstanding at the balance sheet date, determined actuarially. Consequent to the adoption of the revised standard the leave salary costs are higher by Rs.5,017,945/- and the profit before tax for the year are lower by the corresponding amount.

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**Schedule 17****NOTES ON ACCOUNTS**

- 9 a) Employee benefits pertaining to overseas subsidiaries have been accrued based on their respective local labour laws.

b) Defined benefit obligations:

In accordance with applicable Indian laws, the Company provides for gratuity, a defined benefit retirement plan (Gratuity Plan). The Gratuity Plan provides a lump sum payment to vested employees, at retirement or termination of employment, an amount based on the respective employee's last drawn salary and the years of employment with the Company. The Company provides the gratuity benefit through annual contributions to a fund managed by the Insurer (ICICI Pru). Under this plan, the settlement obligation remains with the Company, although the Employees Gratuity Trust administers the plan and determines the contribution premium required to be paid by the Company.

|  |                           |
|--|---------------------------|
| Change in the benefit obligation   | 31.03.2008<br>Rupees      |
| Projected Benefit Obligation (PBO) at the beginning of the year                        | 46,468,701                |
| Service cost   | 4,832,282                 |
| Interest cost  | 3,904,334                 |
| Benefits paid  | (7,203,197)               |
| Actuarial loss   | 9,454,212                 |
| PBO at the end of the year   | 57,456,332                |
| Change in plan assets  |                           |
| Fair value of plan assets at the beginning of the year                                 | 42,401,235                |
| Expected return on plan assets   | 3,146,562                 |
| Employer contributions   | 7,148,095                 |
| Benefits paid  | (7,203,197)               |
| Actuarial gain   | 2,497,442                 |
| Fair value of plan assets at the end of the year                                       | 47,990,137                |
| Present value of unfunded obligation   | 9,466,195                 |
| Recognised liability   | 9,466,195                 |
| Net gratuity cost for the year ended March 31, 2008 is as follows:                     |                           |
| Service cost   | 4,832,282                 |
| Interest cost  | 3,904,334                 |
| Expected return on plan assets   | (3,146,562)               |
| Actuarial loss   | 6,956,770                 |
| Net gratuity cost  | 12,546,824                |
| Financial Assumptions at the valuation date:   |                           |
| a) Discount Rate ( p.a.)   | 8.15%                     |
| b) Expected Rate of Return on Assets ( p.a.)   | 7.50%                     |
| c) Salary Escalation Rate  | 8.00%                     |
| d) Retirement Age  | 58yrs                     |
| e) Mortality : Published rates under the LIC (1994-96) mortality tables has been used. |                           |
| f) Rates of leaving service at specimen ages are as shown below:                       |                           |
| Age (Years)  | Withdrawal Rates p.a. (%) |
| 21 – 44  | 8.00%                     |
| 45 - 57  | 1.00%                     |

**Schedule 17****NOTES ON ACCOUNTS**

|   |            |
|---|------------|
| B) Defined Contribution obligation (Parent and Indian Subsidiaries) | 31-Mar-08  |
| i) Provident Fund   | 27,540,442 |
| ii) Superannuation Fund   | 3,308,952  |
| iii) Others*  | 76,563,570 |

\* includes defined contributions obligations of companies incorporated outside India

## 10 Notes relating to cash flow statement

- a. The cash flow statement has been prepared under the "Indirect Method" as set out in the Accounting Standard 3 - "Cash Flow Statements" issued under the Companies (Accounting Standards) Rules, 2006.
- b. Cash And cash equivalents include balances with scheduled banks on dividend account Rs.62,42,399 (Previous year Rs.13,165,512) which are not available for use by the company.
- c. Cash and cash equivalents at March 31,2008 includes Rs. Nil (Previous year Rs.1,746,763,303) representing unutilised monies out of issue of Global Depository Shares.

