

### NOTICE

Notice is hereby given that the 19th Annual General Meeting of the Company will be held at the Registered Office at Bangalore Road, Siddapura Village, Challakere-577522, Chitradurga Dist. Karnataka, on 30th September 2010 at 11.00 a.m. to transact the following business.

#### ORDINARY BUSINESS:

1. To receive, consider and adopt the audited Balance sheet as on 31st March 2010 and the Profit and Loss Account for the year ending 31st March 2010 together with the reports of the Auditors and Directors thereon.
2. To appoint Mr. S.Rajasekharappa, as Director in pursuance of Article 11 of the Articles of Association of the Company and Section 265 of the Companies Act, according to the principle of proportional representation
3. To appoint Mr. .S. Chandrashekar, as Director in pursuance of Article 11 of the Articles of Association of the Company and Section 265 of the Companies Act, according to the principle of proportional representation
4. To appoint Mr. .S.T. Thippeswamy, as Director in pursuance of Article 11 of the Articles of Association of the Company and Section 265 of the Companies Act, according to the principle of proportional representation
5. To appoint Mr. S. Prasannakumar, as Director in pursuance of Article 11 of the Articles of Association of the Company and Section 265 of the Companies Act, according to the principle of proportional representation.
6. To appoint Mr. S. Thippeswamy, as Director in pursuance of Article 11 of the Articles of Association of the Company and Section 265 of the Companies Act, according to the principle of proportional representation.
7. To appoint Auditors and fix their remuneration.

By order of the Board

S. Rajasekharappa  
Chairman

Challakere, 27th August 2010

#### NOTES:

1. A member entitled to attend and vote is entitled to appoint a proxy and vote instead of himself and proxy need not be a member of the Company. Proxies in order to be effective must be lodged with the Company at its registered office at least 48 hours before the commencement of the meeting.
2. The Register of members and the Share Transfer books of the Company will remain closed from 28.09.2010 to 30.09.2010 (both days inclusive).
3. Members seeking any information with regard to Accounts are requested to write to the Company at least 7 days before the date of the meeting so as to enable the Management to keep information ready.
4. A person who desires to contest for election may deliver or cause to get delivered his nomination along with a deposit of Rs.500 by DD drawn in favour of the company, at companies registered office before 15.09.2010.
5. Members are requested to bring their Copies of Report and Attendance slip duly filled for attending the Meeting.
6. An explanatory note U/s 173 of the Companies Act, 1956 is annexed.

#### EXPLANATORY STATEMENT U/S 173 (2) OF COMPANIES ACT, 1956.

##### ITEM NO.2, 3, 4, 5 and 6

Article 11 adopts the provisions contained in section 265 of the Companies Act, 1956 relating to appointment of Directors once in every three years according to the principle of the proportional representation. The Board was last constituted at the 16th Annual General Meeting held in the year 2007. The Board consists of Mr. S. Rajasekharappa, Mr. S. Vishwanath, Mr. S. Chandrashekar, Mr. S.T. Thippeswamy, Mr. S. Prasannakumar and Mr. S. Thippeswamy, Mr. S. Vishwanath is a non retiring Director. Mr. S. Rajasekharappa, Mr. S. Chandrashekar, Mr. S.T. Thippeswamy, Mr. S. Prasannakumar and Mr. S. Thippeswamy retire at this Annual General Meeting and are eligible for re-election. Notice u/s 257 of the Companies Act, 1956, in connection with the re-election of these directors has been received by the Company.

Mr. S. Rajasekharappa, Mr. S. Vishwanath and Mr. S. Chandrashekar directors may be deemed to be interested in this respective resolution.

## Directors' Report

Dear Shareholders,

Your directors have pleasure in presenting the Nineteenth Annual Report of the Company together with audited financial statements and accounts for the year ended March 31, 2010.

### Financial Highlights

Particulars	(Rupees in Lakhs)	
	2009-10	2008-09
Gross Revenue	9.73	167.60
PBITD	(83.66)	(82.19)
Cash Profit from operations	(89.74)	(122.38)
Net Profit/(-)Loss	(89.74)	(137.96)

### Operations:

Pursuant to the approval of the members through postal ballot on 30.10.2008, the Company has disposed of some of the textile machineries after stoppage of spinning activity, and taken steps to dispose of remaining textile machineries.

On account of loss on sale of machineries, deteriorated rawmaterial stock and payment of huge amount of arrears of sales tax on account of non grant of Textile Policy by the State Government, the company has incurred huge loss during the year.

With a view to curtail the mounting losses the Company has leased the godown facilities on rent basis to State and Central Warehouse Corporations.

The Company has cleared all secured liabilities and as of now the Companies liability is very meager which is normal in normal course of business.

All other remaining assets and liabilities are valued on a "Going Concern" basis and the directors are under the process of exploring other avenues of diversifying into new areas of business. Though the manufacturing activity is stopped, its net worth remains positive and considering the fact that the company has adequate resources to continue in operational existence for the foreseeable future and taking into account the management assessment of improvement in the economic condition in general they continue to adopt the going concern basis in preparing the annual report and accounts.

### Dividend

In view of inadequacy of profits, your Directors are unable to recommend any dividend for the year under report.

