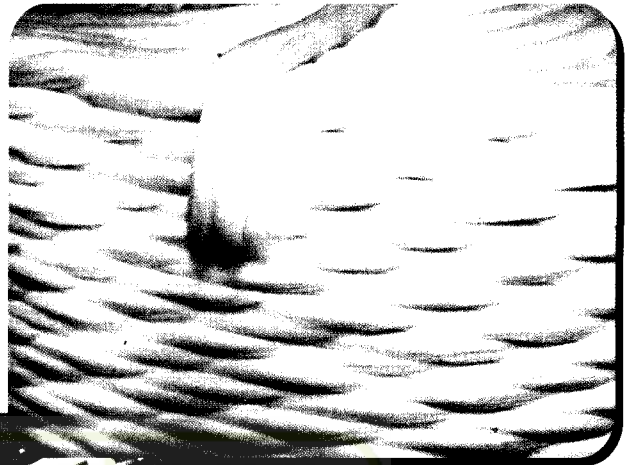
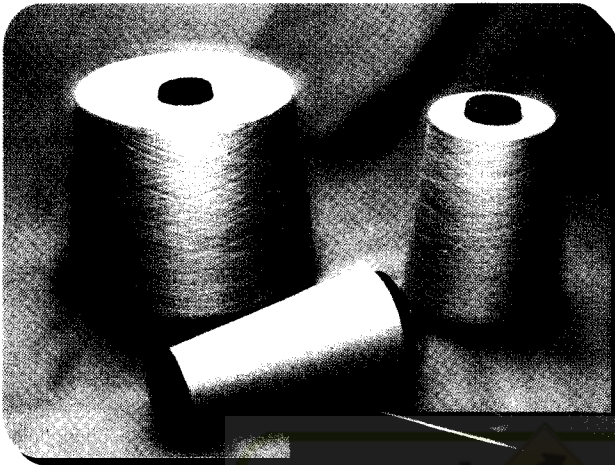


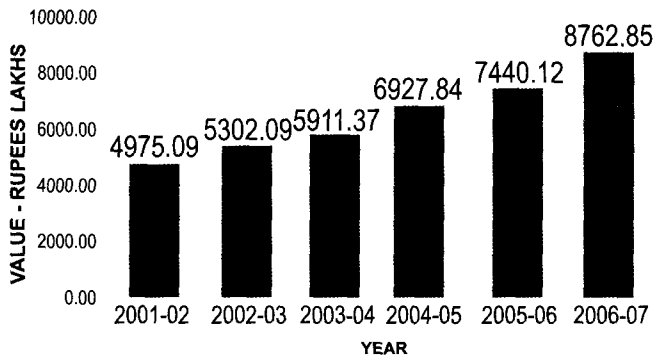
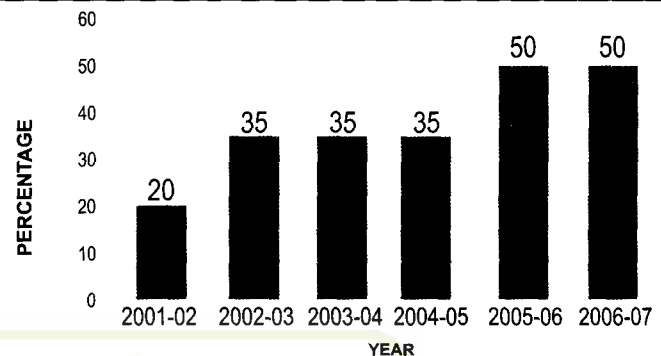
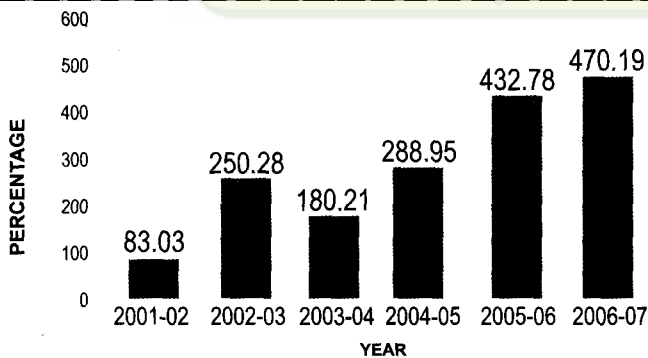
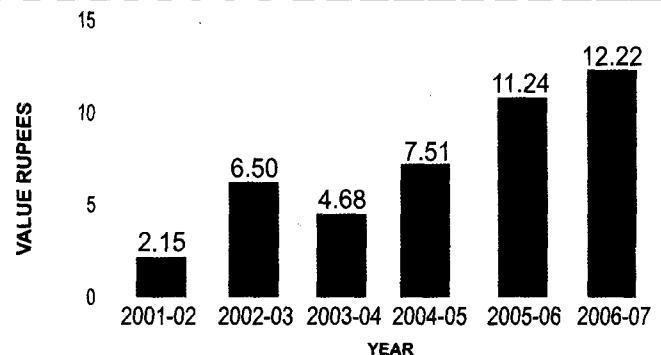
31ST

