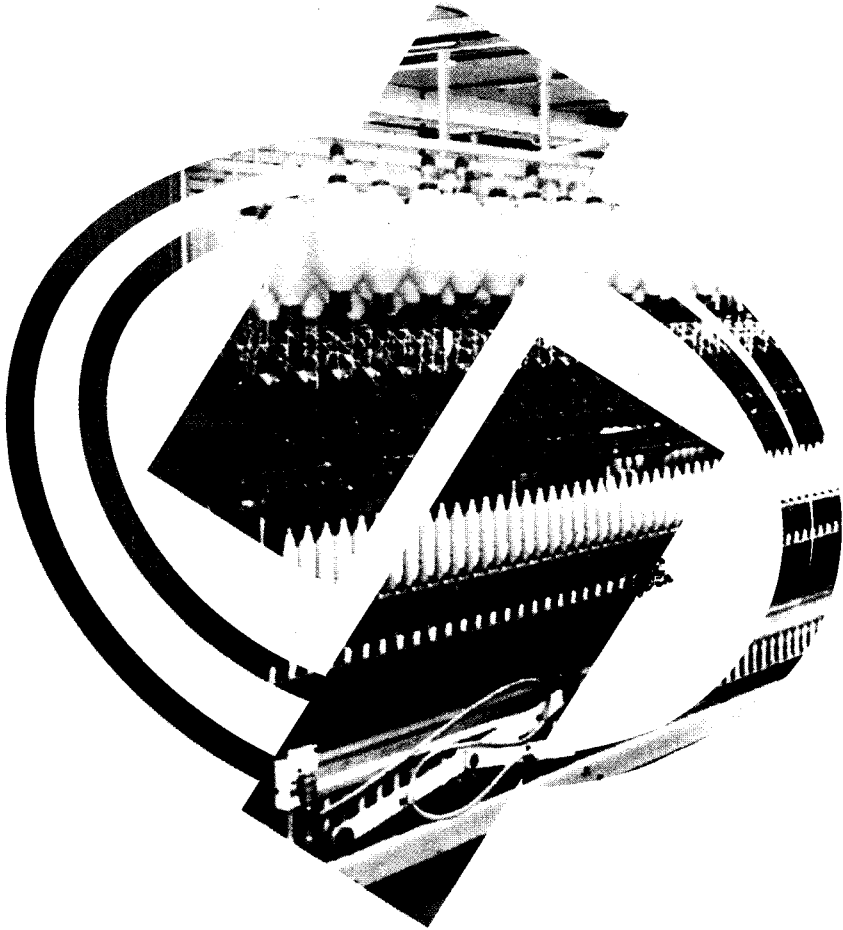




Salona
Cotspin
LIMITED



10TH ANNUAL REPORT

■ 2003 - 2004 ■

TENTH ANNUAL REPORT
2003 - 2004

BOARD OF DIRECTORS

SHRI. SHYAMLAL AGARWALA

Managing Director

SHRI. MANOJ KUMAR JHAJHARIA

Joint Managing Director

SHRI. RAMPRATAP BARASIA

SHRI. G.V.S.DESIKAN

SHRI. KANHAIYALAL SHARMA

SHRI. DULICHAND PANSARI

SHRI. MAHESH AGARWAL

BANKERS

UNION BANK OF INDIA

THE CATHOLIC SYRIAN BANK LTD

AUDITORS

M/s.VKS AIYER AND COY.,

Chartered Accountants

Coimbatore.

REGISTERED OFFICE

Mill Premises

S.F.No.74/12 & 75/3, Sathy Main Road

Pungampalli, Valipalayam (Post)

Sathy Taluk, Erode District

Tamil Nadu.

ADMINISTRATIVE OFFICE

No. 9, Ramalinga Nagar, IV Cross

Saibaba Colony, Coimbatore - 641 011.

SHARE TRANSFER AGENT

M/s. S.K.D.C. Consultants Limited,

Post Box No. 2979,

No.11, S.N. Layout, Street No. 1,

Tatabad, Coimbatore - 641 012.

