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Significant Information

Rs. lakhs

Particulars	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05
1. Fixed assets	13201.00	13887.99	11670.22	8636.44	7444.76	4885.30
2. Net current assets	4156.33	2742.55	2824.75	2999.21	2146.47	2524.91
3. Total capital employed	17617.96	16938.74	14834.82	12012.75	10002.77	7848.09
4. Shareholders' funds	4719.44	4425.60	2391.63	2034.92	1920.60	1723.72
5. No. of shares	38,49,250	38,49,250	38,49,250	38,49,250	38,49,250	38,49,250
6. Net worth per share (Rs.)	123	115	62	53	50	45
7. Turnover – gross	10750.66	8726.68	8327.25	8887.82	7582.15	7139.83
8. Turnover – net	10564.21	8584.97	8219.70	8762.85	7440.12	6927.84
9. Gross profit – PBDIT	2143.04	1242.59	1937.39	2165.76	1731.33	1308.04
10. Profit/(loss) before tax –PBT	448.69	(384.67)	700.57	724.69	607.78	524.26
11. Profit/(loss) after tax – PAT	333.69	(266.32)	457.57	470.19	432.78	288.95
12. Retained earnings	1112.96	462.80	950.19	1173.51	932.26	643.71
13. Dividend (%)	—	—	20	50	50	35
14. Earnings per share -(Rs.) - Basic	8.67	(6.92)	11.89	12.22	11.24	7.51
15. Installed capacity - Spindles	67,388	67,388	56,588	54,188	49,388	39,932
- Rotors	552	552	552	552	384	384

Note: Net worth per share in 2008-09 and 2009-10 is after reckoning revaluation surplus of Rs.2309.01 lakhs and Rs.2280.12 lakhs respectively.



CORPORATE GOVERNANCE REPORT

1 Our Company's philosophy on Corporate Governance

Our Company's philosophy on Corporate Governance is delineated below:

- Effectiveness measured by the quality of its leadership resulting in the best performance
- Accountability through openness, public disclosure and transparency of activities.
- Conforming to high ethical standards in financial policies, internal controls, constant attention towards high quality of its products and continuous upgrading of skill.
- Responsibility and responsiveness to stakeholders including shareholders, customers, employees, lenders and government agencies.
- Sustaining a healthy and ever improving bottom line.
- Upholding the spirit of social responsibility and
- Create a management team with entrepreneurial and professional skills

2 Board of directors

The eight member Board of Directors consists of an executive Chairman and Managing Director, four non executive independent Directors, one executive Director and two non executive 'non-independent' Directors. Details of the composition and attendance of the Board and Committees thereof and the shares of the Company held by them are given separately in this Report. The personal information about directors being reappointed is already mentioned in the Directors' Report and in the Notice convening the Annual General Meeting and therefore is not separately mentioned in this Report.

None of the Directors of the Company is a member of more than 10 Committees and Chairman of more than 5 Committees (as specified in Clause 49(1)(C) of the Listing Agreement with the Stock Exchanges) across all Companies in India of which he is a Director. All the Directors have certified that the disqualifications mentioned in Section 274(1)(g) of the Companies Act, 1956 do not apply to them.

The non executive Directors are entitled to sitting fees for every meeting of the Board or Committee thereof attended by them. The executive directors including the Chairman and Managing Director, are entitled to remuneration as per their terms of appointment and the details of such remuneration received by them are given separately in this Report.

Code of Conduct

The Code of Conduct laid down by the Company is applicable to the Board of Directors and all the employees of the Company. This Code of Conduct emphasises the Company's commitment to compliance with the highest standards of legal and ethical behaviour. All the Directors and senior management have adhered to the Code of Conduct of the Company during the year and have signed declarations of compliance to the Code of Conduct. The declaration signed by Sri R. Selvarajan, Chairman and Managing Director is given separately in the Annual Report.



Directorship held by existing Directors and shares of the Company held by them as on March 31, 2010 are given below:

Name of Director	Number of other Companies Directorship	Number of other Companies Committees of which member*	Number of shares of the Company held as on 31.03.10
Sri R. Selvarajan Chairman and Managing Director	4	-	7,78,330
Sri S. Vijay Shankar Joint Managing Director	1	-	4,09,582
Sri S. Devarajan	6	1	92,227
Sri M. Rajamani	1	-	87,647
Sri P.S. Ananthanarayanan	1	1	Nil
Sri V. Mahadevan	2	2	Nil
Sri V. Gopalan	2	1	Nil
Sri N. Asoka	2	2	Nil

*Only Audit Committee, Share Transfer Committee and Investor Grievance Committee are considered as per Clause 49(1)(C) of the Listing Agreement with Stock Exchanges

Audit Committee

The Audit Committee presently consists of four non executive independent Directors and one non executive director. Sri V. Gopalan, an independent Director, is the Chairman of the Audit Committee. Sri V. Mahadevan, Sri P.S. Ananthanarayanan and Sri N. Asoka, independent directors and Sri S. Devarajan, non executive director, are members of the audit committee. The Chairman and Managing Director, Internal Auditor, Statutory Auditor, Cost Auditor are invitees to Audit Committee meetings. The terms of reference of the Audit Committee cover all the areas mentioned under Clause 49 of the Listing Agreement with the Stock Exchanges and Section 292A of the Companies Act, 1956, besides other terms as may be referred by the Board of Directors. The broad terms of reference of the Audit Committee are to review financial reporting process and all financial results, statements and disclosures and recommend the same to the Board, review the internal audit reports and internal control systems and procedures and discuss the same with the internal auditors, to meet the statutory auditors and discuss their findings, the scope of audit, audit qualifications, if any, reviewing related party transactions, compliance with the listing agreements and other legal requirements and the Company's financial and risk management policies and compliance with statutory requirements. Sri G. Chennakesavan, Chartered Accountant, is the internal auditor of the company. He conducts internal audit and reports directly to the Audit Committee of the Board.

Share Transfer Committee

The Share Transfer Committee has been constituted to specifically look into the share transfers. Share transfers are effected by the Registrar and Transfer Agents (RTA) Cameo Corporate Services Limited, Chennai, on the authorisation given by the Board. The transfers/transmissions effected by the Registrar are submitted to the Share Transfer Committee for confirmation. Sri R. Selvarajan, Chairman and Managing Director chairs the meetings of the Committee. Sri S. Vijay Shankar, executive Director and Sri S. Devarajan, non executive Director, are members of this Committee. Sri S. Vijay Shankar is the Compliance officer. Minutes of the Committee meetings are circulated to all the Directors and discussed at the Board meetings.



Investor Grievance Committee

The Investor Grievance Committee has been constituted to specifically look into the redressal of investors' complaints. This Committee looks into investor relations/grievances on a periodical basis. Sri N. Asoka, non executive independent Director chairs the meetings of the Committee. Sri S. Vijay Shankar, executive Director and Sri M. Rajamani, non executive Director, are members of this Committee. Sri S. Vijay Shankar, executive director, is the Compliance officer. Minutes of the Committee meetings are circulated to all Directors and discussed at the Board meetings. During the year no complaints were received from investors and 85 request letters were received on routine matters and all these were dealt with satisfactorily.

Finance Committee

The Finance Committee has been constituted to consider the borrowings and deployment of funds. Sri R. Selvarajan, Chairman and Managing Director, Chairs the meetings of the Committee. Sri S. Vijay Shankar, executive Director and Sri S. Devarajan, non executive director, are members of this Committee. Sri S. Vijay Shankar, executive director, is the Compliance officer. Minutes of the Committee meetings are circulated to all Directors and discussed at the Board meetings.

Remuneration Committee

The Remuneration Committee has been constituted to consider the remuneration and other benefits to the executive directors. The Committee consists of three non executive independent Directors, namely Sri P.S. Ananthanarayanan, Sri V. Gopalan and Sri N. Asoka. Sri P. S. Ananthanarayanan chairs the meetings of the Committee. Sri S. Vijay Shankar, executive director, is the Compliance officer. Minutes of the Committee meetings are circulated to all the Directors and discussed at the Board meetings.

3 Attendance of Directors

Remuneration and attendance of Directors at the meetings of the Board or Committee thereof during the year ended March 31, 2010

Name of Director	Board Meet-ings	Audit Committee meetings	Share transfer committee meetings	Investor Grievance Committee meetings	AGM held on 23rd September, 2009	Directors sitting fees Rs.	Directors remuneration Rs.
Sri R. Selvarajan Chairman and Managing Director	5	–	4	–	1	–	36,00,000
Sri S. Vijay Shankar Joint Managing Director	5	–	4	4	1	–	24,00,000
Sri S. Devarajan	5	6	4	–	1	1,02,500	–
Sri M. Rajamani	5	–	–	4	1	12,500	–
Sri P.S. Ananthanarayanan	5	6	–	–	1	1,07,500	–
Sri V. Mahadevan	5	6	–	–	1	1,02,500	–
Sri V. Gopalan	5	6	–	–	1	1,07,500	–
Sri N. Asoka	3	3	–	3	–	57,500	–

Note : Five Board meetings were held during the year on June 25, 2009, July 31, 2009, September 23, 2009, October 31, 2009 and January 29, 2010. Six Audit Committee meetings were held during the year on June 4, 2009, June 23, 2009, June 24, 2009, July 30, 2009, October 30, 2009 and January 28, 2010. Share Transfer Committee meetings and Investors Grievance Committee meetings were held on June 25, 2009, July 31, 2009, October 31, 2009 and January 29, 2010.



4 General Shareholder Information

A The 34th Annual General Meeting of the Company will be held on August 12, 2010 at 11.30 a.m. at the mill premises of Sambandam Spinning Mills Limited in Kamaraj Nagar Colony, Salem 636 014. The previous three Annual General Meetings were held on the following dates:

Year	Date	Time	Venue
2007	06/07/2007	12.15 p.m.	Sambandam Spinning Mills Limited Mill Premises, Kamaraj Nagar Colony, Salem 636 014.
2008	27/09/2008	11.30 a.m.	Sambandam Spinning Mills Limited Mill Premises, Kamaraj Nagar Colony, Salem 636 014.
2009	23/09/2009	11.45 a.m.	Sambandam Spinning Mills Limited Mill Premises, Kamaraj Nagar Colony, Salem 636 014.

Two Special resolutions were passed at the Annual General Meeting held on September 27, 2008 and September 23, 2009 to approve the payment of remuneration to the two executive Directors of the Company.

No extra ordinary general meeting of the members was convened during the aforesaid three years and no special resolution was put through postal ballot last year and the company does not propose to pass any special resolution through postal ballot process during this year.

B Book Closure Period

The Book Closure period is July 30, 2010 to August 12, 2010 (both days inclusive).

C Financial Calendar for year 2010-11

Board meetings to be held in 2010-11 : August 2010, October/November 2010, January/February 2011 and May 2011

Annual General Meeting : AGM will be held in August/September, 2011

D Listing on Stock Exchanges

Annual Listing Fee has been paid and all requirements, including submission of quarterly reports and certificates, to the stock exchanges, where the shares of the Company are listed, were duly complied with. The shares of the Company are listed with the Bombay Stock Exchange Limited (Stock Code : 521242) and the Madras Stock Exchange Limited.

For Dematerialisation of shares, the ISIN No. allotted to the Company is **INE292D01019**. The shares are available for trading in the depository system of both the National Securities Depository Limited (NSDL) and the Central Depository Services Limited (CDSL). So far 68.05% shares of the Company are in dematerialised form.

