



KANCO ENTERPRISES LIMITED

Annual Report & Accounts 2009-2010

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BOARD OF DIRECTORS

Sri U. Kanoria

Chairman & Managing Director

Sri G. R. Basotia

Wholetime Director

Sri G. Momen

Sri P. K. Bhattacharjee

Sri P. K. Poddar

Sri A. K. Jain

Directors

COMPANY SECRETARY

Sri R. Mundhra

AUDITORS

M/s. B. R. Shah & Associates

Chartered Accountants

COST AUDITORS

M/s. N D Birla & Co.

Cost Accountants

BANKERS

State Bank of India

IDBI Bank Ltd.

REGISTERED OFFICE

Jasmine Tower, 3rd Floor

31, Shakespeare Sarani, Kolkata 700 017

Telefax : 2281 5217

Email : kanco@vsnl.com

Website : www.kanco.in

BRANCH OFFICE

207, Shitiratna, 2nd Floor

Panchavati Circle, Ahmedabad 380 006

PLANT

Kanco Overseas

Village: Walthera

Taluka : Dholka 387 810

Dist. Ahmedabad (Gujarat)

SHARE REGISTRARS

C B Management Services (P) Ltd.

P-22, Bondel Road, Kolkata 700 019

Phone : 2280 6692/93/94

Email : rta@cbmsl.com

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 19th Annual General Meeting of KANCO ENTERPRISES LIMITED will be held at the "Bharatiya Bhasha Parishad", 36A, Shakespeare Sarani, Kolkata 700 017 on Friday, the 13th of August, 2010 at P.M., inter-alia, to transact the following business :

ORDINARY BUSINESS

- To receive, consider and adopt the Audited Profit & Loss Account for the year ended 31st March, 2010, the Audited Balance Sheet as on that date and the Reports of the Board of Directors and Auditors.
- To appoint a director in place of Mr. Anil Kumar Jain, who retires by rotation and being eligible, offers himself for re-appointment.
- To appoint a director in place of Mr. Golam Momen, who retires by rotation and being eligible, offers himself for re-appointment.
- To consider and if thought fit, to pass, with or without modification(s), the following resolution as an ORDINARY RESOLUTION :

"RESOLVED THAT Messrs B. R. Shah & Associates, Chartered Accountants, be and are hereby re-appointed as Auditors of the Company under Section 224 read with Section 224A and other applicable provisions, if any, of the Companies Act, 1956 to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting of the Company at such remuneration as may be decided by the Board, inclusive of reimbursement of out-of-pocket expenses, as may be incurred by the Auditors on account of performance of their duties."

SPECIAL BUSINESS

- To consider and if thought fit, to pass, with or without modification(s), the following resolution as a SPECIAL RESOLUTION :

"RESOLVED THAT pursuant to the provisions of Section 81(1A) and all other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modification or re-enactment thereof for the time being in force) and enabling provisions of the Memorandum and Articles of Association of the Company and the Listing Agreements entered into by the Company with the Stock Exchanges where securities of the Company are listed and in terms of the provisions of SEBI (ISSUE OF CAPITAL AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2009 (the "SEBI (ICDR) Regulations, 2009") (including any amendment(s) to or re-enactment thereof), the regulations/guidelines, if any, issued by the Government of India, the Reserve Bank of India and any other applicable laws, rules and regulations (including any amendment thereto or re-enactment thereof for the time being in force), and subject to such approvals, consents, permissions and sanctions as may be required from the Government of India, Reserve Bank of India, Securities and Exchange Board of India, Stock Exchanges and any other relevant statutory, governmental authorities or departments, institutions or bodies (Concerned Authorities) in this regard and further subject to such terms and conditions or modifications thereto as may be prescribed or imposed by any of the Concerned Authorities while granting such approvals, and permissions as may be necessary or which may be agreed to by the Board of Directors of the Company (hereinafter referred to as "the Board" which expression shall include any Committee constituted by the Board or any person(s) authorized by the Board to exercise the powers conferred on the Board by this Resolution) and subject to such terms, conditions and modifications as the Board may in its discretion impose or agree to, the consent and approval of the Company be and is hereby accorded to the Board and the Board be and is hereby authorized to create, offer, issue and allot from time to time in one or more tranches, equity shares of face value of Rs.10/- each, fully paid up, at such price (including premium) being not less than the price determined in accordance with Chapter VII of the SEBI(ICDR) Regulations, 2009, on preferential allotment basis, so that the value of the total number of shares so issued, aggregates to not more than Rs. 5,00,00,000 (Rupees Five Crores Only) to the following persons/entities as mentioned below :

Name of the Proposed Allottee	No. of Equity Shares to be allotted	Status	Value
1. Magenta Nirman Pvt. Ltd.	10,00,000 Equity Shares	Non-Promoter	Rs. 2,00,00,000
2. Jainex Securities Pvt. Ltd.	15,00,000 Equity Shares	Non-Promoter	Rs. 3,00,00,000



NOTICE (Contd.)