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NOTICE

Notice is hereby given that the TENTH Annual General Meeting of the Shareholders of the Company will be held on Thursday, the 16th September 2004 at 10.00 A.M at the Registered Office of the Company at Mill Premises, S.F.No.74/12 and 75/3, Sathy Main Road, Pungampalli, Valipalayam (Post), Sathy Taluk, Erode District, Tamil Nadu, to transact the business given in the following agenda. You are requested to make it convenient to attend the meeting.

AGENDA

ORDINARY BUSINESSES

1. To receive, consider and adopt the audited statement of accounts for the year ended 31.3.2004 along with the reports of the Auditors and Directors thereon.
2. To declare dividend on equity shares.
3. To elect a Director in the place of Shri Kanhaiyalal Sharma, who retires by rotation and being eligible, offers himself for reappointment.
4. To elect a Director in the place of Shri Mahesh Agarwal, who retires by rotation and being eligible, offers himself for reappointment.
5. To appoint Auditors and to fix their remuneration. M/s.VKS Aiyer and Coy., Chartered Accountants, Coimbatore, retire and are eligible for reappointment.

SPECIAL BUSINESS

6. To consider and if thought fit to pass with or without modification the following ordinary resolution.

RESOLVED that, In partial modification of the earlier resolutions passed in this regard at the Annual General meeting held on 27th September 2001, approval of the members of the company be and is hereby accorded for the re designation of Sri Manoj Kumar Jhaharia as Joint Managing Director with effect from 21st June 2004 to hold office for the remaining tenure of his office, subject to the same terms and conditions of earlier appointment, including terms of remuneration.

BY ORDER OF THE BOARD

(Sd)..

SHYAMLAL AGARWALA

Managing Director

Place: COIMBATORE

Date : 21.06.2004

NOTE :

1. Any member entitled to attend and vote, is entitled to appoint a proxy to attend and vote instead of himself and such a proxy need not be a member of the Company.
2. The proxy form duly stamped and executed should be deposited at the Registered Office atleast forty eight hours before the time fixed for the commencement of the meeting.
3. The Register of Members and Share Transfer Books of the Company will remain closed from 09.09.2004 to 16.09.2004 (both days inclusive).

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4. The Shareholders are requested to communicate to the Registrar & Transfer Agent, change in address, if any at M/s. S.K.D.C. Consultants Limited, Post Box. No. 2979, No.11, S.N. Layout, Street No. 1, Tatabad, Coimbatore 641 012.
5. Name & Address of the Stock Exchanges where the Shares are Listed.
Coimbatore Stock Exchange, 683-686, CSX Tower, Trichy Road, Coimbatore - 641 005
Madras Stock Exchange Ltd., Exchange Building, Post Box No.183, 11, Second Line Beach, Chennai - 600 001.
The Calcutta Stock Exchange Association Ltd., 7, Lyons Range, Calcutta - 700 001.
The Stock Exchange Ahmedabad, Kamadhenu Complex, Opp.Sahajanand College, Panjarapole, Ahmedabad - 380 015.
Annual Listing fees has been paid to all the above stock exchanges.

DETAILS OF DIRECTORS RETIRING BY ROTATION AND SEEKING RE-APPOINTMENT

(In Pursuance of Clause 49 of the Listing Agreement)

Name of Director	: Shri Kanhaiyalal Sharma	Shri. Mahesh Agarwal
Age	: 68 Years	44 Years
Date of Appointment	: 23.02.1995	23.02.1995
Qualifications	: Intermediate	B.Com.
Expertise in Specific Functional area	: More than 45 years of experience in Industries	More than 22 years in Textile field
Other Directorships	: NIL	NIL
Member of Committee	: NIL	1

EXPLANATORY STATEMENT PURSUANT TO SECTION 173 OF THE COMPANIES ACT 1956

Item No.6 of the Agenda:

Shri Manoj Kumar Jhajharia was appointed as whole time director for a period of five years with effect from 27th September 2001. The Board at their meeting held on 21st June 2004 has decided to re designate him as Joint Managing Director to hold office for the remaining tenure of his office, on the same terms of remuneration. This requires modification of the earlier resolution passed in this regard. For this purpose necessary resolutions are placed before the members for their approval.