E Registrar and transfer agents

The share management work, both physical and demat, is being handled by the Registrar and Share Transfer Agents of the Company whose name and address is given below:

Cameo Corporate Services Limited	Phone : 044-28460390 (5 lines)
Subramanian Building	Fax No.:044-28460129
No. 1 Club house Road,	
Chennai 600 002.	e-mail : investor@cameoindia.com



F Market Price (BSE) during the Period April 1, 2009 to March 31, 2010

Month	High (Rs.)	Low (Rs.)
April 09	37.70	23.95
May 09	51.90	36.80
June 09	58.95	38.65
July 09	50.00	39.05
August 09	48.15	39.55
September 09	61.85	42.30

Month	High (Rs.)	Low (Rs.)
October 09	67.95	55.10
November 09	79.75	58.00
December 09	79.20	65.00
January 10	90.70	64.60
February 10	89.90	65.05
March 10	92.15	61.20

G Means of communication

The annual, half-yearly and quarterly results are regularly published in English and vernacular newspapers and are also posted on the Company's website at www.kandagirimills.com. These are also sent to the stock exchanges concerned in accordance with the listing agreement. Further all communication regarding share transactions, change of address, nominations etc. should be addressed to the Registrar and Share Transfer Agents of the Company or to the Company at the following address:

Kandagiri Spinning Mills Limited
Post Box No.3, Udayapatti P.O.
Salem 636 140.

Phone : 0427-2244400
Fax no.:0427-2244422
e-mail : sales@kandagirimills.com

H Distribution of shareholding as on March 31, 2010

Shares held	Shareholders	%	No. of shares	%
1 – 5000	3262	92.41	3,79,281	9.85
5001 – 10000	101	2.86	80,095	2.08
10001 and above	167	4.73	33,89,874	88.07
Total	3530	100.00	38,49,250	100.00

I Shareholding pattern as on March 31, 2010

Category	No. of shares held	%
Indian Promoters	26,90,172	69.89
Financial Institutions	—	—
Bodies Corporate	1,71,207	4.45
Non Resident Indians	1,556	0.04
Indian Public	9,85,892	25.61
Clearing member	423	0.01
Total	38,49,250	100.00

J Disclosures

- (i) Details of transactions with the related parties as specified in the Accounting Standards issued under section 211(3) of the Companies Act, 1956 have been reported in the Notes to the Accounts. There is no transaction of a material nature with related party, which was in conflict with the interests of the company.



- (ii) There was no non-compliance, penalties or strictures imposed on the Company by any Stock exchange, SEBI, or any other statutory authority on any matters relating to capital market during the last three years.
- (iii) The Management Discussion and Analysis Report forms a part of the Directors' Report.
- (iv) The Company does not have any subsidiary.
- (v) There have been no public issues, rights issues or other public offerings during the past five years.
- (vi) Plant locations of the Company are given below:

Spinning Mills

Unit – I Udayapatti P.O., Salem 636 140. Tamil Nadu.

Unit – II Seshanchavadi P.O., Salem 636 111. Tamil Nadu.

Unit – III M. Perumapalayam Cross Road, Mettupatti P.O., Salem 636 111. Tamil Nadu.

Wind Energy Converters

Panangudi, Pazhavor, Udhayathoor and Parameshwarapuram villages,
Radhapuram Taluk, Tirunelveli District, Tamil Nadu.

Melamaruthappapuram Village, Veerakeralam Pudur Taluk, Tirunelveli District, Tamil Nadu.

Gudimangalam Village, Udumalpet Taluk, Coimbatore District, Tamil Nadu.

Auditors' certificate on compliance with the conditions of Corporate Governance under Clause 49 of the Listing Agreements

To the Members of Kandagiri Spinning Mills Limited

1. We have examined the compliance with the conditions of Corporate Governance by Kandagiri Spinning Mills Limited (the Company) for the year ended March 31, 2010 as stipulated in clause 49 of the listing agreements of the said Company with the stock exchanges in India, with the relevant records and documents maintained by the Company and furnished to us and report on Corporate Governance as approved by the Board of Directors.
2. The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination has been limited to procedures and implementation thereof, adopted by the Company for ensuring the said compliance. It is neither an audit nor an expression of opinion on the financial statements of the Company.
3. Based on the aforesaid examination and according to the information and explanations given to us, we certify that the Company has complied with the said conditions of Corporate Governance as stipulated in the above mentioned listing agreements.
4. We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For M.S. Krishnaswami & Rajan

Chartered Accountants

Registration No.01554S

M.K. Rajan-Partner

Membership No.4059

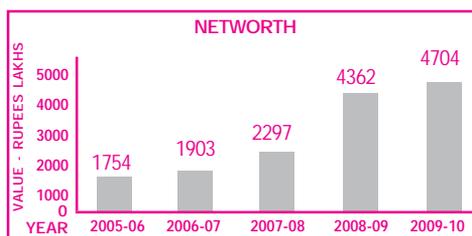
Salem
May 29, 2010



DIRECTORS' REPORT

The directors are pleased to present their 34th Annual Report and Audited Accounts for the year ended March 31, 2010 (the year).

Financial results	2009-10	2008-09
	(Rs. lakhs)	
Gross sales/Income from operations		
Direct exports	623	547
Merchandise exports	3433	<u>2626</u>
	4056	3173
Domestic Sales	6692	5553
Conversion charges earned	3	<u>1</u>
	10751	8727
Less sales tax and cess recovery	187	142
Net sales/Income from operations	10564	<u>8585</u>
Gross profit (ie. profit before interest and depreciation)	2143	1243
Cash profit (ie. profit before depreciation)	1228	344
Profit/(loss) before tax	449	(385)
Profit/(loss) after tax	334	(266)
Earnings per share – Basic Rs.	8.67	(6.92)



Dividend

With a view to conserving the reserves and also to meet the increase in requirements of working capital, the directors of your company do not recommend any dividend for the year ended March 31, 2010.

Management discussion and analysis

The core business of the company is manufacture and sale of cotton yarn. The management discussion and analysis given below discusses the key issues of the cotton yarn spinning sector.

(a) Industry performance

The initial worries associated with economic slowdown endured at the beginning of the year have been replaced with cautious optimism for the Indian market as the demand and price for yarn picked up from the middle of the year 2009. The fiscal and other initiatives taken by the Government of India have eased the pressures in the economy leading to a revival of textile industry. However the high raw material cost and the continuing power cut and the restrictions on power supply during peak hour affected the performance of textile industry in Tamilnadu.

(b) Company's performance

In spite of the above said adverse factors, the turnover of your company increased to Rs.10,564 lakhs as against Rs.8,585 lakhs, an improvement of 23% due to buoyant yarn selling price combined with good demand for yarn in the domestic and export market. Despite a record cotton crop, prices continued to rule abnormally high on account of the Government's decision to allow export of cotton. Consequently the operating profit increased to Rs.2143 lakhs from Rs.1243 lakhs.



Your Company's Wind Energy Converters (WEC) generated power of the value of Rs.772 lakhs as against Rs.645 lakhs in the previous year. During the year also, your company earned an income of Rs.79 lakhs from carbon credits, as against Rs.128 lakhs in the previous year.

(c) Outlook

The cotton price continues to be high in spite of expected record production of cotton crop and restrictions on export of cotton. Correspondingly the yarn prices are also ruling high, while the demand for yarn in the domestic market is encouraging. However the divergent interests of different sectors of the textile industry need to be properly balanced and the timely intervention by the Central Government continues to be necessary. Barring unforeseen circumstances, your directors are confident that during the current year also your company will be able to increase its productivity and profitability significantly.

(d) Strategies and Future plans

As part of future plan your directors will take up the modernization of spinning unit I and exploring the possibilities of manufacturing value addition yarn like slub yarn provided the situation prevailing at present continues to improve. The Company is also actively examining the entry into geo textiles.

(e) Risks and concerns

(1) Industry risk

The main twin risks in this industry, especially in the cotton yarn spinning sector, are the procurement prices for quality cotton and the fluctuation in yarn realization. Raw material prices, as is common with every industry, are conditioned by their supply position in the market. This problem invariably gets compounded by unrestricted export of cotton and the impact of import duty on cotton which renders the prices uneconomical.

In the case of marketing of yarn, price realisation depends on the demand from garment manufacturers and power loom sector. In recent times, competition from the emerging economies in the neighbouring countries such as Sri Lanka, China and Pakistan with their comfortable status engendered by the preferential treatment in USA and EU markets pose a real challenge to the textile yarn spinning units.

The vagaries in the power situation in Tamilnadu, accentuated by the monsoon playing truant, affects the smooth flow of production resulting in higher cost without corresponding increase in the realisation.

(2) Currency risk

Your company is taking the requisite ongoing steps to closely monitor the exchange rate movements by proper hedging against various associated risks.

(3) Quality concern

Quality of yarn manufactured is the single most important factor that will take a Company forward in its success story. Your Company has been aware of the said importance from its inception and the progress that it has made through the years was mainly because of the strict adherence to the quality of its yarn which has resulted in the Company reaping the best possible price for its yarn, both in the internal and international markets. The award of ISO 9001:2000 and EMS 14001 accreditation to the Company and Organic cotton standards certificate of the Control Union Certifications, Netherlands and ECO certificate from Shirley Technologies Limited, UK are fitting testimony of the efforts taken by the Company in this regard.

(f) Internal control and systems

The company has in place well established internal control procedures covering various areas such as procurement of raw materials, production planning, quality control, maintenance planning, marketing, cost control and debt servicing. Necessary checks and balances have been instituted for timely correction.

(g) Human resources management

Employees are your company's most valuable resource. Your Company continues to create a favourable environment at work place. Your Company has various welfare measures both government sponsored and privately envisaged. The company also recognises the importance of training and consequently deputed its work force to various work related courses/seminars including important issues like Total Quality Management (TQM). Because of these, your company is able to attract and retain well trained and dedicated workforce. The fact that the relationship with the employees continued to be cordial is testimony to the Company's ability to retain high quality workforce. In view of the aforesaid relationship no man days were lost during the year under report.

**(h) Corporate Social Responsibility**

Your Company's main activity may be centered around making quality yarn but its concerns reach out beyond the above stated business, to the welfare of your Company's employees and to the society at large to which your Company owes its growth. With this initiative, your Company has been imparting comprehensive training to the new entrants to the Company's fold, simultaneously continuing technical education to the existing staff and workforce. Your Company, along with your group's associate Company Sambandam Spinning Mills Limited, is collaborating with two multi speciality hospitals in Salem which, apart from rendering medical service to your Company's employees and their families are also offering medical relief to the public at large at subsidized rates. Besides your Company has been taking care of the food requirements of The Tamilnadu Association for the Blind School, Ayothiyapattinam, Salem District.

(i) Cautionary note

Statements in the Directors' report and the management discussion and analysis describing the Company's objectives, expectations or predictions may be forward looking within the meaning of applicable securities laws and regulations. Actual results might differ materially from those either expressed or implied in the statement. Important factors that could influence the Company's operations include global and domestic demand and supply conditions affecting selling prices of finished goods, input availability and prices, changes in government regulations, tax laws, economic developments within the country and other related factors such as litigation and industrial relations.

Directors

Sri V. Mahadevan and N. Asoka retire by rotation and are eligible for reappointment.

The Company's Code of Conduct applicable to the board has been adopted by the board and all the directors of the Company have confirmed compliance with the Code of Conduct.

Auditors

The auditors, M.S. Krishnaswami & Rajan, Chartered Accountants, retire at the ensuing annual general meeting and have confirmed their eligibility and willingness to accept office, if appointed.

Annexure

Annexure to this report details Statement on directors' responsibility, conservation of energy, technology absorption, Research and Development and foreign exchange earnings and outgo.

Compliance Certificate u/s 383A

The compliance certificate pursuant to section 383A of the Companies Act, 1956 obtained from M/s. B.K. Sundaram & Associates, practising Company secretaries, Tiruchirapalli, is also annexed to this report.

Appreciation

The directors of your Company record their sincere appreciation of the dedication and commitment of all employees in achieving and sustaining excellence in all areas of the business. Your directors thank the Shareholders, customers, suppliers and bankers and other stakeholders for their continued support during the year. Your Company's consistent growth has been made possible by the hard work, solidarity, cooperation and support of the management team.