ANNUAL REPORT

2006-2007



KANDAGIRI SPINNING MILLS LIMITED

NET SALES DURING THE LAST 6 YEARS**DIVIDEND****PROFIT AFTER TAX (PAT)****EARNINGS PER SHARE**



Kandagiri Spinning Mills Limited

Board of directors

K.R. Manicka Mudaliar - Chairman
 R. Selvarajan - Managing Director
 S. Vijay Shankar - Joint Managing Director
 S.P. Ratnam
 S.P. Rajendran
 M. Rajamani
 M. Sigamani
 S. Devarajan
 S. Dinakaran
 S. Sivakumar - Wholetime Director
 V. Mahadevan
 P.S. Ananthanarayanan
 V. Gopalan
 N. Asoka
 Rajan Mehra (Nominee of ICICI Bank)

Statutory auditors

M.S. Krishnaswami & Rajan

Cost auditors

S. Mahadevan & Co

Bankers

State Bank of India
 Karnataka Bank Limited
 ICICI Bank Limited
 UTI Bank Limited

Registered office

Post Box No.3, Mill Premises,
 Udayapatti (P.O.)
 Salem 636 140. Tamil Nadu.

Corporate office

Sambandam Spinning Mill Premises,
 Kamaraj Nagar Colony,
 Salem 636 014.

Spinning plants

Unit I
 Udayapatti (P.O.)
 Salem 636 140.
 Unit II
 Seshanchavadi (P.O.)
 Salem 636 111.

Wind energy converters

Panangudi, Pazhavur, Udhayathoor
 and Parameshwarapuram Villages,
 Radhapuram Taluk
 Tirunelveli District.

Melamaruthappapuram Village
 Veerakeralam Pudur Taluk
 Tirunelveli District.

Gudimangalam Village,
 Udumalpet Taluk,
 Coimbatore District

**CONTENTS**

Page No

Significant Information	3
Notice of 31st Annual General Meeting	4
Corporate Governance Report	8
Directors' Report	15
Auditors' Report	20
Balance Sheet	22
Profit and Loss Account	23
Cash Flow Statement	24
Schedule to the Accounts	28
Balance Sheet Abstract	36

Certification



Kandagiri Spinning Mills Limited

Significant Information

Rs. in lakhs

Particulars	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02
1. Fixed assets	8636.44	7444.76	4885.30	3910.87	4233.06	1968.25
2. Net current assets	2999.21	2146.47	2524.91	2627.89	1076.51	1410.34
3. Total Capital employed	12012.75	10002.77	7848.09	6902.30	5553.29	3138.99
4. Shareholders' funds	2034.92	1920.60	1723.72	1603.84	1561.75	1446.25
5. No. of shares	38,49,250	38,49,250	38,49,250	38,49,250	38,49,250	38,65,650
6. Net worth per share (Rs.)	53	50	45	42	41	37
7. Turnover - gross	8887.83	7582.15	7139.83	6330.84	5572.08	5064.41
8. Turnover - net	8762.85	7440.12	6927.84	5911.37	5302.09	4975.09
9. Operating profit (PBDIT)	2155.15	1731.33	1308.04	1299.48	853.86	623.34
10. Cash Profit (PBDT)	1653.18	1326.70	1031.35	863.92	678.32	455.45
11. Profit before tax (PBT)	724.69	607.78	524.26	335.21	325.28	128.03
12. Profit after tax (PAT)	470.19	432.78	288.95	180.21	250.28	83.03
13. Retained earnings	1173.51	932.26	643.71	556.94	451.34	333.64
14. Dividend (%)	50	50	35	35	35	20
15. Earnings per share (Rs.)	12.22	11.24	7.51	4.68	6.50	2.15
16. Installed capacity (Spindles)	54,188	49,388	39,932	39,932	39,932	39,932
(Rotors)	552	384	384	168	168	168