"RESOLVED FURTHER THAT the relevant date for the purpose of calculating the exercise price under Chapter VII of SEBI (ICDR) Regulations, 2009 is 14th of July, 2010, being 30 days prior to 13th of August, 2010."

"RESOLVED FURTHER THAT the said shares shall be ranked in all respects, pari-passu with the existing equity shares of the Company."

"RESOLVED FURTHER THAT pursuant to the provisions of Chapter VII of SEBI (ICDR) Regulations, 2009, the fresh equity shares to be allotted shall be locked in for a period of one year from the date of allotment and that the equity Shares shall not be sold, transferred, hypothecated or encumbered in any manner during the period of lock-in except to the extent and in the manner permitted there under."

"RESOLVED FURTHER THAT for the purpose of giving effect to the above, the Board be and is hereby authorised on behalf of the Company to take all actions and do all such acts, deeds, matters and things as it may, in its absolute discretion, deem necessary, desirable or expedient to effect the issue and allotment of the aforesaid securities and listing thereof with the stock exchange(s) and to settle any question, difficulties or doubts that may arise in this regard as it may in its absolute discretion deem fit and proper, without being required to seek any further consent or approval of the Members or otherwise to the end and intent that they shall be deemed to have given their approval thereto expressly by the authority of this resolution."

Registered Office :

Jasmine Tower, 3rd Floor

31, Shakespeare Sarani, Kolkata 700 017

Dated, the 21st day of June, 2010

By Order of the Board
For KANCO ENTERPRISES LIMITED

R. MUNDHRA
Company Secretary

Notes :

- A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE ON POLL, ON HIS BEHALF. THE PROXY NEED NOT BE A MEMBER OF THE COMPANY.
- Proxies in order to be effective must be received by the Company at its Registered Office not less than 48 hours before the meeting.
- The Register of Members and Share Transfer Register shall remain closed with effect from Wednesday, the 11th of August, 2010 to Friday, the 13th of August, 2010 (both days inclusive).
- The shareholders are requested to communicate to the Registrar & Transfer Agent of the Company, M/s C.B. Management Services (P) Ltd., change in their address, if any, at the address given in the Annual Report.
- Members are requested to preferably send their queries to the Registered Office, seven (7) days before the date of the AGM.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956 ("The Act")

Item No. 5

Issue of Shares on preferential basis as per the SEBI (ICDR) Regulations :

The proposal involves issue and allotment of Equity Shares on preferential basis, thereby increasing the paid up Share Capital of the Company. This requires approval of members of the Company under Section 81(1A) of the Companies Act, 1956 by means of special resolution. The necessary information pertaining to the proposed preferential allotment in terms of the Regulation 73(1) of SEBI (ICDR) Regulations, 2009 are set out as below :

a) The Object(s) of the issue :

The proposed preferential allotment of shares is made to meet the funding requirements including but not limited to investment for meeting its business requirements, funding ongoing capital expenditure and/or for the repayment of its long term debts and working capital requirements in order to improve its project capacity and enhance infrastructure facilities.

NOTICE (Contd.)

b) Intention of Promoters/Directors/Key Management Persons to subscribe the Offer :

None of the Directors/Promoters/Key Management Persons has any intention to subscribe to the Offer.

c) Shareholding Pattern before and after the Issue :

The Shareholding Pattern before and after the Offer would be as under :