The directors of your Company thank State Bank of India, Karnataka Bank Limited and Axis Bank Limited, the Government of Tamil Nadu and other government agencies for their support, and look forward to their continued support in future.

Salem
May 29, 2010

For and on behalf of the Board
R. Selvarajan
Chairman and Managing Director


Annexure to Directors' Report
(i) Directors' Responsibility Statement as per section 217(2AA) of the Companies Act, 1956
Responsibility in relation to financial statements

The financial statements have been prepared in conformity, in all material respects, with the applicable Accounting Standards in a consistent manner and supported by reasonable and prudent judgements and estimates. The Directors believe that the financial statements reflect true and fair view of the financial position as on 31.3.2010 and of the results of operations for the year ended 31.3.2010.

The financial statements have been audited by M/s M.S. Krishnaswami & Rajan, Chartered Accountants in accordance with generally accepted auditing standards, which include an assessment of the systems of internal controls and tests of transactions to the extent considered necessary by them to support their opinion.

Going Concern

In the opinion of the Directors, the Company will be in a position to carry on its existing spinning of yarn business and accordingly it is considered appropriate to prepare the financial statements on the basis of going concern.

Maintenance of accounting records and Internal controls

The company has taken proper and sufficient care for the maintenance of adequate accounting records as required by various Statutes.

Directors have overall responsibility for the Company's internal control system, which is designed to provide a reasonable assurance for safeguarding of assets, reliability of financial records and for preventing and detecting fraud and other irregularities.

The system of internal control is monitored by the internal audit function, which encompasses the examination and evaluation of the adequacy and effectiveness of the system of internal control and quality of performance in carrying out assigned responsibilities. Internal Audit Department interacts with all levels of management and the Statutory Auditors, and reports significant issues to the Audit Committee of the Board.

Audit Committee supervises the financial reporting process through review of accounting and reporting practices, financial and accounting controls and financial statements. Audit Committee also periodically interacts with internal and statutory auditors to ensure quality and veracity of Company's accounts.

Internal Auditors, Audit Committee and Statutory Auditors have full and free access to all the information and records as considered necessary to carry out their responsibilities. All the issues raised by them have been suitably acted upon and followed up.

(ii) Conservation of energy, technology absorption and research and development and foreign exchange earnings and outgo
A. Conservation of energy
(a) Power and fuel consumption
1. Electricity

		2009-10	2008-09
(i) Purchased units*	'000 KWH	10,328	9,589
Total cost	Rs. lakhs	680	592
Cost/unit	Rs.	6.58	6.17

*net of units generated thro' wind energy converters

(ii) Own generation
1) Through diesel generator

Generated units	'000 KWH	4,542	2,969
Units per litre of diesel	KWH	3.30	3.25
Cost/unit	Rs.	10.52	11.95

2) Through steam turbine/generator
3) Through Wind energy converters

Generated units (fed to TNEB Grid)	'000 KWH	21,002	20,141
Cost/unit*	Rs.	2.42	3.06

*Cost includes maintenance charges, interest and depreciation

2. Coal
3. Furnace oil
4. Others

	—	—
	—	—
	—	—



Annexure to Directors' Report

(b) Consumption per unit of production

Production (yarn)	Kgs. lakhs	66.04	61.03
Consumption of electricity	'000 KWH	35,872	32,699
Consumption per kg. of Yarn	KWH	5.43	5.36

B. Technology absorption and research and development

— —

C. Foreign exchange earnings and outgo

(a) Activities relating to exports

Yarn exports (including merchandise exports)	Rs. lakhs	4055.41	3172.47
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(b) Total Foreign Exchange used and earned

1) CIF value of Imports

Capital goods*	Rs. lakhs	—	—
Spares for Capital goods*	Rs. lakhs	6.36	0.40
Raw materials (cotton)*	Rs. lakhs	791.82	679.50

*exclusive of net exchange difference

2) Other expenditure in foreign currency

Interest	Rs. lakhs	39.67	13.85
Other matters	Rs. lakhs	5.37	—

3) Foreign exchange earned

Yarn export	Rs. lakhs	628.79	548.62
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(iii) Particulars of employees – information pursuant to section 217(2A) of the Companies Act, 1956

A. Employed throughout the year and in receipt of remuneration aggregating to Rs.24,00,000 or more

Name	Age	Designation	Gross remuneration	Qualification	Experience	Date of appointment	Previous employer
R.Selvarajan	65	Chairman and Managing Director	Rs.36,00,000	Matriculate	34 years	October, 23, 2002	—
S.Vijay Shankar	33	Joint Managing Director	Rs.24,00,000	M.B.A.	7 years	October, 23, 2002	—

B. Employed for part of the year and in receipt of remuneration of Rs.2,00,000 or more per month - NIL

Note : Remuneration includes salary and value of perquisites and nature of employment is contractual.

Salem,
May 29, 2010

For and on behalf of the Board
R. Selvarajan
Chairman and Managing Director

(iv) Code of Conduct for the Senior Management

As required under Clause 49(1)(D) of the Listing Agreements with the Stock Exchanges, I hereby declare that all the Board members and senior management personnel of the Company have complied with the Code of Conduct of the Company for the year ended March 31, 2010.

Salem,
May 29, 2010

R. Selvarajan
Chairman and Managing Director



Annexure to Directors' Report

B.K.SUNDARAM & ASSOCIATES
COMPANY SECRETARIES.
B.KALYANASUNDARAM,
B.Com.,AICWA.,ACS.,

OFFICE:
30,PANDAMANGALAM AGRAHARAM,
WORJUR,TRICHY-620003.
PHONE:0431-2761590.

To
The Members, M/S KANDAGIRI SPINNING MILLS LIMITED

Sub: Compliance Certificate.

Ref: M/S KANDAGIRI SPINNING MILLS LIMITED Company Regn. No.: 181- 000762.

We have examined the registers, records, books and papers of the above said Company as required to be maintained under the Companies Act, 1956, (the Act) and the Rules made thereunder and also the provisions contained in the Memorandum and Articles of Association of the Company for the financial year ended on 31st March, 2010. In our opinion and to the best of our information and according to the examinations carried out by us and explanations furnished to us by the Company, its officers and agents, we certify that in respect of the aforesaid financial year:

1. The Company has kept and maintained all registers as stated in Annexure 'A' to this certificate, as per the provisions and the rules made thereunder and all entries therein have been duly recorded.
2. The Company has duly filed the forms and returns as stated in Annexure 'B' to this certificate, with the Registrar of Companies, Regional Director, Central Government, Company Law Board or other authorities under the Act and the Rules made thereunder.
3. The Company being a Public Limited Company has the minimum prescribed paid-up capital.
4. The Board of Directors duly met 5 (FIVE) times on 25/06/2009, 31/07/2009, 23/09/2009, 31/10/2009 and 29/01/2010 in respect of which meetings proper notices were given and the proceedings were duly recorded and signed including the circular resolutions passed in the Minutes Book maintained for the purpose.
5. The Company has closed its Register of Members from 17/09/2009 to 23 /09/2009 (both days inclusive) during the year under scrutiny.
6. The Annual General Meeting for the financial year ended on 31st March 2009 was held on 23/09/2009 after giving due notice to the members of the Company and the resolutions passed thereat were duly recorded in the Minutes Book maintained for the purpose.
7. No Extra-Ordinary General Meeting was held during the financial year under scrutiny.
8. The Company has not advanced loans to its directors and/or persons or firms or companies referred in the section 295 of the Act during the year under scrutiny.
9. The Company has duly complied with the provisions of section 297 of the Act in respect of the contracts specified in that section.
10. The Company has made necessary entries in the register maintained under Section 301 of the Act.
11. The Company did not attract the provisions of Section 314 of the Act during the year under scrutiny.
12. The duly constituted committee of Directors has approved the issue of duplicate share certificates during the year under scrutiny.
13. (i) There was no allotment of shares /securities. The Company has delivered all the certificates on lodgement thereof for transfer/ transmission or any other purpose in accordance with the provisions of the Act.
(ii) The Company has not deposited any amount in a separate Bank Account as no dividend was declared during the year under scrutiny.
(iii) The Company has not posted warrants to any member of the Company as no dividend was declared during the year under scrutiny.



- (iv) The Company has transferred Rs.1,12,753/-in unpaid dividend account which have remained unclaimed or unpaid for a period of seven years to Investor Education and Protection Fund on 12/10/2009 by remittance into Punjab National Bank, Oppanakara Street, Coimbatore.
- (v) The Company has complied with the requirements of section 217 of the Act.
14. The Board of Directors of the Company is duly constituted and there were no new appointments of Directors, Additional Directors, Alternate Directors and Directors to fill casual vacancies during the year under scrutiny.
 15. The appointments of Managing Director and whole time director have been duly made in compliance with the provisions of Section 269 read with Schedule XIII to the Companies Act,1956 during the year under scrutiny.
 16. The Company has no sole-selling agents.
 17. The Company had no need to obtain approvals of the Central Government, Company Law Board, Regional Director, Registrar or such other authorities during the year under scrutiny.
 18. The Directors have disclosed their interest in other firms/companies to the Board of Directors pursuant to the provisions of the Act and the rules made there under.
 19. The Company has issued NIL shares during the financial year under Scrutiny.
 20. The Company has bought back NIL shares during the financial year ended 31/3/2010.
 21. The Company has redeemed NIL preference shares/debentures during the year under scrutiny.
 22. The Company had no occasion to keep in abeyance rights to dividend, rights shares and bonus shares pending registration of transfer of shares in compliance with the provisions of the Act.
 23. The Company has complied with the provisions of Section 58 A and 58AA read with Companies (Acceptance of Deposit) Rules, 1975 / the applicable directions issued by the Reserve Bank of India/ any other authority in respect of deposits accepted including unsecured Loans during the year under scrutiny attracting the provisions of sections 58A and 58AA read with Companies (Acceptance of Deposit) Rules, 1975 / the applicable directions issued by the Reserve Bank of India / any other authority.
 24. The amount borrowed by the Company from directors, members, Public, Financial Institutions, Banks and others during the financial year ended 31-3-2010 was within the borrowing limit of Rs.300 Crores, approved by the Shareholders pursuant to Sec.293(1)(d) of the Act at the duly convened AGM held on 06/07/2007.
 25. The Company has not made Loans and Investments or given guarantees or provided securities to other Bodies Corporate during the year under scrutiny.
 26. The Company has not altered the provisions of the Memorandum with respect to situation of the Company's registered office from one State to another during the year under scrutiny.
 27. The Company has not altered the provisions of the Memorandum with respect to the objects of the Company during the year under scrutiny.
 28. The Company has not altered the provisions of the Memorandum with respect to name of the Company during the year under scrutiny.
 29. The Company has not altered the provisions of the Memorandum with respect to share capital of the Company during the year under scrutiny.
 30. The Company has not altered its Articles of Association of the Company during the year under scrutiny.
 31. No prosecution was initiated against or show cause notices received by the Company for alleged offences under the Act and no fines and penalties or any other punishment were imposed on the Company during the year under scrutiny.
 32. The Company has received Rs. NIL as security from its employees during the year under scrutiny.
 33. The Company does not attract the provisions of Section 418 of the Companies Act, 1956.

Sd/-

Place : TRICHY – 3.

Name of Company Secretary : B.KALYANASUNDARAM

Date : 29/05/2010

C. P. No. : 2209



Annexure A

REGISTERS AS MAINTAINED BY THE COMPANY

1. REGISTER OF MEMBERS u/s 150.
2. BOARD MEETING MINUTES BOOK u/s 193 AND ATTENDANCE.
3. SHAREHOLDERS' MEETING MINUTES BOOK u/s 193 AND ATTENDANCE.
4. REGISTER OF DIRECTORS, MANAGING DIRECTOR & SECRETARY u/s 303.
5. REGISTER OF CHARGES u/s 143
6. REGISTER OF DIRECTORS' DISCLOSURE u/s 301.
7. REGISTER OF DIRECTORS' SHARE HOLDINGS u/s 307.
8. REGISTER OF LOANS AND INVESTMENTS u/s 372A.
9. BOOKS OF ACCOUNTS.