Note: During the year 2002-03, 16,400 shares were forfeited



Kandagiri Spinning Mills Limited

NOTICE TO THE SHAREHOLDERS

Notice is hereby given that the Thirty First Annual General Meeting of the Company will be held at the Corporate Office of the Company at Kamaraj Nagar Colony, Salem, on Friday, the 6th July 2007 at 11.00 hours to transact the following business:

Ordinary Business

1. To receive, consider and adopt the audited Balance Sheet as at March 31, 2007, 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 declare dividend on Equity shares.
3. To appoint a director in the place of Sri.S.P.Ratnam who retires by rotation and being eligible, offers himself for re-appointment:
4. To appoint a director in the place of Sri.M.Sigamani who retires by rotation and being eligible, offers himself for re-appointment:
5. To appoint a director in the place of Sri.V.Mahadevan who retires by rotation and being eligible, offers himself for re-appointment:
6. To appoint a director in the place of Sri.N.Asoka who retires by rotation and being eligible, offers himself for re-appointment:
7. 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 as 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.

Special Business

8. To consider and if thought fit, to pass, with or without modification, the following resolution as an ordinary resolution.

Resolved that in modification of the resolution passed at the Annual General Meeting of the Company held on June 28, 2006, consent of the company be and is hereby accorded to the Board of Directors under Section 293(1)(d) of the Companies Act, 1956 to borrow any sum or sums of money from time to time notwithstanding that the money or moneys to be borrowed together with the moneys already borrowed by the Company (apart from temporary loans obtained from the company's bankers in the ordinary course of business) may exceed the aggregate of the paid-up capital of the company and its free reserves, that is to say, reserves not set apart for any specific purpose, provided, however, that the total amount so borrowed shall not exceed Rs.300 Crores (Rupees Three Hundred Crores only).



Kandagiri Spinning Mills Limited

9. To consider and if thought fit, to pass, with or without modification, the following resolution as an ordinary resolution.

Resolved that consent of the shareholders be and is hereby accorded pursuant to the provisions of section 293(1)(a) and other applicable provisions, if any, of the Companies Act, 1956, to the Board of Directors of the Company to mortgage and/or create charge on all the immovable and movable properties and all such assets of the company wherever situate, present and future and/or with power to enter upon and take possession of the assets of the company in certain events on such terms and conditions and at such time or times and in such form or manner as it may think fit, to or in favour of the financial institutions/banks for an aggregate nominal value not exceeding Rs.300 Crores (Rupees Three Hundred crores only) to secure the term loans together with interest, costs, charges, expenses and all other monies payable in the above connection in terms of the agreement entered or to be entered into between the company and the financial institutions/banks, such that the security ranks pari passu with, or second or subservient to, the mortgage and/or charges already created or to be created by the company or in such manner as may be agreed to by/between the parties concerned and as may be thought expedient by the Board and further that the Board be and is hereby authorized to finalize and execute such documents, deeds, papers and writings for creating the aforesaid mortgages and/or charges and to do all such acts, deeds and things as may be necessary or expedient for implementing this resolution.

For and on behalf of the Board of
Kandagiri Spinning Mills Limited

Place : Salem
Date : May 9, 2007

R.Selvarajan
Managing Director

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.
2. Proxies in order to be effective must be received by the Company not less than 48 hours before the meeting.
3. The Register of Members and the Share Transfer Books of the Company will remain closed from **June 26, 2007 to July 6, 2007** (both days inclusive).
4. Dividend to be declared by members at this Meeting will be paid to those shareholders whose names are borne in the Register of Members as on the date of this Annual General Meeting. In respect of the shares held in electronic form, the dividend will be payable on the basis of the beneficial ownership as per details furnished by NSDL and CDSL for this purpose.
5. Payment of Dividend will be rounded off pursuant to Section 288 B of the Income Tax Act, 1961 and Rule 23 of the Companies (Central Government's) General Rules and Forms 1956. Dividend Tax will be paid by the Company pursuant to Section 115-O of the Income Tax Act, 1961.