### Directors

During the year Mr. B. Ekanthappa has resigned from the Board due to personal reasons and the Company has appointed Mr.S. Thippeswamy in his place to comply with the clause 49 of the listing agreement and other provisions. The Board places on record its sincere appreciation for the services rendered by Mr.B.Ekanthappa during his tenure on the Board. Mr. S. Rajasekharappa, Mr. S. Chandrashekar, Mr. S.T. Thippeswamy, Mr. S. Prasannakumar and Mr. S. Thippeswamy directors of the company retire by rotation at the ensuing annual general meeting, and being eligible, offer themselves for re-appointment

### Corporate Governance

A detailed report on Corporate Governance pursuant to the requirements of Clause 49 of the Listing Agreement forms part of the Annual Report. A certificate from the auditors of the Company, H.M.V. Murthy & Co., Chartered Accountants, confirming compliance of conditions of corporate governance as stipulated under the aforesaid Clause 49 is provided as annexure.

**Management Discussion and Analysis Report**

The management discussion and analysis of financial condition including the result of operation of the Company for the year under review as required under clause 49 of the listing agreement with the stock exchange is given as a separate statement in Annual Report.

**Auditors:**

The Statutory Auditors of the Company, M/s. H.M.V. Murthy & Co., Chartered Accountants, Bangalore, retire at the conclusion of the ensuing annual general meeting of the Company and have confirmed his willingness and eligibility for re-appointment and has also confirmed that his re-appointment, if made, will be within the limits under Section 224(1B) of the Companies Act, 1956.

**Auditors' Report:**

The Board has duly examined the statutory auditors' report to accounts which is self explanatory and clarifications wherever necessary, have been included in the Notes to Accounts section of the Annual Report.

**Particulars of Employees**

During the year there was no employee drawing remuneration beyond the limits prescribed under section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975.

**Conservation Of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo:**

Disclosure in respect of conservation of energy as required under Section 217(1) (e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the report of the Board of Directors) Rules, 1988, as amended is given below.

Conservation Of Energy, Technology Absorption, Foreign Exchange Earnings and Outgo is Nil during the year.

**Directors' Responsibility Statement**

Pursuant to the requirement under section 217(2 AA) of the Companies Act, 1956, with respect to the directors responsibility statement it is hereby confirmed that:

- i. In the preparation of the annual accounts for the financial year ended March 31, 2010, the applicable accounting standards have been followed and there are no material departures from the same;
- ii. The Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent, so as to give a true and fair view of the state of affairs of the Company as at March 31, 2010 and of the loss of the Company for the said period.
- iii. The Directors have taken proper and sufficient care to the best of their knowledge and ability for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- iv. The Directors have prepared the accounts for the financial year ended March 31, 2010 on a going concern basis.

**Acknowledgements**

Your Directors wish to place on record their appreciation for the continued support and co-operation of the shareholders, Bankers, various regulatory and Government authorities and for the valuable contributions made by the employees of the Company.

Challakere, 27th August 2010

On behalf of the Board of Directors  
S. Rajasekharappa  
Chairman

## Report on Corporate Governance

### Company's Governance Philosophy

The company is laying maximum emphasis on the effective system of corporate governance. The interaction between the Board, the Executives and other functionaries is so configured to have a distinctly demarcated role and improved corporate performance.

The Company's Corporate Philosophy is woven around its total commitment to the ethical practices in the constant quest to grow with profits and enhance Stakeholders value and align the interests of the Stakeholders, and society at large through adoption of best practice and standards.

### Board Of Directors

#### Composition of the Board

To comply with the provisions of the Listing Agreement, other statutory provisions the Board of Directors of the Company comprises of six members. During the year Mr. B. Ekanthappa has resigned to his directorship and the Company has appointed Mr.S. Thippeswamy in his place to comply with the provisions. Presently the board consists of six directors, two of whom are executive directors, one is non-executive director and three are non-executive independent directors. The requisite information as per the requirements of Clause 49 of the Listing Agreement is provided in the following table:

Name of director	Category	Number of directorships', chairmanships', & memberships'			Attendance	
		Director ships	Chairman ships	Member ships	Board Meeting	AGM
S. Vishwanath	Executive –Promoter	-	-	-	5	Yes
S. Rajasekharappa	Executive –Promoter	-	-	-	5	Yes
S.Chandrasekhar	Non-Executive – Promoter	-	1	2	5	Yes
S.T. Thippeswamy	Non –Executive Independent	-	-	2	5	Yes
S. Prasannakumar	Non –Executive Independent	-	-	-	5	Yes
S.Thippeswamy	Non –Executive Independent	-	1	2	1	No

During the Financial Year 2009-2010, the Board of Directors met five times. The dates of the meetings were 30.04.2009, 29.07.2009, 28.08.2009, 30.10.2009 and 29.01.2010. None of the Non-Executive Directors have any material pecuniary relationship or transactions with the Company and none of the directors of the Company are receiving any remuneration or fee.

#### Brief profile of Directors

S. Vishwanath (46) is a BE graduate in electronics has got over 19 years of experience in Textile industry and Edible Oil Industry. He is currently the Managing Director of the Company. He holds 316700 shares in the Company as on 31.03.2010

S. Rajasekharappa (60) is a BE graduate in Metallurgy and has over 19 years of experience in textile industry and Edible Oil Industry. He became industrialist in other fields like oil industry, having vast experience as businessman. He is currently the chairman of the board. He holds 216100 shares in the Company as on 31.03.2010

S. Chandrashekar (63) is a graduate in science and has over 38 years of experience in Textile & Edible Oil Industry. Currently is chairman of the shareholders / investors grievances committee. He holds 161000 shares in the Company as on 31.03.2010

S.T. Thippeswamy (69) is a graduate and has over 33 years of experience in Cotton business. He is currently a member of Audit Committee and the shareholders / investors grievance committee. He does not hold any shares in the Company as on 31.03.2010.