Annexure B

Forms and Returns as filed by the Company with the Ministry of Corporate Affairs:

FORM NO [Financial Year/Date of Event]	CHALLAN NO	DATE	FEES PAID Rs.
23C-(Cost Auditor Appointment)	A61461125	08/05/2009	2000
17	A63160568	08/06/2009	500
17	A63158695	08/06/2009	500
17	A63156269	08/06/2009	500
17	A63682702	17/06/2009	500
8	A64290521	27/06/2009	500
62	A64302102	27/06/2009	500
8	A66727512	06/08/2009	500
17	A67442004	19/08/2009	500
17	A67441998	19/08/2009	500
8	A69336675	16/09/2009	500
CAR	A69667988	21/09/2009	NIL
62	A69807790	23/09/2009	500
23 (Spl resolution at AGM	A70617097	09/10/2009	500
25 C	A70730767	12/10/2009	500
25 C	A70731658	12/10/2009	500
66- (31.03.2009)	P36898989	22/10/2009	500
23AC&ACA-(31.03.2009)	P36958783	23/10/2009	500
1 INV (NOT TAKEN ON RECORD BY ROC)	A71374185	24/10/2009	NIL
20B- (23.09.2009)	P41384967	19/11/2009	500
1 INV (NOT TAKEN ON RECORD BY ROC)	A72525603	11/11/2009	NIL
1 INV (NOT TAKEN ON RECORD BY ROC)	A73873259	03/12/2009	NIL
8	A75494989	29/12/2009	500
8	A79016028	22/02/2010	500

Sd/-

Place : TRICHY – 3.
Date : 29/05/2010

Name of Company Secretary : B.KALYANASUNDARAM
C. P. No. : 2209

**Auditors' Report to the Members**

1. We have audited the attached Balance Sheet of **Kandagiri Spinning Mills Limited** as at March 31, 2010 and the relative Profit and loss Account and the Cash flow statement for the year ended on that date (the year), signed by us under reference to this report. 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 have conducted our audit in accordance with the auditing and assurance standards generally accepted in India. The said Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. 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.
4. In our opinion, proper books of account, as required by law, have been kept by the Company so far as appears from our examination of those books.
5. The financial statements dealt with by this report are in agreement with the books of account.
6. In our opinion, the financial statements comply in all material respects with the applicable Accounting Standards referred to in section 211(3C) of the Companies Act, 1956 (the Act).
7. Based on the written representation received from the directors as on March 31, 2010, and taken on record by the Board of Directors, we report that none of the directors is prima facie disqualified as on March 31, 2010 from being appointed as a director in terms of section 274(1)(g) of the Act.
8. In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements read with the Significant accounting policies and Notes to the accounts, give the information required by the Act in the manner so required and also give a true and fair view, in conformity with the accounting principles generally accepted in India:
 - 8.1 in the case of the Balance sheet, of the state of affairs of the Company as at March 31, 2010;
 - 8.2 in the case of the Profit and loss account, of the profit for the year; and
 - 8.3 in the case of the Cash flow statement, of the cash flows for the year.
9. As required by the Companies (Auditor's Report) Order, 2003 as amended by the Companies (Auditor's Report) (Amendment) Order, 2004 issued by the Government of India in terms of section 227(4A) of the Companies Act, 1956, and on the basis of such checks as we considered appropriate and according to the information and explanations given to us, we report that:
 - 9.1 In our opinion, the Company is maintaining proper records to show full particulars including quantitative details and situation of fixed assets. These fixed assets have been physically verified by the management during the year at reasonable intervals and no material discrepancies were noticed on such verification. The Company has not disposed off during the year substantial part of its fixed assets.
 - 9.2 Physical verification of inventory has been conducted at reasonable intervals by the management. In our opinion, the procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business. The Company is maintaining proper records of inventory and no material discrepancies were noticed on such verification as compared to the book records.
 - 9.3 The Company has neither granted nor taken any loans, secured or unsecured during the year to/from companies, firms or other parties covered in the register maintained under section 301 of the Act.
 - 9.4 In our opinion, there is an adequate internal control system 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. Further we have neither come across nor have been informed of any continuing failure to correct major weaknesses in the aforesaid internal control system.



- 9.5 (i) The particulars of contracts or arrangements that need to be entered into a register under section 301 of the Act have been entered.
(ii) In our opinion, each of the transactions exceeding the value of Rs.5,00,000 pursuant to the aforesaid contracts/arrangements have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.
- 9.6 In our opinion, the Company has complied with the provisions of sections 58A and 58AA or any other relevant provisions of the Act and the Companies (Acceptance of Deposit) Rules, 1975 with regard to deposits accepted from public.
- 9.7 In our opinion, the Company has an internal audit system commensurate with its size and nature of its business.
- 9.8 On the basis of the records produced, we are of the opinion that prima facie, the cost records and related accounts prescribed by the Central Government under section 209(1)(d) of the Act have been made and maintained by the Company. However, we are not required to carry out and have not carried out any detailed examination of such records and accounts.
- 9.9 (i) In our opinion, the Company has been regular during the year in depositing the undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income tax, sales tax, wealth tax, service tax, customs duty, excise duty, cess and other material statutory dues, as applicable, with the appropriate authorities.
(ii) There are no dues of income tax, wealth tax, excise duty, service tax, customs duty which have not been deposited on account of any dispute, except Sales tax due of Rs.37,702 and Rs.35,909 have not been deposited on account of dispute pending before the Appellate Deputy Commissioner of Commercial taxes and Sales tax Appellate Tribunal respectively.
- 9.10 The Company does not have any accumulated losses at the end of the year and has not incurred any cash losses in the year or in the immediately preceding year.
- 9.11 In our opinion, the Company has not defaulted during the year in repayment of dues to any financial institution, bank or debenture holders.
- 9.12 The Company has not granted during the year loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- 9.13 The provisions of any special statute applicable to a chit fund, nidhi, mutual benefit fund/societies are not applicable to the Company.
- 9.14 The Company is not dealing or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Order are not applicable to the Company.
- 9.15 The Company has not given any guarantees for loans taken by others from banks or financial institutions.
- 9.16 In our opinion, the term loans availed by the Company during the year, were, prima facie, applied for the purpose for which they were obtained.
- 9.17 Based on an overall examination of the financial statements of the Company, we report that no funds raised on short-term basis have been used for long term investment.
- 9.18 The Company has not made during the year any preferential allotment of shares to any party.
- 9.19 The Company has not issued during the year any debentures.
- 9.20 The Company has not raised money during the year by public issue of shares or other securities.
- 9.21 No instances of fraud of material significance perpetrated on or by the Company been noticed or reported during the period covered by our audit.

For M.S. Krishnaswami & Rajan
Chartered Accountants
Registration No.01554S
M.K. Rajan-Partner
Membership No.4059

Salem
May 29, 2010



Balance sheet as at March 31, 2010

	Schedule	Rupees	March 31, 2010 Rupees	March 31, 2009 Rupees
1. Source of funds				
Shareholders' funds				
Capital	1.1	3,85,74,500		3,85,74,500
Reserves and surplus	1.2	<u>43,33,69,316</u>	47,19,43,816	<u>40,39,85,909</u>
				44,25,60,409
Loan funds				
Secured loans	1.3	108,74,27,254		106,46,05,001
Unsecured loans	1.4	<u>6,10,99,730</u>	114,85,26,984	<u>5,68,83,687</u>
				112,14,88,688
Deferred tax liability-net			14,13,25,167	12,98,25,167
			<u>176,17,95,967</u>	<u>169,38,74,264</u>
2. Application of funds				
Fixed assets	1.5			
Gross block		209,18,52,021		208,02,01,731
Less Depreciation		<u>77,17,52,023</u>		<u>69,14,02,267</u>
Net block		<u>132,00,99,998</u>		<u>138,87,99,464</u>
Capital work in progress		—	132,00,99,998	—
				138,87,99,464
Investments	1.6		2,45,00,000	2,45,00,000
Current assets, loans and advances				
Inventories	1.7	33,27,22,397		10,63,87,143
Sundry debtors	1.8	10,88,05,567		15,14,51,402
Cash and bank balances	1.9	1,48,87,741		1,76,21,231
Other current assets	1.10	2,60,39,155		2,72,44,400
Loans and advances	1.11	<u>6,74,37,440</u>		<u>7,47,11,961</u>
				37,74,16,137
Less			54,98,92,300	
Current liabilities and provisions				
Liabilities	1.12	12,20,55,836		8,81,11,512
Provisions	1.13	<u>1,22,03,616</u>		<u>1,50,49,668</u>
				10,31,61,180
Net current assets			41,56,32,848	27,42,54,957
Miscellaneous expenditure	1.14		<u>15,63,121</u>	<u>63,19,843</u>
			<u>176,17,95,967</u>	<u>169,38,74,264</u>
Significant accounting policies and Notes to the accounts	3			

Per our report of even date
For M.S. Krishnaswami & Rajan
Chartered Accountants
M.K. Rajan - Partner
Salem,
May 29, 2010

For and on behalf of the Board
S. Devarajan Director
R. Selvarajan Chairman and Managing Director
S. Vijay Shankar Joint Managing Director



Profit and loss account for the year ended March 31, 2010

	Schedule	2009-10 Rupees	2008-09 Rupees
1. Income			
Sales and conversion charges earned	2.1	105,64,20,936	85,84,97,332
Other income	2.2	<u>75,49,765</u>	<u>2,86,214</u>
		<u>106,39,70,701</u>	<u>85,87,83,546</u>
2. Expenditure			
Materials	2.3	56,51,57,491	50,38,21,152
Conversion charges paid		38,58,319	50,41,442
Stores and spare parts consumed		3,33,12,282	2,80,78,037
Power and fuel-net		9,96,33,556	7,44,66,781
Repairs to assets	2.4	2,10,33,009	1,46,30,068
Human resources	2.5	9,33,05,580	7,78,09,054
Other expenses	2.6	2,66,34,641	2,55,67,338
Financial expenses-net	2.7	9,82,39,593	9,49,24,937
Depreciation	2.8	<u>7,79,26,924</u>	<u>7,29,12,188</u>
		<u>101,91,01,395</u>	<u>89,72,50,997</u>
3. Profit			
Profit/(loss) before tax		4,48,69,306	(3,84,67,451)
Provision for taxation			
- Current tax - Income tax (vide note 15 of Schedule 3.II)		—	—
- Fringe benefit tax		—	5,00,000
- Deferred tax- Liability - Recognition/(withdrawal)		<u>1,15,00,000</u>	<u>(1,23,35,748)</u>
Profit/(loss) after tax		3,33,69,306	(2,66,31,703)
Balance of profit/(loss) from prior year		<u>(1,86,68,019)</u>	<u>79,63,684</u>
		1,47,01,287	(1,86,68,019)
Amount shown as a deduction from General reserve per contra		—	1,86,68,019
		<u>1,47,01,287</u>	—
4. Appropriations			
Transfer to General reserve		1,25,00,000	—
Proposed dividend		—	—
Corporate dividend tax on proposed dividend		—	—
Balance profit carried to balance sheet		<u>22,01,287</u>	—
		<u>1,47,01,287</u>	—
5. Earnings per share - Basic (Face value Rs.10)		<u>8.67</u>	<u>(-) 6.92</u>
Significant accounting policies and Notes to the accounts	3		

Per our report of even date
For M.S. Krishnaswami & Rajan
 Chartered Accountants
M.K. Rajan - Partner
 Salem,
 May 29, 2010