## 11 Details of Forward covers, Options and Derivative transactions:

## 1) Forward Exchange Contracts

- a) The following are the outstanding Forward Exchange Contracts entered into by the company as on March 31, 2008:

## i) Export of Goods

- Current Year

| Currency   | Amount     | Buy/Sell | USD Equivalent | Rupee Equivalent |
|------------|------------|----------|----------------|------------------|
| USD * INR  | 12,200,000 | Sell     |                | 490,634,500      |
| EURO * USD |            | Sell     |                |                  |
| EURO * INR | 6,750,000  | Sell     |                | 401,722,575      |
| PND * USD  | 600,000    | Sell     | 1,241,800      |                  |
| PND * INR  | 600,000    | Sell     |                | 48,390,000       |

- Previous Year

| Currency   | Amount     | Buy/Sell | USD Equivalent | Rupee Equivalent |
|------------|------------|----------|----------------|------------------|
| USD * INR  | 11,334,486 | Sell     |                | 513,144,809      |
| EURO * USD | 4,150,000  | Sell     | 5,526,915      |                  |
| PND * INR  | 500,000    | Sell     |                | 29,931,250       |
| PND * USD  | 800,000    | Sell     | 1,555,900      |                  |

## ii) Import of Capital Goods

- Current Year

| Currency | Amount | Buy/Sell | Rupee Equivalent |
|----------|--------|----------|------------------|
| Nil      | Nil    | Buy      | Nil              |

- Previous Year

| Currency  | Amount    | Buy/Sell | Rupee Equivalent |
|-----------|-----------|----------|------------------|
| USD * INR | 4,020,000 | Buy      | 176,850,050      |

**Schedule 17****NOTES ON ACCOUNTS**

- b. Currency Swaps (other than forward exchange contracts stated above) to hedge against fluctuations in changes in exchange rate

- Current Year :

- i) To sell USD 1 Million every month at 44.50 till August '09 embedded with

| Currency Option    | USD Put    | CHF Call   | Equivalent INR |
|--------------------|------------|------------|----------------|
| No. of contracts:  | 1          | 1          |                |
| Notional Principal | 37,128,713 | 44,379,950 | 150 Crores     |

- ii) To sell USD 250,000 every month If USD \* INR spot at every monthly Expiry < 44.10, else to sell USD 500,000 @ 44.10 Till July 2012

| Currency Option    | CHF put    | INR call    | Equivalent USD |
|--------------------|------------|-------------|----------------|
| No. of contracts:  | 1          | 1           |                |
| Notional Principal | 14,759,723 | 500,000,000 | 12,385,435     |

- Previous Year : Nil

- 2) The year end foreign currency exposures that have not been hedged by a derivative instrument or otherwise are given below:

- a. Amounts receivable in foreign currency on account of the following:

| Particulars                                 | 31.03.2008       |            |                | 31.03.2007       |           |                |
|---|------------------|------------|----------------|------------------|-----------|----------------|
|   | Foreign Currency | Amount     | INR Equivalent | Foreign Currency | Amount    | INR Equivalent |
| Export of Goods and Services                | USD              | 408,322    | 16,381,897     | USD              | 1,701     | 74,211         |
|   | EURO             | 1,065      | 67,633         | EURO             | 12,287    | 707,908        |
|   | GBP              | 10,237     | 815,706        | GBP              | 10,433    | 891,516        |
|   | SGD              | 141,342    | 4,097,490      |                  |           |                |
| Inter Corporate Loan                        | AED              | 2,600,000  | 28,293,200     | AED              | 1,600,000 | 18,779,200     |
|   | USD              | 20,000,000 | 802,400,000    | USD              | -         | -              |
|   | SGD              | 1,500,000  | 43,485,000     | SGD              | -         | -              |
| Interest receivable on Inter Corporate Loan | AED              | 226,805    | 2,468,097      | AED              | 27,112    | 316,934        |
|   | USD              | 279,452    | 11,211,616     | USD              | -         | -              |
|   | SGD              | 63,823     | 1,850,229      | SGD              | -         | -              |
| Bank balance                                | USD              | 15,323     | 614,759        | USD              | 579       | 26,004         |
|   | EURO             | 100        | 6,352          | EURO             | 100       | 5,665          |

- b. Amounts payable in foreign currency on account of the following:

| Particulars                  | 31.03.2008       |         |                | 31.03.2007       |         |                |
|------------------------------|------------------|---------|----------------|------------------|---------|----------------|
|                              | Foreign Currency | Amount  | INR Equivalent | Foreign Currency | Amount  | INR Equivalent |
| Import of goods and services | USD              | 624,814 | 25,073,760     | USD              | 837,529 | 36,535,519     |
|                              | EURO             | 97,753  | 6,210,260      | EURO             | 150,666 | 8,201,966      |
|                              | SGD              | 23,521  | 682,331        | SGD              | -       | -              |
|                              | PND              | -       | -              | PND              | 71,096  | 6,064,020      |
| Import of Capital goods      | PND              | 604     | 48,139         | PND              | -       | -              |
|                              | EURO             | -       | -              | EURO             | 475,657 | 27,596,175     |