S. Prasannakumar (50) is a graduate and professionally he is businessman and has over 20 years of experience in trading activity especially he has got vast experience in cotton, oil and oil seeds trading. He does not hold any shares in the Company as of 31.03.2009. He is chairman of the audit committee.

S. Thippeswamy (49) is a graduate and professionally he is businessman and has over 15 years of experience in trading activity. He does not hold any shares in the Company as of 31.03.2010.

### **Audit Committee**

The Audit Committee comprises of three members, all of whom are non-executive. The Chairman of the Audit Committee, Mr. S. Prasannakumar has sound financial knowledge as well as many years of experience in general management and trading. The majority of the audit committee members, including the chairman have accounting and financial management expertise.

### **Key responsibilities of the audit committee**

Oversight of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statements are true and accurate and provide sufficient information. The determination of audit fees of statutory auditors, and approval of payment to statutory auditors for any other services rendered by them.

Reviewing, with the management, annual financial statements before submission to the Board for approval, with particular reference to matters required to be included in the directors' responsibility statement, changes if any in accounting policies, major accounting entries, significant adjustments made in the financial statements arising out of audit findings, compliance with listing and other legal requirements relating to financial statements, approval of all related party transactions, qualifications in the draft audit report. Reviewing with the management the quarterly financial statements before submission to the Board for approval. Reviewing with the management, performance of statutory auditors, and adequacy of the internal control systems.

Reviewing, management discussions and analysis of financial condition and results of operations, statement of related party transactions, quarterly compliance certificates confirming compliance with laws and regulations, including any exemptions to these compliances, such other function as may be assigned by the board of directors from time to time or as may stipulated under any law, rule or regulation including the listing agreement and the Companies Act, 1956.

### **Meetings, attendance and composition of Audit Committee**

During the Financial Year 2009-2010, the audit committee met five times ie., on 30.04.2009, 29.07.2009, 28.08.2009, 30.10.2009 and 29.01.2010. The composition of Audit Committee and attendance of members is as follows.

Name	Category	Number of meetings attended
S. Prasannakumar-Chairman	Independent director	5
S. Chandrasekhar	Independent director	5
S.T. Thippeswamy	Independent director	5

### **Investors Grievances Committee:**

Investors Grievance Committee of the Company consists of three members. The Committee specifically looks into the redressal of complaints of investors such as transfer or credit of the shares to demat accounts, non receipt of notices/annual reports etc. During the financial year, the Committee met twice on 28.08.2009 & 29.01.2010. The composition of the committee and attendance of members at the meetings held during the financial year 2009-2010 are given below.

## Chitradurga Spintex Limited

Name	Category	Number of meetings attended
S. Chandrasekhar - Chairman	Non-executive director	2
S. Thippeswamy	Independent director	2
S. Prasannakumar	Independent director	2

### Nature of complaints and redressal status

Type of complaint	No. of complaints		
	Received	Redressed	Pending
Non receipt of share certificate	-	-	-
Complaint regarding Demat/Remat	-	-	-

### Dedicated e-mail for Investor Grievance

For the convenience of our investors, the Company has designated an exclusive e-mail ID i.e., grdspintex@gmail.com. All investors are requested to avail this facility.

### Compliance Officer

D.M. Shivanandaswamy, acts as Compliance Officer of the Company for complying with the requirements of the Listing Agreement with the stock exchange and requirements of SEBI (Prohibition of insider Trading) Regulations, 1992.

### General Body Meetings

The Company held its last three Annual General Meetings as under:

Year	Venue	Date & Time	Special Resolution passed
2008-2009	Registered Office	30.09.2009 at 11.00 a.m.	None
2007-2008	Registered Office	30.09.2008 at 11.00 a.m.	None
2006-2007	Registered Office	30.09.2007 at 11.00 a.m.	None

### Postal ballot

No special resolutions were put through postal ballot during the year as there were no resolutions which were required to be passed through postal ballot.

### Disclosers

No penalty or stricture has been imposed on the Company by the stock exchanges or SEBI or any other statutory authority, on any matter related to the capital markets, during the last 3 years.

### Related party transactions

The details of all significant transactions with related parties are periodically placed before the audit committee. The Company has entered into related party transactions as set out in the notes to accounts, which are not likely to have a conflict with the interest of the Company.

### Disclosure of Accounting Treatment

The financial statements are prepared on accrual basis of accounting and complied with all the applicable accounting standards except accounting of gratuity which will be accounted on payment basis.

### Code of Conduct

The Board members and senior management have affirmed their compliance with the code and a declaration signed by the Managing Director of the Company (i.e., the CEO within the meaning of clause 49-V of the listing agreement) is given below.

"It is hereby declared that the Company has obtained from all members of the board and senior management affirmation that they have complied with the code of conduct for directors and senior management of the Company for the year 2009-10."

S. Vishwanath  
Managing Director

### CEO and CFO certification

A certificate required under Clause 49(V) of the Listing Agreement duly signed by the CEO was placed before the Board.

### Compliance with the mandatory requirements of Clause 49 of the Listing Agreement

The Company has complied with all the mandatory requirements of corporate governance as stipulated under the Listing Agreement and obtained a certificate affirming the compliances from H.M.V. Murthy & Co., Chartered Accountants, the statutory auditors of the Company and the same is attached to the Directors' report.

### Means of Communication

The Company's quarterly/half yearly financial results are published in the leading Kannada and English news papers. There has been no presentation to analysts and official news releases during the year.