For and on behalf of the Board
S. Devarajan Director
R. Selvarajan Chairman and Managing Director
S. Vijay Shankar Joint Managing Director



Cash Flow Statement - Year ended March 31, 2010	2009-10 Rupees	2008-09 Rupees
1. Cash flow from operating activities		
1.1 Profit/Loss (-) before tax and exceptional item	4,48,69,306	(-)3,84,67,451
1.2 Adjustment for		
(1) Depreciation, amortisation and impairment	7,79,26,924	7,29,12,188
(2) Deferred revenue expenses		
(i) Amortised in revenue	47,56,722	37,90,446
(ii) Incurred	—	(-) 6,25,000
(3) Unrealised foreign exchange gain (-)/loss	(-) 84,65,423	38,73,384
(4) Amount considered under investing activities		
(i) Profit(-)/Loss on disposal of assets	2,96,912	2,17,732
(ii) Income from investments	—	(-)2,25,000
(5) Amounts considered under financing activities		
(i) Interest paid	9,35,94,582	9,16,09,871
(ii) Interest received	(-) 20,87,124	(-)17,95,495
1.3 Operating profit before working capital changes	<u>21,08,91,899</u>	<u>13,12,90,675</u>
1.4 Adjustments for changes in		
(i) Inventories	(-) 22,63,35,254	12,82,76,685
(ii) Trade and other receivables (excluding amounts pertaining to fixed assets)	6,17,29,905	(-) 6,15,94,112
(iii) Trade and other payables (excluding amounts pertaining to fixed assets and interest accrued but not due)	4,02,00,878	(-)3,44,24,374
1.5 Cash generated from operating activities	<u>8,64,87,428</u>	<u>16,35,48,874</u>
1.6 Direct Taxes paid	(-) 71,40,302	(-) 67,59,246
1.7 Net cash flow from operating activities (1)	<u>7,93,47,126</u>	<u>15,67,89,628</u>
2. Cash flows from investing activities		
2.1 Payments for acquisition of assets		
(1) Additions as per schedule 5	(-) 2,10,11,806	(-) 38,59,66,982
(2) Adjustment for changes in		
(i) Capital work in progress	—	31,18,17,169
(ii) Capital creditors-net	(-) 34,64,003	(-)3,21,085
2.2 Adjustment for changes in deposits maturing more than one year	(-) 2,44,75,809	(-) 7,44,70,898
2.3 Sale proceeds of fixed assets	10,86,085	2,67,000
2.4 Refund of terminal excise duty relating to acquisition of assets	64,15,452	90,04,444



		2009-10 Rupees	2008-09 Rupees
2.5	Interest received	20,87,124	17,95,495
2.6	Income from Investments	—	2,25,000
2.7	Net cash utilised in investing activities	(2) <u>(-) 1,69,98,148</u>	<u>(-) 6,26,87,959</u>
3.	Cash flows from financing activities		
3.1	Borrowings - Raised		
	- Long term	3,59,04,280	17,31,63,838
	- Short term	—	—
	- Repaid		
	- Long term	(-) 3,38,95,948	(-) 9,12,54,170
	- Short term	—	(-) 4,01,06,578
3.2	Interest paid		
	(1) Amount stated in operating activities	(-) 9,35,94,582	(-) 9,16,09,871
3.3	Dividend paid including tax thereon	—	(-) 90,06,860
3.4	Net cash from financing activities	(3) <u>(-) 9,15,86,250</u>	<u>(-) 5,88,13,641</u>
4.	Net increase/(decrease) in cash flows (1)+(2)+(3)	<u>(-) 2,92,37,272</u>	<u>3,52,88,028</u>
5.	Represented by movement in cash and cash equivalents as under		
5.1	At beginning		
	(i) Cash and bank balances (excluding bank deposits maturing more than one year)	1,63,32,231	36,94,311
	(ii) Cash credit balances	(-) 22,37,82,511	(-) 24,64,32,619
		<u>(-) 20,74,50,280</u>	<u>(-) 24,27,38,308</u>
5.2	At end		
	(i) Cash and bank balances (excluding bank deposits maturing more than one year)	1,14,87,741	1,63,32,231
	(ii) Cash credit balances	(-) 24,81,75,293	(-) 22,37,82,511
		<u>(-) 23,66,87,552</u>	<u>(-) 20,74,50,280</u>
5.3	Movement	<u>(-) 2,92,37,272</u>	<u>3,52,88,028</u>

Per our report of even date
For M.S. Krishnaswami & Rajan
Chartered Accountants
M.K. Rajan - Partner
Salem,
May 29, 2010

For and on behalf of the Board
S. Devarajan Director
R. Selvarajan Chairman and Managing Director
S. Vijay Shankar Joint Managing Director


Schedules to the Balance Sheet
March 31, 2010 **March 31, 2009**
Rupees **Rupees**

1.1 Capital			
Authorised			
50,00,000 Equity shares of Rs. 10 each		5,00,00,000	5,00,00,000
Issued			
38,65,650 Equity shares of Rs. 10 each		3,86,56,500	3,86,56,500
Subscribed			
38,49,250 Equity shares of Rs. 10 each		3,84,92,500	3,84,92,500
Add Forfeited shares (amount paidup)		82,000	82,000
		3,85,74,500	3,85,74,500
1.2 Reserves and surplus			
Capital reserve			
Securities premium		5,48,61,631	5,48,61,631
Revaluation reserve		22,80,11,569	23,09,00,807
Cenvat credit relating to capital assets		7,94,829	18,91,490
		28,36,68,029	28,76,53,928
General reserve		14,75,00,000	13,50,00,000
Amount shown as a deduction in profit and loss account per contra		—	(1,86,68,019)
Surplus - Balance in profit and loss account		22,01,287	—
		43,33,69,316	40,39,85,909
1.3 Secured loans			
From bankers			
- Term loans		76,40,23,998	78,70,25,445
- Cash credit facilities/short term loan		24,81,75,293	22,37,82,511
- Buyer's credit facilities		7,52,27,963	5,37,97,045
		108,74,27,254	106,46,05,001
1.4 Unsecured loans			
Fixed deposits		6,10,99,730	5,68,83,687
		6,10,99,730	5,68,83,687
1.5 Fixed assets			

	Cost/valuation March 31, 2009	Additions/ (Deductions)	Cost/valuation March 31, 2010	Depreciation/amor- tisation to date	Net Block	
					March 31, 2010	March 31, 2009
Land	16,15,18,000	(21,164)	16,14,96,836	—	16,14,96,836	16,15,18,000
Buildings	35,67,69,171	64,04,973 (29,24,900)	36,02,49,244	5,45,40,506	30,57,08,738	31,27,95,220
Plant and machinery	1,06,37,25,357	1,17,90,412 (64,15,452)	1,06,91,00,317	49,52,99,450	57,38,00,867	61,17,00,906
Wind energy converters	48,14,81,624	—	48,14,81,624	21,39,97,694	26,74,83,930	29,23,93,651
Furniture and office equipments	47,22,617	66,748	47,89,365	22,83,295	25,06,070	27,96,699
Vehicles	1,18,58,721	27,18,973	1,45,77,694	56,31,078	89,46,616	74,68,747
Live stock	1,26,241	30,700	1,56,941	—	1,56,941	1,26,241
	2,08,02,01,731	2,10,11,806 (93,61,516)	2,09,18,52,021	77,17,52,023	1,32,00,99,998	1,38,87,99,464
Previous Year	1,47,48,10,004	38,59,66,982 (1,14,76,062)	2,08,02,01,731	69,14,02,267	1,38,87,99,464	1,20,74,94,397



Schedules to the Balance sheet		March 31, 2010	March 31, 2009	March 31, 2010	March 31, 2009
		No. of shares		Rupees	Rupees
1.6 Investments					
	Equity shares of Companies of Rs.10 each				
	Sambandam Spinning Mills Limited	90,000	90,000	45,00,000	45,00,000
	SPMM Healthcare Services Private Limited - unquoted	20,00,000	20,00,000	2,00,00,000	2,00,00,000
				<u>2,45,00,000</u>	<u>2,45,00,000</u>
1.7 Inventories					
	Stores and spares			55,28,713	17,31,652
	Cotton			23,21,83,870	4,18,75,969
	Cotton-in-process			5,95,53,330	4,85,28,190
	Yarn			3,28,32,534	1,33,54,758
	Process waste			26,23,950	8,96,574
				<u>33,27,22,397</u>	<u>10,63,87,143</u>
1.8 Sundry debtors					
	(Unsecured, considered good)				
	Trade			9,34,08,375	13,52,27,116
	Others			1,53,97,192	1,62,24,286
				<u>10,88,05,567</u>	<u>15,14,51,402</u>
	Of the above Age analysis of debts				
	Debts over six months old			27,65,684	66,62,952
	Other debts			10,60,39,883	14,47,88,450
1.9 Cash and bank balances					
	Cash on hand			31,28,081	4,33,028
	Balance with scheduled banks				
	- Current account			6,45,864	62,05,985
	- Deposit account			99,66,052	97,07,330
	- Unclaimed dividend account			11,47,744	12,74,888
				<u>1,48,87,741</u>	<u>1,76,21,231</u>
1.10 Other current assets	(Unsecured, considered good)				
	Deposit with government, public bodies and others			2,28,67,636	2,38,05,734
	Prepaid expenses			30,71,469	19,95,535
	Interest accrued on deposits			1,00,050	14,43,131
				<u>2,60,39,155</u>	<u>2,72,44,400</u>
1.11 Loans and advances	(Unsecured, considered good)				
	Advances			4,31,04,892	3,06,38,396
	Other receivables			2,43,32,548	4,40,73,565
				<u>6,74,37,440</u>	<u>7,47,11,961</u>
1.12 Liabilities					
	Acceptances			—	1,94,46,402
	Trade creditors and accrued charges				
	- Micro and small enterprises			3,12,306	2,10,914
	- Others			11,63,35,004	6,32,79,861
	Interest accrued but not due on loans			3,94,639	4,17,947
	Unclaimed dividend			11,47,744	12,74,888
	Other liabilities			38,66,143	34,81,500
				<u>12,20,55,836</u>	<u>8,81,11,512</u>
1.13 Provisions					
	Employee benefits (refer note 27 of schedule 3.II to the accounts)			1,22,03,616	1,50,49,668
	Proposed dividend			—	—
	Corporate dividend tax on proposed dividend			—	—
				<u>1,22,03,616</u>	<u>1,50,49,668</u>
1.14 Miscellaneous expenditure					
	Deferred replacement expenses			—	38,10,442
	Loan raising expenses			15,63,121	25,09,401
	Expenditure not written off or adjusted			15,63,121	63,19,843