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## Schedule 17

### NOTES ON ACCOUNTS

- 3) Derivative Instruments
- Consequent to the notification issued by the Institute of Chartered Accountants of India on March 29, 2008 requiring evaluation of the derivative contracts, the Company has examined its various derivative contracts existing as at the year end as follows :
- i) The Company is exposed to foreign currency fluctuations on foreign currency assets and forecasted cash flows denominated in foreign currency and follows a policy of covering the risks arising out of foreign exchange fluctuations through a combination of forward contracts and options. During the year ended March 31, 2008, apart from forward contracts, the Company, entered into three foreign exchange derivative contracts.
- The Company has accounted for marked to market loss of Rs.277,698,663 as indicated by the contracting bank in respect of option contracts other than the contracts mentioned below.
- ii) The Company entered into a contract with a bank to sell US Dollars on a monthly basis at a fixed premium over the market rate subject to certain conditions. The contract obligates the company to pay premium on a notional amount of Euro 20 million, if the EUR/USD is above a specified level on any of the settlement dates. The contract also provides for a Knock Out option if the EUR/USD trades at or below a specified level.
- Subsequent to execution of this contract, the Company was advised by legal counsel that this contract was not in compliance with the stipulated statutory /legal requirements and was therefore, inter alia, void ab initio, unenforceable and not binding on the Company. Accordingly in May 2008, the Company repudiated the contract and filed a suit in the Court of the Principal Civil Judge at Bangalore.
- As per communication from the bank on March 24, 2008, the marked to market valuation indicates a loss of Rs.1,664,980,000.
- The bank has filed a suit with the Debt Recovery Tribunal (DRT) Bangalore, inter alia for recovery of a sum of Rs.45,323,505 allegedly due from the Company, as on March 31, 2008.
- Pending final adjudication of these cases, no provision for the same has been made in the financial statements.
- iii) The Company entered into a foreign exchange derivative contract with a bank with a duration of 60 months to sell US Dollars on a monthly basis at fixed rate subject to certain conditions. The contract also obligates the Company to pay a notional amount of Swiss Franc and receive notional amount of Rupees based on the Swiss Franc to US Dollar exchange rates during a specified monitoring period in the year 2012. There is significant uncertainty regarding the exchange rates that may be prevalent at that time and consequently the liability, if any, under the contract. Due to this uncertainty, no provision has been made in the financial statements as at March 31, 2008.
- The marked to market valuation indicated by the bank is a loss of Rs.68,500,000 as on March 31, 2008.
- 12 During 2003-04, the Khata in respect of one of the Company's properties was merged with those of other adjacent properties to facilitate better utilisation of the property by joint construction and entitlement of proportionate undivided share of the amalgamated property.
- 13 Pursuant to Shareholders approval in the Annual General Meeting held on September 26, 2007, the Company has on October 9,2007, allotted 5,800,000 warrants to promoters/ promoter group, at an issue price of Rs.130/- convertible into equity shares at the same price within 18 months from the date of issue. The Company has allotted 256,000 equity shares each on November 28, 2007, January 2, January 31 and March 7, 2008 on conversion of equivalent number of warrants out of the above.
- 14 Previous year figures have been regrouped/recast, wherever necessary, to conform the current year classification

## Significant Accounting Policies

### Himatsingka Seide Limited

#### Schedule 18

##### 1. System of accounting

The consolidated financial statements of Himatsingka Seide Limited ('the Company') and its subsidiary companies, collectively referred to as 'the Group' have been prepared under the historical cost convention on the accrual basis of accounting, and comply with the mandatory Accounting Standards ('AS') issued under the Companies (Accounting Standards) Rules, 2006 ('the Rules'). The financial statements of the entities in the Group used in the consolidation are drawn up to the same reporting date as of the Company i.e. March 31, 2008.