S. No.	Category of Shareholder	Before Issue		Post Issue	
		No. of Shares	% of Share-holding	No. of Shares	% of Share holding
(A)	Shareholding of Promoter and Promoter Group				
A.1	Indian				
	Individuals/ Hindu Undivided Family	17,41,934		17,41,934	
	Bodies Corporate	95,56,270		95,56,270	
	Sub-Total A.1	1,12,98,204		1,12,98,204	
A.2	Foreign Promoters	0		0	
	Sub-Total (A)	1,12,98,204	73.22	1,12,98,204	63.01
(B)	Public Shareholding				
B.1	Institutions				
(a)	Mutual Funds/ UTI	54,183		54,183	
(b)	Financial Institutions / Banks	1,33,321		1,33,321	
(c)	Central Government/ State Government(s)	14,976		14,976	
	Sub-Total B.1	2,02,480		2,02,480	
B.2	Non-institutions				
(a)	Bodies Corporate	10,01,760		35,01,760	
(b)	Individuals	29,01,856		29,01,856	
(c-i)	NRI	5,778		5,778	
(c-ii)	CLEARING MEMBER	20,296		20,296	
	Sub-Total B.2	39,29,690		64,29,690	
	Sub-Total (B)	41,32,170	26.78	66,32,170	36.99
	GRAND TOTAL (A)+(B)	1,54,30,374	100.00	1,79,30,374	100.00

d) Consequential Changes in the Voting Rights :

Voting rights will change in tandem with the shareholding pattern.

e) Proposed time within which the allotment shall be completed :

The Board proposes to allot equity shares within a period of 15 days from the date of passing of the resolution by the shareholders in the General Meeting, provided that when the allotment on preferential basis is pending on account of pendency of any approval or permission for such allotment by any regulatory authority or the Central Government, the period of fifteen days shall be counted from the date of such approval or permission.

**NOTICE (Contd.)****f) Identity of the proposed allottees and the percentage of post preferential issue capital that may be held by them :**

Sl. No.	Name of the Allotees	No. of Shares held prior to allotment	No. of Shares allotted	No. & % of Post Issue Equity and Voting Share Capital
1.	Magenta Nirman Pvt. Ltd.	NA	10,00,000	10,00,000 5.58%
2.	Jainex Securities Pvt. Ltd	NA	15,00,000	15,00,000 8.36%

g) Lock in Period :

The aforesaid allotment of equity shares arising shall be locked in as per the provisions of Chapter VII of the SEBI (ICDR) Regulations, 2009.

Further, the entire Pre-Preferential allotment shareholding of all the proposed allottees, if any, shall also be under lock-in from the relevant date upto a period of one year from the date of the allotment of Equity Shares.

h) Change in the Shareholding Pattern :

There will also be a change in the shareholding pattern as well as voting rights consequent to the preferential allotment of equity shares.

i) Pricing of the Issue :

The shares are proposed to be allotted on preferential basis at a price of Rs. 20/- per share including premium of Rs. 10/- per share.

j) Auditors' Certificate :

A copy of the certificate issued by Statutory Auditors of the Company M/s B.R. Shah & Associates, Chartered Accountants, certifying that the issue of the Equity Shares is being made in accordance with the requirement of SEBI (ICDR) Regulations, 2009 for Preferential Issues, is available for inspection by the shareholders at the Registered Office of the Company on all working days except Public Holidays, Saturdays and Sundays between 3.00 P.M. and 5.00 P.M. upto to the date of the Annual General Meeting and at the Annual General Meeting.

k) Undertakings :

- The Issuer Company undertakes that they shall re-compute the price of the Equity shares in terms of the provision of SEBI (ICDR) Regulations, 2009, where it is required to do so.
 - The Issuer Company undertakes that if the amount payable on account of the re-computation of price is not paid within the time stipulated in terms of the provision of SEBI (ICDR) Regulations, 2009, the Equity Shares shall continue to be locked-in till the time such amount is paid by the allottees.
- l) Any of the equity shares that may remain unsubscribed for any reason whatsoever, may be offered and allotted by the Board in its absolute discretion to any person/entity/investor, on the same terms and conditions.

By Order of the Board
For KANCO ENTERPRISES LIMITED

R. MUNDHRA
Company Secretary

Kolkata, the 21st day of June, 2010

DIRECTORS' REPORT

Dear Shareholders,

Your Directors present their Nineteenth Annual Report and Audited Accounts for the year ended 31st March, 2010.