### General Shareholders Information

#### 19<sup>th</sup> Annual General Meeting

Date & Time: 30.09.2010 at 11.00 A.M.

Venue: Chitradurga Spintex Limited, Bangalore Road, Siddapur Village,  
Challakere-577 522. Karnataka

#### Financial Calendar (Tentative Schedules, subject to change)

Results for First Quarter - July 2010, Second Quarter - October 2010, Third Quarter - January 2011, Fourth Quarter- April 2011

### Stock market data for the period April 1, 2009 to March 31, 2010

Month	High	Low	Volume (Nos)
April 2009	4.98	4.52	1101
May 2009	4.74	2.88	21300
June 2009	3.41	2.52	4574
July 2009	3.00	2.19	24943
August 2009	2.25	1.71	103663
September 2009	2.32	1.68	78731
October 2009	3.67	2.15	278279
November 2009	3.44	2.20	31402
December 2009	2.79	2.22	39750
January 2010	3.12	2.37	105517
February 2010	3.04	1.94	16547
March 2010	2.73	2.10	41333

### Equity shares listing, stock code and listing fee payment

Name of the stock exchange	Scrip Code	Status of fee paid
Bombay Stock Exchange Ltd, P.J. Tower, Dalal Street, Mumbai.	521244	Paid as applicable

### Share Transfer System

Transfer of the equity shares of the Company which are in electronic format is done through the depositories without any involvement of the Company. Transfer of shares in physical form is normally processed within fifteen days from the date of

receipt, provided the documents are complete in all respects. All transfers are first processed by the transfer agent and are submitted to the Company for approval thereafter. The authorized official of the Company approve the transfer and the shares are returned to the shareholder.

Pursuant to Clause 47(c) of the Listing Agreement, we obtain certificate from a practicing Company Secretary on half yearly basis to the effect that all the transfers are completed in the statutorily stipulated period. A copy of the certificate so received is submitted to stock exchange where the shares of the Company are listed

### **Dematerialization of shares and liquidity**

The Company's shares are traded in dematerialized form and are available for trading with the both the depository ie, NSDL and CDSL. The equity shares of the Company are frequently traded at the Bombay Stock Exchange Ltd, ISIN for the Company's shares is INE676G01016

### **Distribution of share as on 31.03.2010**

Sl No.	Category	No. of shares	% age of holding
1	Indian promoters and promoters group	1910490	41.44
2	Mutual Funds	90900	1.97
3	Bodies Corporate	255124	5.53
4	NRIs/OCBs	385400	8.36
5	Indian public and others	1968386	42.70
	Total shareholding	46,10,300	100.00

### **Outstanding GDRs/ADRs/warrants/options**

There are no GDRs/ADRs/Warrants or any convertible instruments, which are pending for conversion into equity shares.

### **Communication addresses**

Correspondence relating to shares

Canbank Computer Services Ltd.,

#218, J.P.Royale, 1<sup>st</sup> Floor, 2<sup>nd</sup> Main, Sampige Road, (Near 14<sup>th</sup> Cross), Malleswaram, Bangalore-560001

Any other Correspondence:

Chitradurga Spintex Limited,

PB No.9, Bangalore Road, Challakere-577 522, Karnataka



### Management Discussion and Analysis Report

#### Overview

Pursuant to the approval of the members through postal ballot on 30.10.2008, the Company has disposed of some of the textile machineries after stoppage of spinning activity, and taken steps to dispose of remaining textile machines. The Company has cleared all secured liabilities and as of now the Company's liability is very meager which is normal in normal course of business. The directors are under the process of exploring other avenues of diversifying into new areas of business to continue in operational existence.

#### Financial performance & review

On account of loss on sale of machineries, deteriorated raw material stock and payment of huge amount of arrears of sales tax on account of non grant of Textile Policy by the State Government, the company has incurred huge loss during the year. With a view to curtail the mounting losses the Company has leased the godown facilities on rent basis to State and Central Warehouse Corporations. The directors are under the process of exploring other avenues of diversifying into new areas of business.

#### Segment wise performance

As there is no particular operational activity segment wise performance is not applicable.

#### Outlook

Due to change in the business activity from spinning to other activity forecasting outlook is not wise since any particular business not yet started. The directors are under the process of exploring other avenues of diversifying into new areas of business.

#### Risk Management

Your Company has No specific risks other than normal business problems which are explained above.

#### Internal Controls

The Company has adequate internal control procedures and has well defined business processes to ensure the efficiency and effectiveness of the efforts that go in managing various assets and interests of the company.

#### Subsidiaries

Your Company has no subsidiary company's.

**AUDITOR'S REPORT TO THE MEMBERS OF**

**M/S.CHITRADURGA SPINTEX LIMITED**

- I. We have audited the attached Balance Sheet as at 31st March 2010 and also the Profit and Loss Account of the Company for the year ended on that date annexed there to and the cash flow statement for the year ended on that date. 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.
- II. We conducted our audit in accordance with Auditing Standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
- III. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956 we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order to the extent applicable.
- VI Further to our comments in the annexure referred to in paragraph 3 above, we report that:
  1. We have obtained all the information and explanation which to the best of our knowledge and belief were necessary for the purpose of our Audit.
  2. In our opinion proper Books of Accounts as required by law have been kept by the Company so far as appears from our examination of the books.
  3. The Balance Sheet and the Profit and Loss Account and cash flow show statement are in Agreement with the Books of Account.
  4. In our Opinion, the balance sheet, Profit and Loss Account and cash flow shows statement dealt by this report complied with accounting standards mentioned under sub section (3C) of section 211 of the Companies Act 1956, subject to the observation referred to in Para below.