Kandagiri Spinning Mills Limited

6. 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 mandatè, 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

7. Those members who have not so far encashed their dividend warrants for the year 1999-2000 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 amounts in August 2007 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 2000 also may return the warrant(s) to the Company for revalidation.
8. Members who have not so far dematerialized their shares are advised to dematerialise 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 reappointed on their retirement at this Annual General Meeting is given below:
- (a) Sri S.P.Ratnam is a senior industrialist of high exposure in the business for more than five decades and a Promoter Director. He is on the Board of Directors from the year 1979 and has since been reappointed over the years by rotation. At present he is the Director of Sambandam Investment and Leasing Limited, Lakshmi Oxygen Private Limited, Sambandam Fabrics Private Limited and Sambandam Textiles Private Limited. He is well conversant with the textile industry. He does not hold any share in the company.
- (b) Sri.M.SIGAMANI is the son of the Promoter Managing Director and he is an Industrialist. He was first appointed to the Board in 1979 and has since been reappointed over the years by rotation. He has three decades of experience in the field of textiles. He holds 44,350 equity shares in the Company.
- (c) Sri V.MAHADEVAN has been an independent director of the Company from 28.07.2005. He has held 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.
- (d) Sri. N.ASOKA, is an Engineering Graduate and an Industrialist. He has been an Independent Director of the Company from 19.01.2004. He is the Managing Director of Spark Engineers Pvt. Limited. He has more than two decades of experience in the field of management. He is also a Member of the Audit Committee. He does not hold any share in the company.



Kandagiri Spinning Mills Limited

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956:

ITEM 7 AND 8

As per the provisions of Section 293(1)(d) of the Companies Act, 1956, the Company can borrow moneys where the moneys to be borrowed together with the moneys already borrowed by the Company would exceed the aggregate of the paid up capital of the Company and its free reserves only with the consent of the Company by an ordinary resolution passed in a General Meeting. At the Annual General Meeting of the Company held on 28th June 2006, the Members had authorized the Board to borrow up to Rs.200 crores under section 293(1)(d). The Company's plan to execute its expansion and modernisation projects would require further borrowings which, together with the amounts already borrowed by the Company would exceed the present limit of Rs.200 crores. It is desirable to increase this limit to Rs.300 Crores. Hence the Board recommends the resolution for approval of the members.

As per the provisions of Section 293(1)(a) of the Companies Act, 1956, the Board of Directors shall not sell, lease or otherwise dispose of the undertaking of the company without the consent of the Company by an ordinary resolution passed in a General Meeting. Creation of charge in favour of the lenders to secure their loans by mortgage/ hypothecation/ pledge of the properties of the company, may be deemed to be sale or disposal of the undertaking. At the Annual General Meeting of the Company held on 28th June 2006, the Members had authorized the Board to create charge in favour of the lenders up to Rs.200 crores under section 293(1)(a). For the reasons stated above it is desirable to get this limit increased to Rs.300 crores. Hence this resolution is placed before the AGM for Members' approval.

None of the Directors is interested or concerned in any of these resolutions.

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

For and on behalf of the Board of
Kandagiri Spinning Mills Limited

R.Selvarajan
Managing Director



Kandagiri Spinning Mills Limited

REPORT ON CORPORATE GOVERNANCE

1. Company's philosophy on corporate governance

The company's philosophy on corporate governance is delineated below:

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

2. Board of directors

The Board consists of 15 directors of whom 3 are wholetime directors. The Board has a non-executive director as Chairman. The Board functions either as a full Board or through committees. The Board met 5 times during the financial year 2006-07 on 05.05.2006, 28.06.2006, 31.07.2006, 30.10.2006 and on 30.01.2007 and attendance of Directors at the Board Meetings and at the Annual General Meeting are as under:

Name of Director	Executive/Non-Executive/ Independent	No. of other Directorships	Membership of other Company's Board Committees	No. of Board meetings attended	Attendance at the AGM
Sri K.R. Manicka Mudaliar	Chairman, Non Executive	1	-	--	Present
Sri R. Selvarajan	Managing Director	4	1	5	Present
Sri S. Vijay Shankar	Joint Managing Director	1	-	5	Present
Sri S.P. Ratnam	Non-Executive	4	-	5	Present
Sri S.P. Rajendran	Non-Executive	6	-	4	Present
Sri M. Rajamani	Non-Executive	1	-	5	Present
Sri M. Sigamani	Non-Executive	--	-	2	Present
Sri S. Devarajan	Non-Executive	5	1*	5	Present
Sri S. Dinakaran	Non-Executive	5	--	4	Present
Sri S. Sivakumar	Wholetime Director	--	--	5	Present
Sri V. Mahadevan	Independent	4	1	5	Present
Sri P.S. Ananthanarayanan	Independent	1	2**	5	Present
Sri N. Asoka	Independent	2	3*	5	Present
Sri V. Gopalan	Independent	1	2	5	Present
Sri Rajan Mehra	Independent-nominee of ICICI	--	-	1	Present

* Chairman of one committee.

** Chairman of both the committees.