Schedules to the Profit and loss account		2009-10	2008-09
		Rupees	Rupees
2.1 Sales and conversion charges earned			
Yarn		103,48,60,858	85,82,71,622
Process waste		3,99,08,110	1,43,58,352
		<u>107,47,68,968</u>	<u>87,26,29,974</u>
Sales-tax and textile committee cess paid		1,86,44,795	1,41,70,854
		<u>105,61,24,173</u>	<u>85,84,59,120</u>
Conversion charges earned		2,96,763	38,212
(Tax deducted at source Rs.4,878, 2008-09 Rs.1,08,603)			
		<u>105,64,20,936</u>	<u>85,84,97,332</u>
2.2 Other income			
Income from long term investments - Dividend		—	2,25,000
Exchange differences - net - gain		74,85,223	—
Miscellaneous income		64,542	61,214
		<u>75,49,765</u>	<u>2,86,214</u>
2.3 Materials			
Raw materials consumed			
- cotton and waste cotton [Tax collected at source Rs. Nil (2008-09 Rs.6,354)]		59,55,63,878	49,62,69,345
- others		18,23,905	20,92,345
		<u>59,73,87,783</u>	<u>49,83,61,690</u>
(Deduct)/Add Increase/decrease in value of stock of cotton in process, yarn and process waste		(3,22,30,292)	54,59,462
		<u>56,51,57,491</u>	<u>50,38,21,152</u>
2.4 Repairs to assets			
Buildings		16,94,988	17,74,231
Plant and machinery		1,92,17,042	1,27,56,006
Other assets		1,20,979	99,831
		<u>2,10,33,009</u>	<u>1,46,30,068</u>
2.5 Human resources			
Salaries, wages and bonus		8,35,72,557	6,79,90,620
Contribution to provident, gratuity and other funds		50,34,652	58,35,388
Workmen and staff welfare expenses		46,98,371	39,83,046
		<u>9,33,05,580</u>	<u>7,78,09,054</u>
2.6 Other expenses			
Brokerage and commission on sales		98,21,321	82,76,050
Rent		8,050	32,069
Rates and taxes		8,84,447	6,54,969
Insurance		17,13,306	18,02,287
Travel and vehicle upkeep		66,18,589	38,93,004
Communication expenses		5,78,029	8,45,779
Donation and charity		2,49,927	12,67,954
Directors' sitting fees		4,90,000	4,57,500
Exchange differences - net - loss		—	15,86,920
Loss on compulsory acquisition of fixed assets/disposal of assets (Tax deducted at source Rs.1,21,683, 2008-09 Rs. Nil)		2,96,912	2,17,732
Miscellaneous expenses		59,74,060	65,33,074
		<u>2,66,34,641</u>	<u>2,55,67,338</u>
2.7 Financial expenses-net			
Interest paid on loans and other accounts		9,35,94,582	9,16,09,871
Less Interest earned on deposit and other accounts [Tax deducted at source Rs.3,92,120(2008-09 Rs.4,06,948)]		20,87,124	17,95,495
		<u>9,15,07,458</u>	<u>8,98,14,376</u>
Bank and other financial charges		67,32,135	51,10,561
		<u>9,82,39,593</u>	<u>9,49,24,937</u>
2.8 Depreciation/amortisation			
Buildings		1,21,29,622	82,29,164
Plant and machinery		4,21,78,338	3,82,77,090
Wind energy converters		2,49,09,721	2,49,14,835
Furniture and office equipments		3,57,377	3,35,382
Vehicles		12,41,104	11,55,717
		<u>8,08,16,162</u>	<u>7,29,12,188</u>
Less Transfer from Revaluaiton reserve [refer note 26(ii) of Schedule 3.II to the accounts]		28,89,238	—
		<u>7,79,26,924</u>	<u>7,29,12,188</u>

**Schedules to the Balance sheet and Profit and loss account****3 Significant accounting policies and Notes to the accounts****I Significant accounting policies**

- 1 Basis of preparation of financial statements - The financial statements are prepared in accordance with the generally accepted accounting principles including accounting standards in India under historical cost convention except in so far as they relate to revaluation of land and buildings.
- 2 Use of estimates – The preparation of financial statements in conformity with the generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities on the date of the financial statements, disclosure of contingent liabilities and reported amounts of revenues and expenses for the year. Estimates are based on historical experience, where applicable, and other assumptions that management believes are reasonable under the circumstances. Actual results could vary from these estimates and any such differences are dealt with in the period in which the results are known/materialise.
- 3 Revenue recognition – Sales are recognized on dispatch to customers and include recovery towards sales tax, textile committee cess and export incentives. Revenue by way of, consideration receivable for the sale of goods, the rendering of services or, from the use by others of enterprise resources, and other benefits are recognised only when they are measurable and it would not be unreasonable to expect ultimate collection.
- 4 Foreign currency transactions – Foreign currency transactions (including booking/cancellation of forward contracts) are recorded at the rates prevailing on the date of the transaction. Monetary assets and liabilities in foreign currency, other than those covered by forward exchange contracts, are translated at year end foreign exchange rates. Exchange differences arising on settlements are recognized in the Profit and Loss account. In case of forward exchange contracts which are entered into hedge the foreign currency risk of a receivable/payable recognized in these financial statements, premium or discount on such contracts are amortised over the life of the contract and exchange differences arising thereon in the reporting period are recognised in the Profit and loss account. Forward exchange contracts which are arranged to hedge the foreign currency risk of a firm commitment is marked to market at the year end and the resulting losses, if any, are charged to the Profit and loss account.
- 5 Employee benefits – (i) Short term employee benefit obligations are estimated and provided for; (ii) Post employment benefits and other long term employee benefits – (1) Company's contribution to provident fund, labour welfare fund, Employees State Insurance Corporation and other funds are determined under the relevant schemes and /or statute and charged to revenue; (2) Company's liability towards gratuity and compensated absences are actuarially determined at each balance sheet date using the projected unit credit method. Actuarial gains and losses are recognised in revenue.
- 6 Fixed Assets – All costs relating to acquisition of fixed assets net of value added tax and terminal excise duty refund under Export Promotion Capital Goods Scheme, subject to the economic life and the cost being in excess of certain limits, are capitalised. Expenditure directly related and incidental to construction are capitalized upto the date of attainment of commercial production. Interest and other related costs, including amortised cost of borrowings attributable only to major projects are capitalized as part of the cost of the respective asset. In the case of Wind Energy Converters, cost of land on which the Converters have been erected is capitalised as cost of the said Converters.
- 7 Depreciation/amortisation – (i) Fixed assets are depreciated over their estimated useful lives or lives derived from the rates specified in Schedule XIV to the Companies Act, 1956, whichever is lower; (ii) depreciation/amortization is provided for the period the asset is put to use, (iii) Cost of land pertaining to the Wind Energy Converters is amortised in the same manner as the cost of the said Converters are depreciated. No depreciation is reckoned in the year of disposal.



- 8 Impairment of assets – The carrying amount of assets are reviewed at each balance sheet date if there is any indication of impairment based on internal/external factors. An impairment loss will be recognised wherever the carrying amount of an asset exceeds its estimated recoverable amount. The recoverable amount is the greater of the asset's net selling price and value in use. Provision for impairment will be reviewed periodically and amended depending on changes in circumstances.
- 9 Investments – These are carried at cost of acquisition and related expenses less provision for diminution other than temporary, if any.
- 10 Inventories – The governing principle of valuation of Inventories (other than process waste) is the lower of cost and net realisable value. The cost for the said purpose (i) in the case of stores and spare parts, is the weighted average cost (net of Cenvat credit/value added tax, if any), (ii) in the case of cotton in process and manufactured yarn, is the cost adopting the absorption costing method, and (iii) is without deduction of the adjustment made for power generated through Wind Energy Converters and adjusted against the cost of power purchased from state electricity board. Process waste is valued at net realizable value. Provision is made for obsolete, slow moving and damaged items of inventory, if any.
- 11 Government grants – Capital grants from government relating to depreciable assets are treated as deferred income and disclosed as a capital reserve and amortised over the useful life of the concerned asset. Cenvat credit relating to capital assets acquired is treated as capital reserve and amortised over the useful life of the concerned asset by transfer to profit and loss account and considered under depreciation. Grants/incentives other than those mentioned above are reckoned in the profit and loss account in the year of eligibility.
- 12 Deferred revenue expenditure – Major revenue expenditure incurred by way of/in connection with (i) planned replacement of worn out parts of plant and equipments, and (ii) raising of borrowing, is amortised over the estimated period the benefit from such expenditure is expected to enure in the case of (i) and over the period of the borrowings in the case of (ii) above.
- 13 Research and development – Revenue expenditure on research and development is charged to the profit and loss account as incurred. Capital expenditure on research and development, where the same represents cost of plant, machinery, equipment and other tangible assets, if any, is given the same accounting treatment as applicable to other capital expenditure.
- 14 Taxation - Income tax expense comprises current tax, deferred tax charge or credit and fringe benefit tax. Provision for current tax is made with reference to taxable income for the current accounting year by applying the applicable tax rate. Deferred income tax charge reflects the impact of the current period timing differences between taxable income and accounting income, other than differences capable of getting reversed during the 'tax holiday' period, subject to consideration of prudence. The deferred tax charge or credit is recognised using prevailing tax rates. Where there are unabsorbed depreciation or carry forward losses, deferred tax assets are recognised only to the extent there is virtual certainty of realisation of such assets. Other deferred tax assets are recognised only to the extent there is reasonable certainty of realisation in future. Deferred tax assets/liabilities are reviewed as at each balance sheet date based on developments during the period and available case laws to reassess realisation/liabilities.
- 15 Provisions and contingencies - To recognise a provision when (i) the Company has a present obligation as a result of a past event; (ii) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (iii) a reliable estimate can be made of the amount of the obligation. Disclosure of a contingent liability is made when there is a possible obligation that may, but probably will not, require outflow of resources. Where there is possible obligation or a present obligation where the likelihood of outflow of resources is remote, no provision or disclosure is made.


Schedules to the Balance sheet and Profit and loss account
II Notes to the accounts
1 Quantitative information

				March 31, 2010	March 31, 2009
(i)	Capacities	- Installed	Spindles	67,388	67,388
			Rotors	552	552
(ii)	Production	- Yarn	Kgs.	66,04,060	61,03,487
		- Process waste	Kgs.	16,13,548	14,69,929
(iii)	Consumption	- Cotton	Kgs.	83,51,147	76,89,985
		- Others	Kgs.	12,756	33,596
(iv)	Sales	- Yarn	Kgs.	64,97,921	62,04,185
		- Waste	Kgs.	15,44,528	14,47,480
				March 31, 2010	March 31, 2009
(v)	Stocks at end			March 31, 2010	March 31, 2008
	Yarn		Kgs.	1,77,628	71,489
			Rs.	3,28,32,534	1,33,54,758
	Process waste		Kgs.	1,09,740	40,720
			Rs.	26,23,950	8,96,574
	Cotton-in-process		Rs.	5,95,53,330	4,85,28,190
				3,84,53,010	

2 Consumption of materials

				March 31, 2010	March 31, 2009
				Rupees	Rupees
	Raw materials (Cotton) - Imported			7,27,34,490 (12.18 %)	6,85,32,483 (13.75 %)
		- Indigenous		52,46,53,293 (87.82 %)	42,98,29,207 (86.25 %)
There was no consumption of components and spare parts pertaining to finished goods					

3 Foreign exchange earnings/outflow

(i)	Export of goods (yarn) – FOB basis			6,22,50,800	5,46,74,325
	Others (freight recovery)			6,28,078	1,88,003
(ii)	Imports (CIF)	- Machinery		—	—
		- Machinery spares		6,35,537	39,549
		- Cotton		7,91,82,264	6,79,50,125
(iii)	Expenditure in foreign currency	- Interest		39,66,695	13,85,317
		- Others		5,37,305	—
(iv)	Remittance of dividend to non-resident shareholders			—	—

4 Earnings per share

(i)	Profit/(Loss) after taxation as per Profit and loss account (A)	3,33,69,306	(2,66,31,703)
(ii)	Number of equity shares outstanding (B)	38,49,250	38,49,250
(iii)	Earnings per share (in Rupees) - Basic (A/B)	8.67	(6.92)