The text of resolution containing the terms of the appointment may be treated as the notice of abstract of terms of appointment as required under section 302(7) of the Companies Act, 1956.

Shri. Manoj Kumar Jhajharia, the appointee and Shri. Shyamlal Agarwala, Managing Director as relative shall be treated as interested in the above item of the agenda.

BY ORDER OF THE BOARD

(Sd)..

SHYAMLAL AGARWALA
Managing Director

Place: COIMBATORE
Date : 21.06.2004

DIRECTORS REPORT

Your Directors have great pleasure in presenting their **TENTH** Annual Report together with the audited financial statements of the Company for the year ended 31st March 2004.

Working Results

Rs. in Lacs

Sales and Other receipts :

Domestic Sales		2631.75
Export Sales		93.38
Merchant Export Sales		206.35
Other Income		122.73
Total		3054.21
Gross profit before interest, depreciation and tax		425.00
Less : Interest		80.17
Profit after interest, but before depreciation and tax		344.83
Less : Provision for depreciation		195.79
Profit before tax		149.04
Less : Provision for income-tax - Current Tax	11.50	
- Deferred Tax	55.89	67.39
Net profit after tax		81.65
Add : Surplus brought forward from previous year		248.31
Less : Deferred Tax for prior year		65.40
Total profit available for appropriation		264.56

APPROPRIATION

The above Profit is proposed to be appropriated as stated below:-

Provision for Dividend on Equity Shares	39.13
Provision for tax on Corporate Dividend	5.01
Surplus Carried over	220.42

DIVIDEND

Your Directors are pleased to recommend a dividend of 7.5% for the year ended March 2004; the total outgo in the form of dividend including corporate dividend tax will be to the tune of Rs. 44.14 Lacs.

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REVIEW OF OPERATIONS

During the year under review, there was an increase in production and sales turnover, when compared with the previous year. The company achieved gross Sales Turnover of Rs.2931.48 Lacs (Previous year Rs.2403.35 Lacs). The export sales amounted to Rs.299.73 Lacs as against Rs.121.93 Lacs in the previous year. The Wind Electric Generators generated 34.34 Lacs units. The Wind Electric Generators contributed a turnover of Rs.112.30 Lacs. Due to higher volume of production and sales, the Company achieved a higher pretax Profit of Rs.149.04 Lacs as against Rs.128.20 Lacs in the Previous period.

OUTLOOK FOR THE FUTURE

Your Directors have decided to modernize the Textile mill by installing sophisticated machineries to improve the quality and productivity of yarn at an outlay of Rs.540.00 Lacs. Hence, your company hopes to achieve increase productive and better performance in the year ahead.

FINANCES

The paid up Share Capital of the company stood at Rs. 521.74 Lacs (Previous year Rs.519.57 Lacs). Efforts are being taken to realize the balance of calls in arrears of Rs.13.37 Lacs. The Reserves and Surplus, representing the credit balance in the Profit and Loss Account stood at Rs.220.42 Lacs, after providing for deferred tax relating to prior year, for an amount of Rs.65.40 Lacs. The Company met all financial commitments to the Bankers on account of Term Loan and Working Capital Credit. The efforts taken by your Directors to avail foreign currency loan helped Company to reduce the cost of Working Capital finances.

DEPOSITS

The Company has not accepted any deposits from the Public and hence there were no amounts outstanding as at the close of the year.

PERSONNEL

The Industrial relations continued to remain cordial during the period. The Board of Directors wish to place on record their appreciation for co-operation extended by all sections of the employees.

INFORMATION PURSUANT TO SECTION 217 OF COMPANIES ACT, 1956

The information required as per 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 is enclosed.