***In our opinion, the accounting of gratuity on payment basis as per policy No. 7. of schedule 17, is contrary to generally accepted Accounting Standards issued by The Institute of Chartered Accountants of India. The effect on Profit & Loss Account is unascertained.***
  5. Based on written representation made by the Directors of the company and according to the information and explanation given to us, in our opinion the directors of the company are not prima facie disqualified from being appointed as Directors U/s 274(1)(g) of "the Act".
  6. ***We draw the attention to the note No.3 of schedule 17 regarding huge loss incurred during the year amounting to ₹ 113.86 Lakhs, not yet started any particular business as stated in postal ballot on 30.10.2008 and as the company has sold substantial portion of the plant and machinery, along with other matters set out in the notes of the financial statement, the substantial doubt will arise whether company will be able to continue AS GOING CONCERN. Subject to the above and note No.4 of schedule No. 17 regarding contingent liability, and read with other notes thereon, in our opinion and to the best of our knowledge and according to the explanations given to us, the said accounts and read with other notes and schedules appearing there on, give the information required by the Companies Act. 1956, in the manner so required and also give true and fair view.***

- 1) In the case of Balance Sheet of the State of Affairs of the Company as at 31st March 2010, and
- 2) In the case of Profit and Loss Account, of the loss of the Company for the year ended on that date.
- 3) In the case of Cash Flow Statement, of the Cash Flows for the year ended on that date.

For H.M.V. MURTHY & CO.,  
CHARTERED ACCOUNTANTS

(H.M.Vrushabhendra Murthy)  
Proprietor.  
M.No.26432

Place:Bangalore

Date:

**ANNEXURE TO AUDITOR'S REPORT**  
**Referred to in Paragraph 3 of our Report of even date.**

- (1) (a) The Company is maintaining proper records showing full particulars including quantitative details and situation of fixed assets.  
(b) The fixed assets have been physically verified by the management as per phased programme of verification. In our opinion, the frequency of verification is reasonable having regard to the size of Company and the nature of its assets. The Discrepancies reported on such verification were not material and have been properly dealt with in the books of accounts.  
(c) There is substantial disposal of fixed assets during the year to have an impact on the operations of the company or affects its going concern.
- (2) (a) The Management has conducted physical verification of inventory at reasonable intervals.  
(b) In our opinion, the procedures followed by the management for such physical verification are, reasonable and adequate, in relation to the size of the company and the nature of its business.  
(c) The Company is maintaining proper records of inventory. The discrepancies noticed on verification between physical inventories and the book records were not material in relation to the operation of the company and the same have been properly dealt with in the books of accounts.
- (3) The company has not accepted/repaid any loans during the year from parties listed in the register maintained under section 301 of the companies act, 1956. The year end balance of loan taken from such parties is NIL.
- (4) In our opinion and according to the information and explanation given to us, there are adequate internal control procedures commensurate with the size of the company and the nature of its business for the purchase of inventory and fixed assets and for the sale of goods. During the course of our audit no major weakness has been observed in the internal controls.
- (5) (a) Based on the audit procedure applied by us and according to the information and explanation provided by the management, we are of the opinion that all transaction that need to be entered into the resister in pursuance of section 301 of the Act have been entered.  
(b) In our opinion and according to the information and explanation given to us, transactions made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the companies act, 1956 and exceeding the value of Rs. Five lakhs in respect of any party during the year have been made at prices which are reasonable having regard to prevailing market prices at the relevant time where such market prices are available.
- (6) In our opinion and according to the information and explanations given to us, the company has not accepted any deposits from the public within the meaning of section 58A and 58AA of the companies Act, 1956 and the rules framed there under.
- (7) The Company has no internal audit system.
- (8) (a) According to the information and explanation given to us, the company is generally regular in depositing with appropriate authorities undisputed dues including Provident fund, investor education and protection fund, employees' state insurance, income tax, sales tax, wealth tax, customs duty, excise duty, cess and other material statutory dues applicable to it.

- (b) According to the information and explanation given to us, there are no undisputed amounts payable in respect of income tax, Sales tax, Wealth tax, Customs duty, Excise duty and Cess outstanding as at the year end, for a period of more than six months from the date they become payable.
- (c) According to the information and explanation given to us, there are no dues of Sales tax, Income tax, Custom duty, Wealth tax, Excise duty of Cess outstanding on account on any dispute except Entry Tax of Rs.3.91 Lakhs for the year 1992 -93.
- (9) The Company has accumulated losses of ₹ 408.39 Lakhs at the end of the financial year and it has incurred a cash loss of ₹ 113.86 Lakhs in the current year and ₹ 122.39 lakhs immediately preceding the financial year.
- (10) According to information and explanation given to us and the records examined by us, the Company has not defaulted in repayment of dues to financial institutions.
- (11) In our opinion and according to information and explanation given to us, no loans and advances have been granted by the company on the basis of security by way of pledge of shares, debentures and other securities.
- (12) In our opinion and according to the information and explanation given to us, the nature of the activities of the Company does not attract any special statute applicable to chit fund and Nidhi /Mutual benefit fund/societies.
- (13) The Company does not deal or trade in shares, securities, debentures and other investments.
- (14) According to the information and explanations given to us and the records examined by us, the Company has not given any guarantees for loans taken by others from banks or financial institutions, the terms and conditions whereof are prima facie prejudicial to the interest of the Company.
- (15) As informed to us, the term loans were applied by the Company for the purpose for which they were obtained.
- (16) On the basis of an overall examination of the balance sheet and cash flows of the Company and the information and explanation given to us, we report that the Company has not utilized funds raised on short term basis for long term investments and vice versa.
- (17) The Company has not made any preferential allotment of shares to parties or companies covered under section 301 of the Act.
- (18) The company has not issued any debentures.
- (19)The Company has not raised any money through a public issue during the year.
- (20)In our opinion and according to the information and explanation given to us, no fraud on or by the Company has been noticed or reported during the year, that causes the financial statements to be materially misstated.