Schedules to the Balance sheet and Profit and loss account II Notes to the accounts (contd.)	March 31, 2010 Rupees	March 31, 2009 Rupees
5 Deferred taxation		
Deferred tax liability pertaining to timing differences on account of		
– Depreciation	18,83,19,614	18,98,54,665
– Deferred revenue expenses	—	12,95,169
	<u>18,83,19,614</u>	<u>19,11,49,834</u>
Deferred tax asset		
– pertaining to unabsorbed tax depreciation	4,31,20,809	5,78,48,179
– pertaining to provision for employee benefits	38,73,638	34,76,488
Net deferred tax liability as per balance sheet	<u>14,13,25,167</u>	<u>12,98,25,167</u>
6 Segment information		
The Company is principally engaged in a single business segment viz., cotton yarn and operates in one geographical segment as per Accounting Standard 17 on 'Segment Reporting'.		
7 Related party disclosure		
(i) Related parties with whom transactions have taken place during the year		
(1) Key management personnel	- Sri R. Selvarajan – Chairman and Managing Director	
(2) Parties where significant influence exists	- S. Palaniandi Mudaliar Charitable Trust - Kandagiri Spinning Mills Gratuity Trust	
(ii) Transactions with related parties		
(1) Key management personnel		
- Interest payment	26,60,658	23,07,234
- Dividend payment	—	15,56,660
- Remuneration	36,00,000	24,00,000
- Fixed deposits received	41,00,000	40,00,000
- Fixed deposits repaid	2,00,000	—
- Outstanding balances under fixed deposits	2,44,75,000	2,05,75,000
(2) Parties where significant influence exists		
(a) S. Palaniandi Mudaliar Charitable trust		
- Payments for employee welfare services	2,44,114	6,45,713
- Contribution paid	—	10,00,000
(b) Kandagiri Spinning Mills Gratuity trust		
- Contribution paid/payable	8,07,212	28,10,830

**Schedules to the Balance sheet and Profit and loss account****II Notes to the accounts (contd.)**

- 8** Issued and subscribed capital include 20,05,650 (March 31, 2009 – 20,05,650) Equity shares allotted as fully paid up by way of bonus shares by capitalisation of part of General Reserve.
- 9** Movement in reserves – (i) Additions: (1) Amount appropriated from the profit and loss account to General reserve Rs.1,25,00,000 (March 31, 2009 Rs.Nil); and (2) Amount credited to Revaluation reserve on account of revaluation of land and buildings of the company Rs.Nil (March 31, 2009 Rs.23,09,00,807); (ii) Deduction: Amount amortised from Cenvat credit relating to capital assets and adjusted in depreciation in Schedule 2.8 Rs.10,96,661 (March 31, 2009 Rs.8,71,656).
- 10** Particulars for secured loans – (i) Term loans from banks to an extent of Rs.59,79,82,240 (March 31, 2009 Rs.61,80,86,980) are secured by a first charge on the Company's immovable and movable properties (excluding book debts) subject to the charge stated in (iii) infra, (ii) Term loans from banks to an extent of Rs.16,60,41,758 (March 31, 2009 Rs.16,89,38,465) are secured by hypothecation of certain specific assets, (iii) Cash credit/buyer's credit facilities are secured by a first charge on the Company's current assets and by a second charge on the Company's immovable and movable properties (other than those covered under the first charge mentioned in (i) supra, and (iv) All the loans are guaranteed by three directors.
- 11** Unsecured loans include – (i) Fixed deposits from directors Rs.3,68,15,000 (March 31,2009 Rs.3,45,15,000) and (ii) amounts repayable within twelve months from the balance sheet date Rs.3,56,04,000 (March 31, 2009 Rs.24,58,000).
- 12** Fixed assets – (i) Cost of additions and capital work-in-progress includes borrowing cost of Rs. Nil (March 31, 2009 Rs.91,59,367) and other expenses in the course of construction Rs. Nil (March 31, 2009 Rs.92,61,599); (ii)Deductions under plant and machinery includes terminal excise duty refund under Export Promotion Capital Goods Scheme of Rs.64,15,452 (March 31, 2009 Rs.90,04,444); and (iii) Gross block includes Rs.23,09,00,807 added on revaluation of land and buildings as at March 31, 2009 based on report by an external valuer.
- 13** The land and buildings of the Company were revalued as on March 31, 2009 by an external valuer on the basis of estimated market value in the case of land and estimated depreciated replacement cost in the case of buildings. The resulting surplus on such revaluation aggregating to Rs.23,09,00,807 has been credited to Revaluation Reserve.
- 14** All investments are long term, non trade and quoted unless otherwise stated. Market value of quoted investments Rs. 68,31,000 (March 31, 2009 Rs.26,46,000).
- 15** Loans and advances include Income tax paid in advance/deducted at source, net of provisions therefor. The income tax liability for March 31, 2010 as minimum alternate tax under section 115JB of the Income tax Act, 1961 amounting to Rs.62,00,000 is eligible to be carried forward and set off against future income tax under section 115JAA of the Income tax Act, 1961 and hence the minimum alternate credit entitlement is reckoned in the above head.
- 16** (i) The information required to be disclosed under the Micro, Small and Medium Enterprises Development Act, 2006 has been determined to the extent such parties have been identified on the basis of information available with the company. There are no overdues to parties on account of principal amount and/or interest and accordingly no additional disclosures have been made; and (ii) There are no amounts remaining unpaid or unclaimed for a period of seven years in respect of unpaid dividend, matured fixed deposits and interest thereon from the date they became payable by the company and hence there are no amounts remaining to be credited to the Investor Education and Protection Fund.

**Schedules to the Balance sheet and Profit and loss account****II Notes to the accounts (contd.)**

- 17** Derivatives - The Company uses derivative financial instruments such as forward contracts and option to hedge certain currency rate exposures, present and anticipated, denominated mostly in US dollars, Euro and Swiss Franks. Generally such contracts are taken for exposures materializing in the next six months. The Company actively manages its currency rate exposures and uses these derivatives to mitigate the risk from such exposures. The Company has hedged exposure of US \$ 44,95,292 (March 31, 2009 US \$ 5,34,299) as at March 31, 2010 and has a net unhedged exposure of US\$ 1,80,163 (March 31, 2009 - US\$ 9,08,921) as at the said date.
- 18** Estimated capital expenditure commitments (net of advances) Rs.11,43,65,171 (March 31, 2009 Rs.4,42,29,871).
- 19** Contingent liabilities – (i) Claims against the Company not acknowledged as debts Rs.10,04,679 (March 31, 2009 Rs.6,90,261); (ii) Bills discounted with bankers Rs.3,77,67,631 (March 31, 2009 Rs.2,06,82,400); and (iii) Other contingent liabilities Rs.83,24,909 (March 31, 2009 Rs. Nil).
- 20** Raw materials consumed – others include consumption of yarn for manufacture of double/two-for-one yarn.
- 21** Power and fuel are net of (i) amount realised towards power generated through Wind Energy Converters and adjusted against the cost of power purchased from state electricity board Rs.7,72,19,698 (2008-09 Rs.6,45,38,556) and (ii) income from carbon credits Rs.78,97,103 (2008-09 Rs.1,27,86,811).
- 22** Repairs to plant and machinery include amortization of cost of planned replacement of worn out parts of plant and machinery Rs.38,10,442 (2008-09 Rs.28,08,095).
- 23** Human resources – Particulars of managerial remuneration (i) To Managing Director – Salary Rs.21,60,000 (2008-09 Rs.14,40,000), Perquisites Rs.14,40,000 (2008-09 Rs.9,60,000), (ii) To Joint Managing Director - Salary Rs.14,40,000 (2008-09 Rs.9,60,000), Perquisites Rs.9,60,000 (2008-09 Rs.6,40,000).
- 24** Other expenses – (i) Donation and charity include contribution to Communist Party of India Rs. Nil (2008-09 Rs.10,000); and (ii) Miscellaneous expenses include payments to auditors for Financial audit Rs.2,50,000 (2008-09 Rs.2,50,000), Cost audit Rs.44,000 (2008-09 Rs.44,000), Taxation work Rs.1,10,000 (2008-09 Rs.95,000), Other work Rs.1,05,000 (2008-09 Rs.70,000) and Expenses reimbursed to Statutory auditors Rs.94,201 (2008-09 Rs.99,035), Cost auditors Rs.22,792 (2008-09 Rs.32,453).
- 25** Financial expenses – (i) Interest paid on fixed loans Rs.7,07,97,688 (2008-09 Rs.6,11,32,981) includes Rs.26,60,658 (2008-09 Rs.23,07,234) to the Managing Director; and (ii) Bank and other financial charges include amortisation of loan raising expenses Rs.9,46,280 (2008-09 Rs.9,82,350).
- 26** Depreciation/amortization – (i) Amortised cenvat credit deducted from capital reserve has been netted against the depreciation charge relating to the concerned plant and machinery; and (ii) Depreciation for the year computed on revalued assets includes a charge of Rs.28,89,238 (2008-09 Rs. Nil) being the excess depreciation computed by the method followed by the Company prior to revaluation and the same has been transferred from Revaluation Reserve to the Profit and Loss account.


Schedules to the Balance sheet and Profit and loss account
II Notes to the accounts (contd.)
27 Employee benefits –

(i) Defined benefit plans – As per Actuarial valuation on March 31, 2010

Rs. lakhs

	Gratuity (funded)		Compensated absences (unfunded)	
	March 31, 2010	March 31, 2009	March 31, 2010	March 31, 2009
A Expense recognised in the statement of Profit and Loss Account for the year ended March 31, 2010				
(i) Current service cost	12.32	10.90	0.97	0.87
(ii) Interest cost	7.24	6.01	8.18	7.56
(iii) Expected return on plan assets	(3.69)	(4.64)	—	—
(iv) Net actuarial (gain)/loss recognised during the year	(7.80)	15.84	2.53	(0.67)
(v) Total expenses	8.07	28.11	11.68	7.76
B Actual return on plan assets				
(i) Expected return on plan assets	3.69	4.64		
(ii) Actuarial gain/(loss) on plan assets	18.35	(0.57)		
(iii) Actual return on plan assets	22.04	4.07		
C Net Asset/(Liability) recognised in the Balance Sheet				
(i) Present value of the obligation	112.90	98.20	113.96	102.28
(ii) Fair value of plan assets	60.46	49.99	—	—
(iii) Funded status (surplus/ (deficit))	(52.44)	(48.21)	(113.96)	(102.28)
(iv) Unrecognised past service cost	—	—	—	—
(v) Net Asset/(Liability) recognised in the Balance Sheet	(52.44)	(48.21)	(113.96)	(102.28)
D Change in Present value of the obligation during the year				
(i) Present value of obligation as at beginning of the year	98.20	84.29	102.28	94.52
(ii) Current service cost	12.32	6.01	0.97	7.56
(iii) Interest cost	7.24	10.90	8.18	0.87
(iv) Benefits paid	(15.42)	(18.27)	—	—
(v) Actuarial (gain)/loss on obligation	10.54	15.27	2.53	(0.67)
(vi) Present value of obligation as at end of the year	112.90	98.20	113.96	102.28
E Change in Assets during the year				
(i) Fair value of plan assets as at beginning of the year	53.84	61.68		
(ii) Expected return on plan assets	3.69	4.64		
(iii) Contributions	—	11.05		
(iv) Benefits paid	(15.42)	(26.81)		
(v) Actuarial (gain)/loss on plan assets	18.35	(0.57)		
(vi) Fair value of plan assets as at end of the year	60.46	49.99		
F Experience adjustments in				
(i) Plan liabilities – loss/(gain)	10.54	15.27	2.53	(0.67)
(ii) Plan assets – loss/(gain)	22.04	(0.57)	—	—



Schedules to the Balance sheet and Profit and loss account

II Notes to the accounts (contd.)

	Gratuity (funded)		Compensated absences (unfunded)	
	March 31, 2010	March 31, 2009	March 31, 2010	March 31, 2009
G. Major categories of plan assets as a percentage of total plan				
(i) Government of India Securities	6 %	15 %	Unfunded	Unfunded
(ii) State Government Securities	8 %	12 %		
(iii) High quality Corporate Bonds	-	63 %		
(iv) Special Deposit Scheme	-	10 %		
(v) Others (Bank deposits)	41 %	-		
(vi) SBI Life Insurance Company	45 %	-		
(vii) Total	100 %	100 %		
H. Actuarial Assumptions				
(i) Discount rate	8 %	8 %	8 %	8 %
(ii) Salary escalation rate	4 %	4 %	0 %	0 %
(iii) Attrition rate	1 %	1 %	1 %	1 %
(iv) Expected rate of return on plan assets	8 %	8 %	0 %	0 %

In the above actuarial valuation the estimates of future salary increases have reckoned the effect of inflation, seniority, promotion and other relevant factors.