During the period under review, the Company had no employee covered under Section 217(2A) of the Companies Act, 1956

DIRECTORS

Shri Kanhaiyalal Sharma and Shri Mahesh Agarwal, the Directors longest in Office, will be retiring by rotation at the ensuing Annual General Meeting. Being eligible, they offer themselves for reappointment. The Board of Directors have redesignate Sri. Manoj Kumar Jhajharia as Joint Managing Director for the remaining period of his tenure on the same terms & Conditions for his appointment as Whole time Director.

DIRECTORS' RESPONSIBILITY STATEMENTS

In term of Sec.217(2AA) of the Companies Act, 1956 your Directors state that :-

- i) In the preparation of the annual accounts, all the applicable accounting standards prevailing in India were followed and recognised.
- ii) The Directors had selected appropriate accounting policies and applied them consistently and also 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 31st March 2004 and of the profits of the company for the period ended on that date;
- iii) The Directors had taken proper and sufficient care 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 had prepared the annual accounts on a going concern basis

AUDITORS

The present Auditors M/s. VKS Aiyer and Coy., Chartered Accountants, Coimbatore, retire at the conclusion of the ensuing Annual General Meeting and are eligible for reappointment.

LISTING WITH STOCK EXCHANGES

The equity shares of the Company are listed and traded in the stock exchanges of Coimbatore, Chennai, Ahmedabad and Calcutta and the company has made the compliance with the listing agreements.

ACKNOWLEDGEMENT

The Directors wish to place on record their gratitude to Union Bank of India and The Catholic Syrian Bank Limited for their financial assistance.

The Board dedicates its prayers to invoke the blessings of Lord Vishnu, Goddess Lakshmi, Lord Siva and Goddess Sakthi for the continued prosperity of the Company.

BY ORDER OF THE BOARD

(Sd)..

SHYAMLAL AGARWALA
Managing Director

Place: COIMBATORE

Date : 21.06.2004

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ANNEXURE TO REPORT OF BOARD OF DIRECTORS FORM A

Information pursuant to the Companies (Disclosure of Particulars in the report of Board of Directors) Rules, 1988.

	Current Year 2003-2004	Previous Year 2002-2003
--	---------------------------	----------------------------

A. CONSERVATION OF ENERGY:-

I. Power & Fuel Consumption:-

1. Electricity

a) Purchased *

Units	6083808	5566920
Total amount (Rs.)	24835572	21839255
Rate per Unit (Rs.)	4.08	3.92

*(Includes power availed from Wind Mills)

b) Own generation through Diesel Generators:-

Units (KWH)	114551	292567
Diesel Consumed (Litres)	31200	77165
Total amount (Rs.)	657929	1452871
Units per litre of diesel (KWH)	3.67	3.79
Cost per unit (Rs.)	5.74	4.96

2. Coal

— —

3. Furnace Oil

— —

4. Others/Internal generation

— —

II. Consumption per unit of Production:-

Production in Kgs	2473579	2357754
Electricity Units	6198359	5859487
Unit/Kg of Yarn	2.50	2.48

B. Technology Absorption :-

Since all the machinery installed are new and of latest technology available, no formal research and developments activities were undertaken. Product and process development are made on continuous basis.

C. Foreign Exchange Earnings & Outgo :-

i) Total Foreign exchange earned :-

F.O.B Value of Exports of finished and Trading goods (Rs.inLacs)	91.84	116.46
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ii) Remittances in Foreign exchange :-

Import of Raw Cotton, Machinery & Commission on Export Sales (Rs.in Lacs)	6.58	165.38
---------------------------------------------------------------------------	------	--------

BY ORDER OF THE BOARD

(Sd)..

SHYAMLAL AGARWALA
Managing Director

Place: COIMBATORE
Date : 21.06.2004

MANAGEMENT DISCUSSION & ANALYSIS REPORT

Industry Structure and Developments : The Company's sole product range continues to be Cotton Yarn of low and medium counts, catering to the needs of Hosiery/Garment Industry. The Company continues to pursue a policy of constant up gradation of quality of yarn produced, by installing machineries so that the goods produced by the Company are of high quality.