##### 2. Principles of consolidation

- The consolidated financial statements have been prepared in accordance with the principles and procedures for the preparation and presentation of consolidated financial statements as laid down under AS 21 - Consolidated Financial Statements prescribed under the Rules.
- The financial statements of the Company and its subsidiary companies have been combined on a line-by-line basis by adding together the book value of like items of assets, liabilities, income and expenses after eliminating intra-group balances, intra-group transactions and unrealised profits or losses. The amount shown in respect of reserves comprises the amount of the relevant reserves as per the balance sheet of the Company and its share in the post-acquisition change in the relevant reserve of subsidiaries.
- Minority interest represents the amount of equity attributable to the minority shareholders at the dates on which investment in a subsidiary is made by the Company and its share of movements in the equity subsequent to the dates of investments as stated above.
- The excess of cost to the Company of its investments in the subsidiary companies over its share of the equity of the subsidiary companies, at the dates on which the investments in the subsidiary companies were made, is recognized as goodwill, being an asset in the consolidated financial statements. Where the share of the equity in the subsidiary companies as on the date of investment is in excess of cost of investment of the Company, it is recognized as capital reserve and shown under the head Reserves and surplus.
- Investments in Associate Companies have been accounted under the equity method as per AS 23 - Accounting for Investments in Associates in Consolidated Financial Statements issued under the Rules.

##### 3. Use of estimates

The preparation of the financial statements in conformity with the accounting standards generally accepted in India requires, the management to make estimates that affect the reported amount of assets and liabilities, disclosure of contingent liabilities as at the date of the financial statement and reported amounts of revenues and expenses for the year. Actual results could differ from these estimates. Any revision is recognised prospectively in current and future periods.

##### 4. Fixed assets

Fixed assets and intangibles are stated at cost of acquisition or construction less accumulated depreciation. Cost includes all costs relating to acquisition and installation of fixed assets including incidental expenses incurred, interest on borrowings up to the date of capitalisation/commissioning of the projects/fixed asset.

Expenditure during construction period in respect of new projects is included under capital work-in-progress and the same is allocated to the fixed assets on the commissioning of the respective projects.

##### 5. Depreciation

- 5.1 Fixed assets are depreciated over the estimated useful lives as determined by the management or over the lives determined based on rates of depreciation specified under various applicable statutes, whichever is shorter, on a straight line method.
- 5.2 In respect of leasehold building and improvements to leasehold premises, depreciation has been provided over the unexpired portion of the primary lease period.
- 5.3 Leasehold land is amortised over the period of lease.
- 5.4 Purchase goodwill is amortised over a period of ten years.
- 5.5 Depreciation rates used for various classes of assets are:

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## Schedule 18

### SIGNIFICANT ACCOUNTING POLICIES

|                                    |                  |
|------------------------------------|------------------|
| Buildings                          | 1.63% to 7.07%   |
| Plant and Machinery                | 4.75% to 25.00%  |
| Furniture and Fixtures             | 10.00% to 20.00% |
| Office Equipment                   | 12.00% to 15.00% |
| EDP & Electronic Office Equipments | 20.00% to 25.00% |
| Software                           | 20.00% to 25.00% |
| Motor Vehicles                     | 15.00% to 25.00% |

5.6 In respect of assets for which impairment loss has been recognised, the depreciation charge has been adjusted to allocate the revised carrying amount, on a systematic basis over its remaining useful life.

#### 6. Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its fixed assets to determine whether there is any indication that those assets suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss. Recoverable amount is the higher of an asset's net selling price and value in use. In assessing value in use, the estimated future cash flows expected from the continuing use of the asset and from its disposal are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of time value of money and the risks specific to the asset.

Reversal of impairment losses recognized in prior years, if any, is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. However, the increase in carrying amount of an asset due to reversal of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized for the asset in prior years.

#### 7. Investments

Long term investments are stated at cost less provision for permanent diminution in value, if any.

Current investments are carried at lower of cost and fair value.

#### 8. Inventories

Inventories of raw materials, stores and spares, work-in-process and finished goods are valued at lower of cost and estimated net realisable value. Cost is ascertained on weighted average basis. Cost of finished goods and work-in-process includes an appropriate proportion of conversion cost.

#### 9. Government grants

Government grants are accounted on accrual basis in accordance with the terms of the grant.

#### 10. Revenue recognition

Revenue from sale of goods is recognised on the transfer of title in the goods which generally coincides with dispatch and is stated net of discounts and sales tax but inclusive of excise duty.

Excise duty on turnover is reduced from turnover.

Dividend income is recognised when the right to receive the dividend is established.