(ii) Gratuity fund is administered through Group Gratuity Scheme with SBI Life Insurance and by the Gratuity trust through trustees.

(iii) During the year, the Company has recognised the following amounts in the Profit and Loss account in Schedule 2.5:

- Salaries, wages and bonus include compensated absences of Rs.14,72,675 (2008-09 Rs.10,14,367).
- Contribution to provident, gratuity and other funds include contribution to Provident Fund and Family Pension Fund contribution of Rs.42,27,440 (2008-09 Rs.30,24,558) and gratuity fund of Rs.8,07,212 (2008-09 Rs.28,10,830).
- Workmen and staff welfare expenses include contribution to Employee State Insurance of Rs.10,30,660 (2008-09 Rs.6,98,695).

28 Figures for the previous year have been regrouped to make them comparable to the classification adopted in the current year.

Signatures to Schedules to the Accounts

For and on behalf of the Board

S. Devarajan
Director

R. Selvarajan
Chairman and Managing Director

Salem,
May 29, 2010

S. Vijay Shankar
Joint Managing Director



Statement Pursuant to Part IV of Schedule VI to the Companies Act, 1956

Balance Sheet Abstract and Company's General Business Profile

I Registration Details

Registration No. : 181-000762 State Code - 18
 Balance Sheet : 31-03-2010

II Capital raised during the year (Rs. '000)

Public issue NIL Bonus issue NIL
 Rights Issue NIL Private Placement NIL

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

Total Liabilities	<u>1,76,17,96</u>	Total Assets	<u>1,76,17,96</u>
Sources of Funds		Application of Funds	
Paid up Capital	3,85,75	Net Fixed Assets	1,32,01,00
Reserves and Surplus	43,33,69	Investments	2,45,00
Secured Loans	1,08,74,27	Net Current Assets	41,56,33
Unsecured Loans	6,11,00	Accumulated losses	NIL
Deferred tax liability	14, 13,25	Miscellaneous expenditure	15,63

IV Performance of Company (Rs. '000)

Turnover - net	1,05,64,21	Total expenditure - net	101,15,51
Profit before Tax	4,48,69	Profit after Tax	3,33,69
Earnings per share	Rs. 8.67	Dividend rate	0%

V General Names of Three Principal Products

Item Code No. 5205 (Only one Product)
 (ITC Code)

Product Description - COTTON YARN OTHER THAN SEWING THREAD CONTAINING 85% OR MORE BY WEIGHT OF COTTON NOT PUT UP FOR RETAIL SALE

For and on behalf of the Board

S. Devarajan

Director

R. Selvarajan

Chairman and Managing Director

Salem,
 May 29, 2010

S. Vijay Shankar
 Joint Managing Director



KANDAGIRI SPINNING MILLS LIMITED.

Regd. Office : Mill Premises, Udayapatti P.O., Salem - 636 140.

NOTICE TO THE SHAREHOLDERS

Notice is hereby given that the thirty fourth Annual General Meeting of the Company will be held at the Mill premises of Sambandam Spinning Mills Limited in Kamaraj Nagar Colony, Salem - 636 014 on Thursday, the 12th August 2010 at 11.30 hours to transact the following business:

Ordinary Business

1. To receive, consider and adopt the audited Balance Sheet as at March 31, 2010, Profit and Loss account and Cash Flow Statement for the year ended on that date and the report of the directors and the Auditors thereon.
2. To appoint a director in the place of Sri V.Mahadevan who retires by rotation and being eligible, offers himself for re-appointment:
3. To appoint a director in the place of Sri N. Asoka who retires by rotation and being eligible, offers himself for re-appointment:
4. To appoint auditors and to fix their remuneration and, in this connection to pass with or without modification, the following resolution as an Ordinary Resolution:

"RESOLVED that, pursuant to Section 224 of the Companies Act, 1956, M/s. M.S.Krishnaswami & Rajan, Chartered Accountants be and are hereby re-appointed Auditors of the Company from the conclusion of this meeting until the conclusion of the next Annual General Meeting on such remuneration and terms as may be determined by the Board of Directors of the Company."

For and on behalf of the Board of
Kandagiri Spinning Mills Limited
R.Selvarajan
Chairman and Managing Director

Place : Salem

Date : May 29 2010

NOTES :

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on a poll instead of himself and that the proxy need not be a member of the Company. Proxies in order to be effective must be received by the Company not less than 48 hours before the meeting.
2. The Register of Members and the Share Transfer Books of the Company will remain closed from **Friday, 30-07-2010 to Thursday, 12-08-2010** (both days inclusive).
3. Members are requested to contact M/s.Cameo Corporate Services Ltd., Registrars and Share Transfer Agents of the Company, at Subramaniam Building, No.1 Club House Road, Chennai 600 002 for recording any change of address, bank mandate, or nominations and for redress of grievance or contact the Registered Office of the Company. Members can also submit their grievances direct to the Company at the following e mail ID:

ksmcs@kandagirimills.com
and
sales@kandagirimills.com



4. Members who have not so far encashed their dividend warrants for the year 2003 may send the unencashed dividend warrants to the Company or approach the Company for payment thereof, as the same will be invalid after transfer of the unpaid dividend amounts in August 2010 to the Investor Education and Protection Fund of the Central Government, pursuant to Section 205 A(5) of the Companies Act, 1956. After transfer of the unpaid dividend to the above fund, shareholders will cease to have any claim over that amount. Members who have not encashed any other year's dividend warrant after 2003 also may return the warrant(s) to the Company for issue of fresh cheque in lieu of the unencashed dividend warrant.
5. As per the provisions of Sections 109A and 109B of the Companies Act, 1956 facility for making nomination is available to shareholders in respect of the shares held by them. This will facilitate smooth transmission of shares after the life time of the shareholders, particularly those holding shares in sole name. Nomination forms can be obtained from M/s Cameo Corporate Services Limited, at Subramaniam Building, No.1, Club House Road, Chennai - 600 002.
6. Securities Exchange Board of India (SEBI) vide its Circular No.MRD/DoP/Cir-05/2009, dated May 20, 2009 issued pursuant to Section 11 of the SEBI Act, 1992, read with Section 55A of the Companies Act, made it mandatory for shareholders to furnish copy of their PAN card to the Company/RTA for registration of transfer of their shares. This is applicable to every transfer of shares transacted in the securities market irrespective of the amount of such transaction. Shareholders are advised to take note of this circular and comply with the same whenever they intend to transfer their shares.
7. As per the SEBI Regulation (Regulation No.13), a person holding the Company's shares/acquiring the Company's shares which together with the existing shareholding in the same name or names, if exceeds 5% of the paid up share capital (i.e. One lakh ninety thousand equity shares) of the Company shall inform the Company within 4 working days of acquisition of the Company's shares before sending the share transfer documents to Cameo Corporate Services Ltd., for registering the shares in their name. Similarly persons holding 5% or more (more than One lakh ninety thousand) equity shares of the Company shall inform the Company if they sell or transfer any of their shares within 4 working days of sale / transfer of their shares.
8. Members who have not so far dematerialized their shares are advised to demat the shares held in physical form.
9. Pursuant to Clause 49 of the Listing Agreement with Stock Exchanges, a brief resume of the directors who are proposed to be re-appointed on their retirement at this Annual General Meeting is given below:
 - (a) Sri V.MAHADEVAN is a Master of Commerce and a rank holder from Madras University. He has been an Independent Professional Director of the Company from 28-07-2005. He has held the position as Chairman / Managing Director of State Bank of India and State Bank of Indore. He has also worked as financial expert at United Nations. He has more than four decades of experience in the field of banking and finance. He is also a Member of the Audit Committee. He does not hold any share in the Company.
 - (b) Sri N.ASOKA is an engineering graduate and an industrialist. He is the Managing Director of Spark Engineering Private Limited. He has more than three decades of experience in the field of Management. In view of his experience, the Board of directors thought it fit to induct him as a Director and he was co-opted as an Additional Director at the Board Meeting held on 19-01-2004 subject to retirement by rotation. He is also a member of the Audit Committee, Remuneration Committee and Investors Grievance Committee of the Company. He does not hold any share in the Company.

Registered office:
Mill Premises
Post Box No.3,
Udayapatti, Salem - 636 140

For and on behalf of the Board of
Kandagiri Spinning Mills Limited
R.Selvarajan
Chairman and Managing Director



KANDAGIRI SPINNING MILLS LIMITED

Registered Office: Mill Premises, Udayapatti P.O., Salem 636 140.

ATTENDANCE SLIP

Please complete this Attendance Slip and hand it over at the entrance of the meeting hall.

I hereby record my presence at the thirty fourth Annual General Meeting of the Company held at the Mill Premises of Sambandam Spinning Mills Limited in Kamaraj Nagar Colony, Salem-636 014 on Thursday, the 12th August 2010 at 11.30 a.m.

Member's Name & Address :

Folio / DP ID / Client ID No.

No. of Shares

Proxy's Name

Signature of the Attending Member / Proxy



KANDAGIRI SPINNING MILLS LIMITED

Registered Office: Mill Premises, Udayapatti P.O., Salem 636 140.

PROXY FORM

I/Weof.....
being a Member(s) of Kandagiri Spinning Mills Limited, hereby appoint Sri/Smt.....
.....of or failing him / her, Sri/Smt.....
ofas my/our proxy to vote for me/us on my/our behalf at the thirty fourth Annual
General Meeting of the Company to be held on Thursday, the 12th August 2010 at
11.30 a.m. at the Mill Premises of Sambandam Spinning Mills Limited in Kamaraj Nagar
Colony, Salem-636 014 and at any adjournment thereof.

Signed this day of August 2010.

Address :

Folio No. :

DP ID No. :

Client ID No. :

No. of Shares

Signature.....

Member's Name :

Affix
15 Paise
Revenue
Stamp

N.B. : 1 This proxy form must be deposited at the Registered Office of the company not less than 48 hours before the time for holding the meeting. (i.e.) before 11.30 am on 10.08.2010. 2. Proxy need not be a member. 3. Attendance slip should be sent to the proxy appointed by the member and not to the Company. 4. Strike out blank space not used. 5. Members should sign the proxy form duly affixing 15 Paise Revenue Stamp. Unstamped or unsigned proxy is invalid and is liable for rejection. 6. A shareholder may vote either for or against each resolution [clause 34(g) of listing agreement].



Chairman Emeritus	S. P. Ratnam		
Board of Directors	R. Selvarajan – Chairman and Managing Director S. Vijay Shankar – Joint Managing Director S. Devarajan M. Rajamani V. Mahadevan P. S. Ananthanarayanan V. Gopalan N. Asoka		
Statutory Auditors	M.S. Krishnaswami & Rajan		
Cost Auditors	S. Mahadevan & Co		
Bankers	State Bank of India Karnataka Bank Limited Axis Bank Limited		
Registered Office	Post Box No.3, Mill Premises, Udayapatti P.O. Salem 636 140. Tamil Nadu		
Spinning Plants	Unit I Udayapatti P.O., Salem 636 140. Tamil Nadu.	Unit II Seshanchavadi P.O. Salem 636 111. Tamil Nadu.	Unit III M. Perumapalayam Cross Road Mettupatty P.O., Salem 636 111. Tamil Nadu.
Wind Energy Converters	Panangudi, Pazhavor, Udhayathoor and Parameshwarapuram Villages Radhapuram Taluk, Tirunelveli District, Tamil Nadu Melamaruthappapuram Village, Veerakeralam Pudur Taluk Tirunelveli District, Tamil Nadu. Gudimangalam Village, Udumalpet Taluk, Coimbatore District, Tamil Nadu.		

Certification