Opportunities and Threats : Indian Textile Industry is expected to face severe competition under the WTO regime due to coming up of new capacities in cost effective countries. However, the opportunity of free market economy, under WTO regime, is expected to be beneficial for the players in long run.

Product-wise performance : The Company has only one segment of cotton yarn. During the year the yarn production is 2474 Tons.

Outlook : The outlook of Textile Industry depends entirely on the price of cotton, which has been increasing sharply in the recent past due to lower crop. However, the management is making constant efforts to reduce the cost of production.

Risks and Concerns : Being an agro-based industry, the uncertainty of availability of cotton at reasonable prices through out the year is a primary matter of concern. The industry has to depend upon availability of quality cotton from domestic/foreign sources at a remunerative price, encountering stiff competition in the domestic market for sale of finished goods.

Internal Control systems and their adequacy : The Company has established adequate internal control system to ensure a close watch over strict control of working capital resources, to minimize the cost of operation, having identified areas of risks in such management.

Discussion on financial performance with respect to operational performance : The Company have a pretax profit of Rs.81.65 Lacs after providing for current Income tax and Deferred tax. Additional provision of Rs.65.40 Lacs towards deferred tax for prior year was made. The performance of the company showed overall improvement in terms of production and sales of cotton yarn and waste. The windmills installed in the prior year also contributed to the earnings of the company. The company has achieved more profit in spite of tuff competition prevailing in the industries.

Human Resources/Industrial relations : The efforts of the staff and management are on imparting continuous training to improve well working practices. This is evident from the fact that utilization and efficacy of the work force increased during the year.

BY ORDER OF THE BOARD

(Sd)..

SHYAMLAL AGARWALA
Managing Director

Place: COIMBATORE
Date : 21.06.2004

REPORT ON CORPORATE GOVERNANCE

1. COMPANY'S PHILOSOPHY WITH RESPECT TO CORPORATE GOVERNANCE :-

The Company's Philosophy on Corporate Governance envisages the endeavour to attain high levels of transparency, accountability, fairness and equity in all its facts of operation, to serve the best interest of all the stake holders in the Company, including Shareholders, Lenders, Employees and the Government.

2. BOARD OF DIRECTORS :-

A) Composition of the Board :-

The Board of Directors comprises of Seven Members including one Executive Chairman who is also Managing Director of the Company and one Joint Managing Director, both of whom represent the Promoters; the remaining Five Directors are independent Directors who have no business relationship with the Company.

B) Ceiling of Directorship/Committee position:-

None of the Directors of the Company holds position as a member in more than 10 Committees nor do they act as Chairman of more than 5 Committees across all companies in which he is a Director.

The composition of the Board of Directors and number of other Directorships in Public Limited Companies and number of Committees in which they are member as on 31st March 2004 are as tabled below: -

Name of the Directors	Executive/ Non-Executive/ Independent	No. of Other Directorship held	No. of Committee Positions	
			As Chairman	As Member
Sri Shyamlal Agarwala Managing Director	Promoter	1	1	1
Sri Manoj Kumar Jhajharia	Promoter	1	NIL	2
Sri Rampratap Barasia	Independent	3	NIL	NIL
Sri G.V.S. Desikan	Independent	6	2	2
Sri Kanhaiyalal Sharma	Independent	NIL	NIL	NIL
Sri Dulichand Pansari	Independent	NIL	NIL	1
Sri Mahesh Agarwal	Independent	NIL	NIL	1

C) Attendance record of the Directors :-

Attendance of Directors at Board Meetings and at the last Annual General Meeting of the Company held on 29th September 2003 are as tabled below :-