For H.M.V. MURTHY & CO.,  
CHARTERED ACCOUNTANTS

(H.M.Vrushabhendra Murthy)  
Proprietor.  
M.No.26432

Place:Bangalore  
Date: 3<sup>rd</sup> September 2009

## BALANCE SHEET AS AT 31.03.2010

Particulars	Schdule No.	As At	As At
		31.03.2010 Rs.	31.03.2009 Rs.
<b>SOURCES OF FUNDS:</b>			
<b>1. Shareholders Funds:</b>			
Share Capital	1	46,103,000	46,103,000
Reserves & Surplus	2	2,000,000	2,000,000
<b>2. Loan Funds:</b>			
Secured Loans	3	0	9,984,665
Un-Secured Loans	4	0	58,444
<b>Total</b>		<b>48,103,000</b>	<b>58,146,109</b>
<b>APPLICATION OF FUNDS:</b>			
<b>1. Fixed Assets</b>			
Gross Block	5	17,853,679	44,481,729
Depreciation		10,758,528	31,861,094
Net Block		7,095,151	12,620,635
<b>2. Investments</b>			
	6	11,000	11,000
<b>3. Current Assets, Loans &amp; Advances:</b>			
Inventories	7	0	5,917,833
Sundry Debtors	8	426,872	4,987,942
Cash & Bank Balances	9	522,158	393,722
Loans & Advances	10	146,085	6,338,130
<b>Total</b>		<b>1,095,115</b>	<b>17,637,627</b>
Less Current Liabilities & Provisions	11	967,072	1,576,869
Net Current Assets		128,043	16,060,758
<b>4. Miscellaneous Expenditure</b>			
(to the extent not written off or adjusted)	12	40,868,806	29,453,716
<b>Total</b>		<b>48,103,000</b>	<b>58,146,109</b>
Notes on accounts	17		

For and on behalf of the Board

Read with our Report

**S. Vishwanath**  
Managing Director

**for H.M.V. Murthy & Co.,**  
Chartered Accountants

**S. Rajasekharappa**  
Chairman

**H.M. Vrushabhendra Murthy**  
Proprietor

PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED 31.03.2010

Particulars	Schedule No.	As At 31.03.2010 Rs.	As At 31.03.2009 Rs.
<b>INCOME</b>			
Sales	13	795,039	16,639,505
Other Income	14	178,301	120,274
Total		973,340	16,759,779
<b>EXPENDITURE</b>			
Manufacturing, Administrative, & Selling Expenses	15	9,339,804	24,978,575
Financial Expenses	16	607,542	4,020,054
Depreciation		0	1,557,649
Total		9,947,346	30,556,278
Profit for the year		-8,974,006	-13,796,499
Provision for Income Tax			
Current Year Tax		-	0
Fringe Benefit Tax			0
Balance brought forward		-29,453,716	-15,629,538
Prior period adjustment		2,441,084	27,679
Loss carried to Balance Sheet.		-40,868,806	-29,453,716
Notes on accounts	17		
For and on behalf of the Board			Read with our Report
<b>S. Vishwanath</b> Managing Director			<b>for H.M.V. Murthy &amp; Co.,</b> Chartered Accountants
<b>S. Rajasekharappa</b> Chairman			<b>H.M. Vrushabhendra Murthy</b> Proprietor

CASH FLOW STATEMENT FOR MARCH 2010

	Mar' 2010	Mar' 2009
<b>A. CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net profit before tax and extraordinary items	-8,974,006	-13,796,499
Adjustment for:		
Depreciation	0	1,557,649
Interest paid	607,542	4,020,054
Interest received	-83,415	-38,826
Extraordinary items:	-21,102,566	-692,208
Operating profit before working capital changes	-29,552,445	-8,949,830
Adjustment for:		
Trade and other receivable	10,753,115	5,385,738
Inventories	5,917,833	6,242,997
Current Liabilities	-609,797	-280,853
Cash generated from operations	-13,491,294	2,398,052
Interest paid	-607,542	-4,020,054
Income tax/TDS paid	0	0
Cash flow before extraordinary items	-14,098,836	-1,622,002
Extraordinary items:	-2,441,084	-27,679
Net cash from operating activities (A)	-16,539,920	-1,649,681
<b>B. CASH FLOW FROM INVESTING ACTIVITIES:</b>		
Interest received	83,415	38,826
Sale of Fixed Assets	26,628,050	1,271,946
Cash from NSC	0	5,000
Net cash used in investing activities (B)	26,711,465	1,315,772
<b>C. CASH FLOW FROM FINANCING ACTIVITIES:</b>		
Proceeds from long term borrowings	-58,444	-24,799
Net cash used in financing activities (C )	-58,444	-24,799
Net increase/decrease in cash and cash equivalents(A+B+C)	10,113,101	-358,708
Cash and Cash equivalents as at 31.03.2009	-522,158	9,590,943
Cash and Cash equivalents as at 31.03.2010	9,590,943	9,232,235