FINANCIALS

Your Company's financial performance was as follows :

	2009-2010 (Rs. in lacs)	2008-2009 (Rs. in lacs)
Profit Before Interest, Depreciation and Tax	117.81	(3.23)
Less : Interest	570.89	614.89
Gross Profit for the year	(453.08)	(618.12)
Less : Depreciation	497.21	625.00
Profit/(Loss) Before Taxation	(950.29)	(1243.12)
Less : Provision for -		
Net Current Tax	—	0.84
Fringe Benefit Tax	—	5.50
Taxation for Earlier Years	—	—
	—	6.34
Add/Less : Deferred Tax	13.53	430.22
Add/Less : MAT Credit Entitlement	—	—
Profit/(Loss) After Taxation	(936.76)	(819.24)
Balance Brought Forward from Last Account	(1405.01)	(585.77)
Balance Carried to Balance Sheet	(2341.77)	(1405.01)

DIVIDEND

The Directors of your Company do not recommend any dividend for the year under review.

DEMERGER

During the year under review, the Hon'ble High Court of judicature at Calcutta has approved the Scheme of Arrangement in the nature of De-merger of the Tea Division of the Company. Accordingly the Tea Division of the Company was de-merged and vested with Dhanvaridhi Concerns Limited (since renamed as Kanco Tea & Industries Limited). The appointed date for this de-merger was closing hours of 31st March, 2009. The shares of the resulting company shall be listed on the Stock Exchanges.

REFERENCE TO THE BOARD OF INDUSTRIAL AND FINANCIAL RECONSTRUCTION

The accumulated losses of the Company at the end of financial year March 31, 2010 have resulted in erosion of more than 50 % of its peak net worth during the immediately preceding four financial years. While the Company is taking necessary steps to protect further erosion, the Company will report to the Board for Industrial and Financial Reconstruction about such erosion of net worth as envisaged under Section 23 of the Sick Industrial Companies (Special Provisions) Act, 1985 forthwith upon finalization of audited accounts of the Company at its Annual General Meeting.

OPERATIONS

The First half of the year saw the industry facing difficult times. With the progress of the year, there was an improvement with last quarter of the year witnessing fairly strong revival. In view of improved working conditions, production of yarn, increased by 28.82% from 49.46 lakhs Kgs. in 2008-09 to 63.72 lakhs Kgs. in 2009-10. The sales quantity also registered improvement of 28.37% from 50.95 lakhs Kgs. in 2008-09 to 65.42 lakhs Kgs. in 2009-10. The Company achieved a turnover of Rs.9741.12 Lakhs for the financial year.

The Cotton prices remained firm with an upward trend right through the year. However, due to strong demand for yarn and improved realization in the second half of the year, the Company was able to curtail losses compared to the previous year.

DIRECTORS' REPORT (Contd.)

The Industry is experiencing a revival of global demand coupled with declining inventory. It is expected that the strong demand and improved realisations will enable the Company to post vastly improved results in the current year.

FINANCE

During the year under review, the Company repaid installments of Term Loans amounting to Rs.534.45 Lakhs, falling due during the current year. The Company also made fresh borrowings of Rs.1195.00 Lakhs for funding working capital requirements. Long Term debts of the Company stands at Rs.3820.05 Lakhs.

The Company's proposal for restructuring of its loans has been approved by State Bank of India.

DIRECTORS

Mr. Anil Kumar Jain and Mr. Golam Momen, Directors of the Company, retire by rotation at the ensuing Annual General Meeting and are eligible for re-election.

CORPORATE GOVERNANCE & MANAGEMENT DISCUSSION AND ANALYSIS

A separate report on Corporate Governance along with Auditors' Certificate on its compliance is enclosed and forms part of this Report. Management Discussion and Analysis Report forms a part of the Annexure to the Directors' Report.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors state that :

- Appropriate Accounting Standards as are applicable to the Annual Statement of Accounts for the financial year ended 31st March, 2010 have been followed in preparation of the said accounts.
- The Directors have followed the accounting policies as described in the Schedule 21 (Notes on Accounts) and applied them consistently to facilitate true and fair view of the state of affairs of the Company.
- Sufficient care has been taken to maintain accounting records of the Company.
- The statement of accounts has been prepared on a going concern basis.

AUDITORS

Messrs B. R. Shah & Associates, Chartered Accountants, retire at the conclusion of the 19th Annual General Meeting and being eligible, has expressed their willingness to continue as Auditors of the Company, if so appointed by the members.

COST AUDIT

As stipulated by the Central Government and pursuant to Section 233B of the Companies Act, 1956, Cost Audit of the records relating to the Textile Business of the Company is carried out from 1998-1999 onwards. Messrs N.D. Birla & Co., Cost Accountants, Ahmedabad, has been appointed as the Cost Auditor of the Company to carry out the Cost Audit for the year 2009-10.