S.No.	Name of the Directors	No. of Meeting		Last AGM Attendance
		Held	Attended	
1.	Sri Shyamlal Agarwala Managing Director	6	6	P
2.	Sri Rampratap Barasia	6	NIL	DA
3.	Sri G.V.S. Desikan	6	6	P
4.	Sri Kanhaiyalal Sharma	6	1	DA
5.	Sri Manoj Kumar Jhajharia	6	6	P
6.	Sri Dulichand Pansari	6	1	DA
7.	Sri Mahesh Agarwal	6	1	P

P - Present DA - Did not attend

D) Board Meeting :

No. of Board Meeting held during the year 2003-04	Dates of Meeting
6 (SIX)	18.06.2003
	31.07.2003
	27.08.2003
	30.10.2003
	30.01.2004
	17.02.2004

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E) Details of Directors retiring by rotation and seeking reappointment :-

Name of the Director	: Shri Kanhaiyalal Sharma	Shri. Mahesh Agarwal
Age	: 68 Years	44 Years
Date of Appointment	: 23.02.1995	23.02.1995
Qualifications	: Intermediate	B.Com.,
Expertise in Specific Functional area	: More than 45 years of experience in Industries	More than 22 years in Textile Field
Other Directorships	: NIL	NIL
Member of Committee	: NIL	1

3. AUDIT COMMITTEE :-

A) Composition, Names of members and Chairperson :-

The Board of Directors of your Company has a three member Audit Committee, all of whom are non-executive Directors viz., (1) Sri G.V.S Desikan (2) Sri Mahesh Agarwal and (3) Sri Dulichand Pansari.

All the above members are independent Directors and Sri G.V.S.Desikan, Chairman of the Committee have good financial and accounting knowledge.

B) Brief description of the terms of reference :-

The terms of reference include all the terms stipulated under clause 45 of the Listing Agreement, which interalia include the following :-

- Oversight of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
- Recommending the appointment and removal of external Auditor, fixation of audit fee and also approval for payment for any other services.
- Reviewing with management the annual financial statements before submission to the board.
- Reviewing with the management, external and internal auditors, the adequacy of internal control systems.
- Reviewing the adequacy of internal audit function.
- Discussion with internal auditors any significant findings and follow up thereon.

- (g) Reviewing the findings of any internal investigations by the internal auditors.
- (h) Discussion with external auditors before the audit commences, nature and scope of audit as well as has post-audit discussion to ascertain any area of concern.
- (i) Reviewing the Company's financial and risk management policies.
- (j) To look into the reason for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors.

4. REMUNERATION COMMITTEE :-

The Company has not constituted a remuneration committee. Except the Managing and Joint Managing Directors, all other Directors are non-Executive Directors and are not paid any remuneration other than the sitting fee payable to them for attending meetings of the Board or a Committee wherever applicable.

Relationship of Directors, their Business Interest & Remuneration paid :-

Name of the Directors	Relationship with other directors	Business relationship with the Company if any	Remuneration paid/Payable during 2003-2004 (Rs.)			
			Sitting Fees	Salary & Perks	Com-mission	Total
Shyamlal Agarwala Managing Director	Parent of Joint Managing Director	Promoter	NIL	450000	156242	606242
Manoj Kumar Jhajharia Joint Managing Director	Son of Managing Director	Promoter	NIL	270000	NIL	270000

5. SHAREHOLDERS GRIEVANCE COMMITTEE :-

Your Directors have constituted Shareholders Grievance Committee consisting of the following Directors as its members to attend to the share holders' grievances received from time to time.

- i. Sri Shyamlal Agarwala
- ii. Sri G.V.S.Desikan
- iii. Sri Manoj Kumar Jhajharia

Sri G.V.S.Desikan is the Chairman of the Shareholders Grievance Committee.

Two Complaints were received from shareholders during the financial year 2003-04 and were resolved to the satisfaction of the shareholders. No share transfer was pending as on 31.3.2004.