Notes:

1. Above statement has been prepared following the indirect method except in interest received / paid
2. Proceeds from long term borrowings are shown net off repayment
3. Cash and cash equivalents represent cash and bank balances

For and on behalf of the Board

Read with our Report

**S. Vishwanath**  
Managing Director

**for H.M.V. Murthy & Co.,**  
Chartered Accountants

**S. Rajasekharappa**  
Chairman

**H.M. Vrushabhendra Murthy**  
Proprietor

Challakere, 27.08.2010

Bangalore,





## Chitradurga Spintex Limited

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### SCHEDULE NO.8

#### SUNDRY DEBTORS:

(Unsecured considered good)

Over six months	426,872	4,987,942
Others	0	0
TOTAL	426,872	4,987,942

### SCHEDULE NO.9.

#### CASH & BANK BALANCES:

Cash in hand	454,623	386,607
Balance with scheduled Banks:		
On Current Account	67,535	7,115
TOTAL	522,158	393,722

### SCHEDULE NO.10.

#### LOANS AND ADVANCES:

(Unsecured considered good)

Advances recoverable in cash or in	72,438	5,573,394
Others Deposits	6,900	708,493
Income Tax Deducted at Source	66,747	56,243
TOTAL	146,085	6,338,130

### SCHEDULE NO.11.

#### CURRENT LIABILITIES & PROVISIONS:

A. Sundry Creditors for supplies and others	121,376	1,550,423
Provisions for Expenses	845,696	26,244
TOTAL	967,072	1,576,667

### SCHEDULE NO.12.

#### MISCELLANEOUS EXPENDITURE

(to the extent not written off or adjusted)

Surplus in Profit & Loss account.	40,868,806	29,453,716
TOTAL	40,868,806	29,453,716

### SCHEDULE NO.13.

#### SALES:

Sales of Yarn	16,437	15,376,106
Sales of Cotton Waste	117,193	177,670
Sale of Rawmaterials	734,612	1,297,962
Sub Total	868,242	16,851,738
Less Rebate & Discount	73,203	212,233
TOTAL	795,039	16,639,505

### SCHEDULE NO.14.

#### OTHER INCOME:

Interest	83,415	38,826
Rent Income	94,886	0
Miscellaneous Income	0	23,686
Profit on sale of Assets	0	57,762
TOTAL	178,301	120,274

### SCHEDULE NO.15.

#### Manufacturing, Administrative & Selling Expenses:

Raw Materials	4,156,315	14,435,461
Consumable Stores	0	547,445
Power and Fuel	80,941	1,933,515
Salaries and wages	110,200	431,739

## Chitradurga Spintex Limited

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Provident Fund	15,014	46,886
ESI Contribution	5,235	21,672
Entry Tax	0	2,305
Freight Inward	0	534,420
Insurance	107,148	234,236
Repair & Maintenance	7,522	1,133,417
Service Tax	0	17,254
Advertisement	47,645	29,753
AGM Expenses	34,182	38,056
Commission & Brokerage	0	158,703
Consignement Sales expenses	0	916
Filing Fee	3,150	2,100
Folio Maintenance Charges	70,114	70,696
Forwarding Charges	0	49,188
Freight outward	0	29,155
Legal & Professional Charges	11,000	18,075
Payment to auditors	55,385	60,010
Postage & Telephones	60,410	188,150
Printing and stationery	26,587	19,799
Rates and taxes	32,366	71,409
Sales Tax Paid	0	226,554
Staff welfare	3,089	24,023
Subscription and membership	1,845	3,315
Travelling & Conveyance - Directors	16,244	108,430
Travelling & Conveyance - Others	13,945	46,846
Gratuity	84,400	182,774
Loss on sale of Fixed Assets	2,635,549	
Bad Debts	0	1,191,926
Total	7,578,286	21,858,228
Change in stock		
Opening Stock		
process stock	9,335	457,557
Finished Goods	23,553	468,875
Semi Finished Goods	1,728,630	3,955,433
Sub Total	1,761,518	4,881,865
Closing Stock		
process stock	0	9,335
Finished Goods	0	23,553
Semi Finished Goods	0	1,728,630
Sub Total	0	1,761,518
	1,761,518	3,120,347
TOTAL	9,339,804	24,978,575
SCHEDULE NO.16.		
FINANCIAL EXPENSES:		
Interest on Working Capital	597,913	1,306,637
Other charges	9,629	18,145
Interest Waiver	0	2,695,272
TOTAL	607,542	4,020,054

