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Significant Information

Rs. lakhs

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

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

**CORPORATE GOVERNANCE REPORT****1 Our Company's philosophy on Corporate Governance**

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

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

2 Board of directors

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

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

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

Code of Conduct

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



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

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

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

Audit Committee

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

Share Transfer Committee

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



Investor Grievance Committee

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

Finance Committee

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

Remuneration Committee

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

3 Attendance of Directors

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

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

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



4 General Shareholder Information

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

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

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

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

B Book Closure Period

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

C Financial Calendar for year 2010-11

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

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

D Listing on Stock Exchanges

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

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

E Registrar and transfer agents

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

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


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

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

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

G Means of communication

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

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

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

H Distribution of shareholding as on March 31, 2010

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

I Shareholding pattern as on March 31, 2010

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

J Disclosures

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



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

Spinning Mills

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

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

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

Wind Energy Converters

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

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

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

Auditors' certificate on compliance with the conditions of Corporate Governance under Clause 49 of the Listing Agreements**To the Members of Kandagiri Spinning Mills Limited**

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

For M.S. Krishnaswami & Rajan

Chartered Accountants

Registration No.01554S

M.K. Rajan-Partner

Membership No.4059

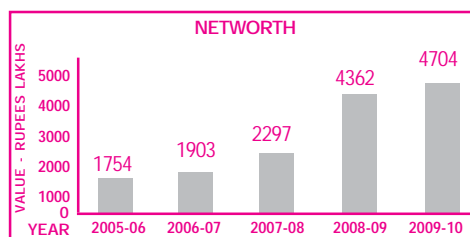
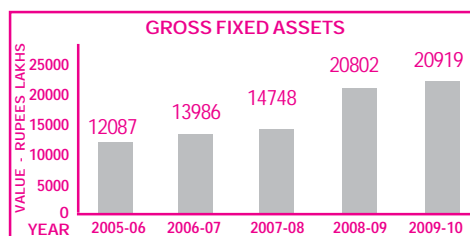
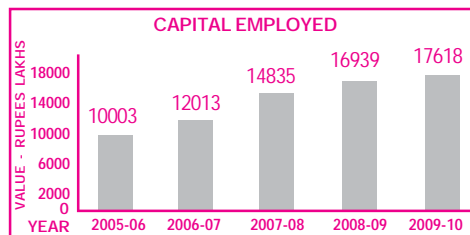
Salem
May 29, 2010



DIRECTORS' REPORT

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

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



Dividend

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

Management discussion and analysis

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

(a) Industry performance

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

(b) Company's performance

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



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

(c) Outlook

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

(d) Strategies and Future plans

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

(e) Risks and concerns

(1) Industry risk

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

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

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

(2) Currency risk

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

(3) Quality concern

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

(f) Internal control and systems

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

(g) Human resources management

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

**(h) Corporate Social Responsibility**

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

(i) Cautionary note

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

Directors

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

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

Auditors

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

Annexure

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

Compliance Certificate u/s 383A

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

Appreciation

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

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

Salem
May 29, 2010

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