- vii) Listing on Stock Exchanges : Ahmedabad, Kolkata, Chennai & Coimbatore
- viii) Market price date : The Shares of Company are listed in Ahmedabad, Kolkata Chennai and Coimbatore Stock Exchanges. (High, Low during each Month in the financial year 2003-2004 Performance in comparison to broad based Indices such as BSE Sensex, CRISIL Index etc. During 2003-2004) During financial year 2003-2004 the shares are not traded in the above exchanges and hence the price date are not furnished.
- ix) Register & Transfer Agents : M/s. S.K.D.C. Consultants Limited, Post Box No. 2979, No.11, S.N. Layout, Street No. 1, Tatabad, Coimbatore - 641 012.

x) Share transfer systems :

The company ensures that all transfers of shares are duly effected within the period of one month from the date of their lodgement. The Company has constituted the Share Transfer Committee of Executives to consider the transfer of shares and other related matters. Share Transfer and all other investor related activities are attended to and processed at the office of the Registrar & Transfer Agent.

xi) Dematerialisation of shares :

As on 31.03.2004, 272100 Shares constituting 5.085% of the total paid up Share Capital of the Company have been dematerialized with CDSL and NSDL.

xii) Market Price Date :

The Shares of Company are listed in Ahmedabad, Kolkata, Chennai and Coimbatore Stock Exchanges. During financial year 2003-2004 the shares are not traded in the above exchanges and hence the price date are not furnished

xiii) Distribution of Shareholding :

Range	No. of Shareholders	% of Holders	No. of Shares	% held
Up to 5000	1064	57.33	5243000	9.80
5001 to 10000	412	22.20	3966000	7.41
10001 to 20000	218	11.75	3455000	6.46
20001 to 30000	47	2.53	1235000	2.31
30001 to 40000	19	1.02	674000	1.26
40001 to 50000	17	0.92	818000	1.53
50001 to 100000	34	1.83	2826000	5.28
100001 and above	45	2.42	35294000	65.96
Total	1856	100.00	53511000	100.00

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xiv) Category-wise distribution of shareholding :

S.No.	Category	No. of Shares	Percentage
	Promoter's Holding		
1.	Promoters	608395	11.370
2.	Persons acting in concern	2257405	42.186
	Sub Total	2865800	53.556
	Non Promoters Holding		
3.	Banks, Financial Institutions, Insurance Companies	38500	0.719
	Sub Total	38500	0.719
	Other		
4.	Private Corporate Bodies	311000	5.812
5.	Indian Public	2135300	39.904
6.	NRI's/OCB's	500	0.009
	Sub Total	2446800	45.725
	Total	5351100	100.000
	Total Foreign Share Holding	500	0.009

xv) Plant location : SF No. 74/12 and 75/3,
Sathy main road, Pungampalli Village,
Valipalayam (Post), Sathy TK
Erode Dist.

xvi) Address for correspondence : Administrative Office,
9, Ramalinga Nagar, IV Cross
Saibaba Colony
Coimbatore - 641 011
Tamil Nadu.

BY ORDER OF THE BOARD

(Sd)..

SHYAMLAL AGARWALA
Managing Director

Place: COIMBATORE
Date : 21.06.2004

AUDITOR'S REPORT ON CORPORATE GOVERNANCE

(Under Clause 49 of the Listing Agreement)

To the Board of Directors of **SALONA COTSPIN LIMITED**

We have examined the compliance of Corporate Governance by **SALONA COTSPIN LIMITED**, for the year ended on 31st March 2004, as stipulated in Clause 49 of the Listing Agreement of the said Company with Stock Exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the Management. Our examination was limited to procedures and implementations thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us;

We certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above-mentioned Listing Agreement.

We state that based on representations made by the management and confirmation given by the Registrar and Share Transfer Agent of the Company, no investor grievances were remaining unattended as on 31.03.2004 for a period exceeding one month.

We further state that such compliance is neither an assurance as to the future viability of the Company nor of the efficiency or effectiveness with which the management has conducted the affairs of the Company.

FOR VKS AIYER AND COY
Chartered Accountants

(Sd)..