**Schedule No.17**

**Notes Forming Part Of The Accounts For The Year Ended 31.03.2010**

**1. Statement Of Accounting Policies:**

- 1.1 (a) The accounts are prepared in accordance with the historical cost convention, income and expenditure are accounted on accrual basis except gratuity which will be accounted on payment basis.
- 1.1 (b) Sales includes amounts recovered towards Sales Tax.
- 1.2. Fixed Assets: Fixed assets are stated at cost less Depreciation. Depreciation is being provided at revised rates specified as per schedule XIV to the Companies Act 1956 on Straight-Line method on prorata basis up to 31.12.2008 being on which date the spinning activity was stopped.
- 1.3. Investments are stated at cost.
2. Pursuant to approval of the members through postal ballot on 30.10.2008, the Company has amended the main objects of the Company, accordingly Company has stopped the spinning activity from 31.12.2008.
3. On account of loss on sale of machineries, deteriorated rawmaterial stock and payment of huge amount of arrears of sales tax on account of non grant of Government Policy the company has incurred loss of ₹ 113.86 lakhs during the year.
- .4. Contingent Liabilities:
- (a) The Company has received a suo moto notice under KTEG Act from Commissioner of Commercial Taxes, Bangalore, in respect of assessment year 92-93, demanding to pay tax on plant and machinery which company has bought during the AY 92-93. However Company has filed objections/application to rectify the order which is due consideration with the said authority
6. The Company has not yet appointed Company Secretary in terms of section 383A of the Companies Act of 1956.
7. Sundry Creditors, Debtors, Deposits, Loans & Advances recoverable on cash or in kind are subject to confirmation.
8. The company has been accounting gratuity on cash basis instead of accrual basis to maintain consistency in accounting method followed by the Company.
9. Payment To Auditors:
- |                           | 2010   | 2009   |
|---------------------------|--------|--------|
| A. As Auditors            | 22,472 | 22,472 |
| B. Taxation Matter        | 12,360 | 12,360 |
| C. Certification Charges  | 17,978 | 17,978 |
| C. Out of packet expenses | 2,575  | 7,280  |
| Total                     | 55,385 | 60,010 |
10. Previous figures have been re-grouped and/or re-classified wherever necessary in order to be in conformity with current years presentation.
11. As the Company has no taxable income for the A.Y. 2010-2011, no tax provision is made. Taking into account the consideration of prudence, no asset or liability is anticipated on account of deferred tax.

12. **AS-18: Related Party Transactions**

**Name of the related parties and description of the related parties:**

Sri S. Vishwanath	Executive Director
Sri S. Rajasekharappa	Executive Director
Sri S. Chandrashekar	Non Executive Director
M/s.Chitradurga Sunflower Oil Complex Ltd.	The Company in which the relatives of key management personnel's are interested

**Transactions during the year**

<b>Nature of Relationship</b>	<b>Nature of Transaction</b>	<b>Amount in lacs</b>
The Company in which the relatives of key management personnel's are interested.	Loan recovered	40.00

13. **AS-20 : Earning Per Share**

a. Loss for the year	Rs.113.83 lacs
b. Shares outstanding	4610300 shares
c. Basic & Diluted EPS	Rs. (2.47) per share

14. Figures have been rounded off to the nearest rupees value.

For and on behalf of Board

As Per our Report of even date

**S.Vishwanath**  
Managing Director

**For H. M. V. Murthy & Co**  
Chartered Accountants

**S.Rajasekharappa**  
Chairman

**H. M. Vrushabhendra Murthy**  
Proprietor

Challakere, 27th August, 2010

Bangalore, 3<sup>rd</sup> September, 2009

ANNEXURE-A

I) CAPACITY

Licensed

Installed : 768 Rotors

Production:	2010	2009
	In kgs	In kgs
Yarn	309	226833
Cotton Waste	3937	144474

II) RAW MATERIAL CONSUMPTION:

	<u>2009-2010</u>		<u>2008-2009</u>	
	Quantity (in kgs)	Value In Rs.	Quantity (in kgs)	Value In Rs.
Opening Stock	93674	4156315	133165	5908531
Purchase	0	0	404431	12683245
Total	93674	4156315	537596	18591776
Closing Stock	0	0	93674	4156315
Consumption	93674	4156315	443922	14435461

iii) TURNOVER PARTICULARS

Yarn	508	16437	234784	15376106
Cotton Waste	10624	117193	183305	177670

iv) OPENING STOCK OF FINISHED GOODS

Yarn	199	12853	8150	428364
Cotton Waste	6687	10699	45,518	40,511
Semi Finished Goods	57621	1727630	94065	3955433

V) CLOSING STOCK OF FINISHED GOODS

* Yarn	0	0	199	12853
Cotton Waste	0	0	6687	10699
Semi Finished Goods	0	0	57621	1727630

VI) VALUE OF IMPORTS (CIF VALUE) NIL (Previous year Nil)

VII) VALUE OF EXPORTS (FOB VALUE) Rs.Nil (Previous year :Nil)

S.RAJASEKHARAPPA  
CHAIRMAN

S.VISHWANATH  
MANAGING DIRECTOR

**Annexure-B**

(as per notification 15.05.1995 issued by department of Company Affairs, the additional

**Balance Sheet abstract and Company's general business profile**

**Registration details**

Registration N 0811467	State Code	08
	Date	Month Year
Balance Sheet	31	March 2010

**Capital raised during the year (Amount in Rs.)**

Public Issue	Nil	Right Issue	Nil
Bonus Issue	Nil	Private Placement	Nil

**Position of mobilisation and deployment of funds (Amount in Rs.)**

Sources of Funds	Total Liabilities	49,070,072	Total Assets	49,070,072
	Paid up capital	46,103,000	Reserves & Surplus	2,000,000
	Secured Loans	0	Unsecured Loans	0
Application of Funds	Net Fixed Assets	7,095,151	Investments	11,000
	Net Current Assets	128,043	Miscellaneous Expenditure	40,868,806

**Performance of Company (Amount in Rs.)**

Turnover	795,039	Total Expenditure	9,947,346
Profit before Tax	(8,974,006)	Profit after Tax	(8,974,006)
EPS	-1.95	Dividend Rate %	Nil

**Generic names of three principal products/services of Company (as per monetary terms)**

Item Code Nc 52051100  
 Product descri Cotton Yarn