EMPLOYEE PARTICULARS

The particulars of employees pursuant to Section 217 (2A) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 are not applicable as no employee was in receipt of remuneration to the extent laid down in the said Rules.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

A statement pursuant to Section 217(1) (e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Directors) Rules, 1988 on conservation of energy, technology absorption, foreign exchange earnings and outgo is annexed to and forms part of this Report.

ACKNOWLEDGEMENT

Your Directors place on record their appreciation for the cooperation and support extended by the Employees, Banks/ Financial Institutions and all other business partners.

For and on behalf of the Board

U. KANORIA

Chairman

Kolkata, 21st day of June, 2010

Annexure to the Directors' Report

INFORMATION AS PER SECTION 217 (1) (e) OF THE COMPANIES ACT, 1956, READ WITH THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988 AND FORMING PART OF THE DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31ST MARCH, 2010

Energy Conservation measures taken :

The Company has implemented the following power saving measures by way of :

	Savings
1. Conversion of hydraulic drive by inverter drives for 02 simplex mc/s	32 units/day
2. 27gms. light weight bobbins used in place of 35 gms. bobbins on 06 KTTM R/F mc/s	110 units/day
3. W-8 Habasit spindle tapes installed on LMW 6S R/F for 08 mc/s	278 units/day
4. Regularly earning about 2.35% rebate in G.E.B. bills by maintaining good power factor.	
In the year 2009-2010, the above measure earned us Rs. 17.91 lacs.	

Total energy consumption per unit of production is furnished in the prescribed Form "A" annexed hereto.

FORM-A

PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY

(A) POWER & FUEL CONSUMPTION

	<u>Current Year</u>	<u>Previous Year</u>
(1) Electricity		
(a) Purchased (Units)	1,65,25,940	1,12,51,800
Total Amount (Rs.)	9,66,92,305	6,43,67,048
Rate/Unit (Rs.)	5.85	5.72
(b) Own Generation		
Through LDO/FO/Diesel (Units)	1,08,83,467	99,78,475
Unit per Ltr.	4.28	4.19
Cost/Unit (Rs.)	4.63	4.42
(2) Furnace Oil		
Quantity (K. Ltr.)	2,529	2,365
Total Amount (Rs.)	4,98,44,960	4,36,71,697
Average Rate (Rs./K. Ltr.)	19,709	18,466
(3) Others/Internal Generation		
(a) Gas		
Quantity (cm ³)	—	—
Total Cost (Rs.)	—	—
Rate/Unit (Rs./cm ³)	—	—
(b) LDO/Diesel		
Quantity (K. Ltr.)	17	16
Total Cost (Rs.)	4,97,203	4,76,051
Average (Rs./K. Ltr.)	29,247	29,753

(B) CONSUMPTION PER UNIT OF PRODUCTION

	<u>Unit</u>	<u>Current Year</u>	<u>Previous Year</u>
Yarn & Fabrics	Kgs.		
Electricity	Unit	4.30	4.29

For the above, there is no prescribed standard.

Annexure to the Directors' Report (Contd.)

FORM-B

RESEARCH & DEVELOPMENT (R & D)

(1)	Specific areas in which R & D carried out by the Company	a)	Segmented Licker in under casings are fitted in six cross roll cards.
		b)	Rogue spindles are being controlled by utilizing technologies adopted in the process and thus consistencies in quality are being maintained.
		c)	Optimizing container stuffing for pallets & cartons.
(2)	Benefits derived as a result of the above R & D	a)	Segmented licker in under casing improves sliver quality.
		b)	Eliminating rogue spindles ensures uniform Fabric appearance.
		c)	Reduction in logistics cost.
(3)	Future plan of action	a)	Planning to install Blendomat or Bale Pucker in Blow Room lines of first unit for automation.
		b)	Soft start system in E 7/4 combers will be upgraded with inverter drive.
(4)	Expenditure on R & D		
	(a) Capital	2009-2010	2008-2009
	(b) Recurring	Rs. Nil	Rs. 51,21,368
	(c) Total	Rs. 12,23,703	Rs. 12,72,886
	(d) Total R & D Expenditure as a percentage of total turnover	Rs. 12,23,703	Rs. 6,39,425
		0.13%	0.91%

FOREIGN EXCHANGE EARNINGS AND OUTGO

The Company continues its efforts to enhance exports with vigorous steps to find new markets and develop existing ones.