Interest on investments is booked on a time-proportion basis taking into account the amounts invested and the rate of interest.

#### 11. Retirement benefits

##### a. Post-employment benefit plans :

Payments to defined contribution plans, such as provident fund are charged as an expense as they fall due.

For defined benefit schemes, the cost of providing benefits is determined using Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the Profit and Loss Account for the period in which they occur. Past Service Cost is recognised immediately.

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## Schedule 18

### SIGNIFICANT ACCOUNTING POLICIES

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

b. Short term employee benefits :

The undiscounted portion of short-term employee benefits expected to be paid in exchange for the services rendered by the employees is recognized during the period when the employee renders service. These benefits include compensated absences such as paid annual leave.

#### 12. Foreign currency

Transactions in foreign currencies are recorded at the exchange rates prevailing on the date of the transaction. Monetary assets and liabilities in foreign currencies as at the year-end are restated at the year-end rates. Exchange differences on settlement / restatement of foreign currency monetary assets and liabilities are charged to the profit and loss account.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated at the exchange rate as on that date. The resultant exchange differences are recognised in the profit and loss account.

Premium or discount on forward contract is amortised over the life of such contract and is recognised as income or expense. Any profit or loss arising on cancellation, renewal or restatement of forward contract is recognised in the profit and loss account.

The financial statements of the foreign subsidiaries being integral operations are translated into Indian rupees as follows:

- Assets and liabilities (other than non-monetary items), are translated at the exchange rate prevailing on the balance sheet date. Non-monetary items are carried at historical cost.
- Revenue and expenses are translated at average exchange rates prevailing during the year.

The financial statements of the foreign subsidiaries being non-integral operations are translated into Indian rupees as follows:

- Assets and liabilities, both monetary and non-monetary are translated at the exchange rate prevailing on the balance sheet date.
- Revenue and expenses are translated at average exchange rates prevailing during the year.
- All resulting exchange differences are accumulated in a foreign currency translation reserve which is reflected under Reserves and Surplus.

#### 13. Earnings per share

Basic earnings per share is computed by dividing net profit after tax by the weighted average number of equity shares outstanding for the period. Diluted earnings per share has not been computed as the Group has not issued any dilutive potential equity shares.

#### 14. Income tax

Income tax comprises the current tax provision, the net change in the deferred tax asset or liability in the year and the fringe benefit tax provision.

Current income tax expense for the Indian entities and fringe benefit tax expense is determined in accordance with the provisions of the Income Tax Act, 1961. Current income tax expenses for the foreign subsidiaries are based on the relevant tax regulations prevalent in the respective countries.

Minimum alternate tax (MAT) paid in accordance to the tax laws, which gives rise to future economic benefits in the form of adjustment to future income tax liability, is considered as an asset if there is convincing evidence that the Group will pay normal income tax. Accordingly, MAT is recognised as an asset in the balance sheet when it is probable that future economic benefit associated with it will flow to the Group and the asset can be measured reliably.

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**Schedule 18****SIGNIFICANT ACCOUNTING POLICIES**

Deferred tax assets and liabilities are recognised for the estimated future tax consequences of temporary differences between the carrying values of the assets and liabilities and their respective tax bases. Deferred tax assets in the nature of unabsorbed depreciation and losses are recognised only if there is virtual certainty of realisation. Other deferred tax assets are recognised if there is reasonable certainty of realisation.

The effect on deferred tax assets and liabilities of a change in tax rates is recognised in the income statement in the period of enactment of the change.

**15. Provisions and contingencies**

A provision is recognised when the Group has a present legal or constructive obligation as a result of past event and it is probable that an outflow of resources will be required to settle the obligation, in respect of which reliable estimate can be made. Provisions (excluding retirement benefits) are not discounted to its present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates. Contingent liabilities are not recognised but are disclosed in the notes to the financial statement. A contingent asset is neither recognised nor disclosed.

**16. Miscellaneous expenditure**

Compensation paid to the employees under Voluntary Retirement Scheme (VRS) is amortised over a period of 24 months.