	2009-2010	2008-2009
1. Foreign Exchange Earnings	Rs.75,58,74,772	Rs.50,87,31,702
2. Foreign Exchange Outgo	Rs. 1,21,87,422	Rs. 1,46,29,067

For and on behalf of the Board

Kolkata
21st day of June, 2010

U. KANORIA
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

OVERVIEW

Performance of the Company has been adversely affected due to continuously rising input costs for raw material and power. Shortage of working capital restricted optimum procurement of raw materials. Recessionary conditions in earlier part of the year affected Yarn demand and prices, putting pressure on the margins. In the second half of the year Yarn demand and prices improved substantially restricting the quantum of losses. The current year has started on a strong note with strong demand for yarn and improved realisations.

- Industry Outlook :** Outlook for the Industry has turned cautiously optimistic. Raw-material prices continued to rule high throughout the year on account of global shortage and large quantity booked for exports. The Government's effort to control cotton prices through a ban on exports has had little impact on prices. Yarn prices across all counts have moved up on account of strong demand. In view of this the Spinners have been able to pass on the increased input costs to the buyers. The Government has withdrawn specific export incentives available to Yarn spinners in the form of Duty Entitlement Passbook (DEPB) / Duty Drawback. This is expected to have a negative impact on the Industries earnings and export competitiveness.
- Opportunities :** Domestic as well as export demand is expected to remain strong. Cotton area under cultivation is expected to increase in India. It is expected that Indian cotton crop will show an increase, whereas world cotton crop may stagnate or decline. This may put Indian producers at competitive advantage.
- Challenges :** Shortage of skilled labour, withdrawal of export incentives and high raw material prices will pose a serious challenge to the industry's performance. The economic crisis in Europe may negatively effect demand.
- Business Analysis & Review :**

	Units	2009-10	2008-09	% Change
Production of Cotton Yarn/Fabrics	Kgs	63,72,101	49,46,513	28.82%
Sales of Cotton Yarn/Fabrics	Kgs	65,41,650	50,95,823	28.37%
Average Realisation	Rs./Kg	127.40	117.83	8.12%
Average Cost of Cotton	Rs./Ton	67,680	64,247	5.34%
Profit / (Loss) Before Interest but after Depreciation	Rs. in Lacs	(379.40)	(628.23)	(53.47%)

Review of Operations : Gradual improvement in market scenario enabled better capacity utilization. Production increased by 28.82% and Sales in volume terms increased by 28.37%. Though still a matter of concern, losses were reduced to a great extent. With strong demand for Yarn and better realisations, further improvement is expected in the current year.

Company Outlook : The immediate outlook is optimistic and encouraging. Yarn prices have maintained parity with cotton prices which is a welcome development. The withdrawal of Export incentives will impact bottom line of exporters and hurt their export competitiveness. The division is focusing on productivity, quality and exercising tight control on manufacturing and finance costs for improving performance.

Risks & Concerns : The steep increase in cotton MSP effected last year has eroded the Industry's competitiveness. The European debt crisis and recessionary conditions in Europe will negatively impact overall demand.

INTERNAL CONTROL SYSTEM AND ADEQUACY

The Company has adequate system of internal controls and necessary checks and balances are introduced/ strengthened so as to ensure :

- that its assets are safeguarded.
- that all transactions are authorised, recorded and reported properly.
- that accounting records are properly maintained and its financial statements are reliable.

The significant findings, if any, are placed before the Audit Committee of the Board and corrective measures are recommended for implementation. The Company appoints external firms of Auditors to conduct internal audit from time to time and their reports are reviewed by the management and Audit Committee.

HUMAN RESOURCES

The Company is an ISO 9001:2000 certified Company. The Company has a favourable working environment that motivates performance, customer focus and innovation and adheres to the highest degree of quality and integrity amongst employees. Industrial relations at the Company remain cordial. Manpower employed with the Company as at 31st March, 2010 was 741 compared to 767 last year.

CAUTIONARY STATEMENT

The statements in this report describing the Company's policy, strategy, projections, estimation and expectations may appear forward looking statements within the meaning of applicable securities laws or regulations. These statements are based on certain assumptions and expectations of future events and the actual results could materially differ from those expressly mentioned in this Report or implied for various factors including those mentioned in the paragraph "Risks and Concerns" herein above and subsequent developments, information or events.