## Financial Highlights - Standalone

### Himatsingka Seide Limited

(Rs. lakhs)

|                                      | 1998-99  | 1999-00  | 2000-01  | 2001-02  | 2002-03  | 2003-04  | 2004-05  | 2005-06  | 2006-07  | 2007-08   |
|--------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|
| <b>Revenue Account</b>               |          |          |          |          |          |          |          |          |          |           |
| Total Income                         | 8697.15  | 11686.90 | 13006.89 | 12948.28 | 12942.47 | 14893.51 | 14449.97 | 16467.22 | 20122.00 | 24964.56  |
| EBITDA & Exceptional Item            | 4111.20  | 5425.10  | 5983.08  | 5563.51  | 5723.62  | 6937.99  | 6241.11  | 6606.61  | 7543.06  | 3429.26   |
| Interest                             | 351.80   | 257.69   | 100.58   | 32.80    | 16.70    | 13.13    | 119.40   | 114.90   | 44.72    | 904.97    |
| Depreciation                         | 862.51   | 1097.99  | 1273.04  | 1291.22  | 1395.86  | 1473.08  | 1245.92  | 1375.17  | 1404.43  | 2636.88   |
| Exceptional Item                     | -        | -        | -        | -        | -        | -        | -        | -        | -        | 2776.99   |
| PBT                                  | 2896.88  | 4069.42  | 4609.46  | 4239.49  | 4311.01  | 5451.78  | 4957.84  | 5116.54  | 6093.91  | (2889.58) |
| Taxes                                | 1.50     | -        | 392.39   | 430.00   | 300.00   | 400.00   | 317.50   | 286.00   | 633.00   | (285.80)  |
| Net Profit                           | 2895.38  | 4069.42  | 4217.07  | 3809.49  | 4011.01  | 5051.78  | 4640.34  | 4830.54  | 5460.91  | (2603.78) |
| Dividends                            | 764.25   | 1051.45  | 1147.03  | 1147.03  | 1338.20  | 1911.72  | 1911.72  | 2435.83  | 2435.83  | -         |
| <b>Capital Account</b>               |          |          |          |          |          |          |          |          |          |           |
| Share Capital                        | 955.31   | 1911.72  | 1911.72  | 1911.72  | 1911.72  | 1911.72  | 1911.72  | 4871.66  | 4871.66  | 4922.86   |
| Money received against share warrant | -        | -        | -        | -        | -        | -        | -        | -        | -        | 620.88    |
| Reserves                             | 13160.21 | 15106.11 | 18054.56 | 20471.52 | 22972.87 | 25867.99 | 26804.09 | 52489.53 | 55238.88 | 53870.83  |
| Long term loans                      | 2448.38  | 86.60    | -        | -        | -        | -        | 1475.00  | 3975.00  | 22419.53 | 31677.85  |
| Average capital employed             | 15594.91 | 16834.16 | 18535.36 | 21174.76 | 23633.92 | 26332.15 | 28985.30 | 45763.50 | 71933.13 | 86811.25  |
| Gross block                          | 14757.82 | 15454.26 | 16483.46 | 19226.82 | 19722.48 | 20462.28 | 19985.87 | 21519.57 | 23950.18 | 59454.30  |
| Net block                            | 11373.17 | 10977.55 | 10921.01 | 12381.94 | 11504.63 | 10835.51 | 9206.71  | 9400.35  | 10526.29 | 44525.88  |
| EPS (Annualised) - Rs.               | 30.31    | 21.29    | 22.06    | 19.93    | 20.98    | 26.43    | 24.27    | 5.87     | 5.60     | (2.67)    |
| Face Value per share (Rs.)           | 10.00    | 10.00    | 10.00    | 10.00    | 10.00    | 10.00    | 10.00    | 5.00     | 5.00     | 5.00      |
| Dividend per share - Rs.             | 8.00     | 5.50     | 6.00     | 6.00     | 7.00     | 10.00    | 10.00    | 2.50     | 2.50     | -         |
| Net worth per share - Rs.            | 147.76   | 89.02    | 104.44   | 117.08   | 130.17   | 145.31   | 150.21   | 58.77    | 61.65    | 60.35     |
| Employee Cost                        | 632.51   | 802.50   | 1132.38  | 1197.58  | 1391.40  | 1529.44  | 1594.71  | 1831.67  | 2521.65  | 4137.07   |

Forward looking statements contained in this Annual Report should be read in conjunction with the following cautionary statements. Certain expectations and projections regarding future performance of the Company referenced in this Annual Report are forward-looking statements. These expectations and projections are based on currently available information along with the Company's operating plans and are subject to certain future events and uncertainties, that could cause actual results to differ materially from those that may be indicated by such statements.

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