V.S.SRINIVASAN
Partner

Place: COIMBATORE

Date : 21.06.2004

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AUDITORS' REPORT

Auditor's Report to the Member of **SALONA COTSPIN LIMITED**

We have audited the attached Balance Sheet of SALONA COTSPIN LIMITED as at 31st March 2004 and the Profit and Loss Account for the year ended on that date annexed thereto and 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.

1. 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 test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
2. 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 hereto a statement on the matters specified in paragraphs 4 and 5 of the said Order
3. Further to our comments in Annexure referred to in paragraph 2 above, we report that
 - i. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit.
 - ii. In our opinion, proper books of accounts as required by Law have been kept by the Company so far as it appears from our examination of those books ;
 - iii. The Balance Sheet , Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account ;
 - iv. In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the mandatory Accounting Standards referred in sub-section (3C) of section 211 of the Companies Act, 1956;
 - v. In our opinion, and based on information and explanations given to us, none of the directors are disqualified as on 31st March 2004, from being appointed as directors in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.
 - vi. In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the Significant Accounting Policies and other notes thereon give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India;
 - (a) In so far as it relates to Balance Sheet, of the state of affairs of the Company as at 31st March 2004;
 - (b) In so far as it relates to the Profit and Loss Account, of the Profit of the Company for the year ended on that date; and
 - (c) In so far as it relates to the Cash Flow Statement, of the cash flows of the Company for the year ended on that date;

FOR VKS AIYER AND COY
Chartered Accountants

(Sd)..

V.S.SRINIVASAN
Partner

Place: COIMBATORE
Date : 21.06.2004

ANNEXURE TO AUDIT REPORT

Referred to in Paragraph 2 of our report of even date

1. In respect of its fixed assets :
 - a) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets on the basis of available information.
 - b) As explained to us, the fixed assets have been physically verified by the management during the year in a phased periodical manner, which in our opinion is reasonable, having regard to the size of the Company and nature of its assets. No material discrepancies were noticed on such physical verification.
 - c) In our opinion, the Company has not disposed off substantial part of fixed assets during the year and the going concern status of the Company is not affected.
2. In respect of its inventories :
 - a) As explained to us, inventories have been physically verified by the management at regular intervals during the year.
 - b) In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
 - c) The Company has maintained proper records of inventories. As explained to us, there were no material discrepancies noticed on physical verification of inventory as compared to the book records.
3. In respect of loans, secured or unsecured, granted or taken by the Company to/from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956 :
 - a) The Company has not granted loans to any party; the Company has taken inter corporate loans from four Companies, aggregating to Rs.32.50 Lacs which are outstanding both at the beginning and end of the year.
 - b) In our opinion and according to the information and explanations given to us, the rate of interest, wherever applicable and other terms and conditions are not prima facie prejudicial to the interest of the Company.
 - c) In respect of loans taken by the Company, the interest payments are regular and the principal amount is repayable on demand.
 - d) The loans taken by the Company are repayable on demand; hence the question of overdue amounts does not arise.
4. In our opinion and according to the information and explanations 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, fixed assets and also for the sale of goods. During the course of our audit, we have not observed any major weaknesses in internal controls.
5. In respect of transactions covered under Section 301 of the Companies Act, 1956 :
 - a) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements, that needed to be entered into in the register maintained under Section 301 of the Companies Act, 1956 have been so entered.
 - b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered in the register maintained u/s.301 of the Companies Act 1956, which exceeded rupees five Lacs in respect of any party, have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.
6. The Company has not accepted any deposits from the public.
7. In our opinion, the internal audit system of the Company is commensurate with its size and nature of its business.
8. The Central Government has prescribed maintenance of Cost Records under Section 209(1) (d) of the Companies Act, 1956. We have broadly reviewed the accounts and records of the Company in this connection and are of the opinion, that prima facie, the prescribed accounts and records have been made and maintained. We have not, however, made a detailed examination of the same.

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9. In respect of Statutory dues :

- a) According to the records of the Company, undisputed statutory 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 statutory dues have been generally regularly deposited with the appropriate authorities. According to the information and explanations given to us, no undisputed amounts payable in respect of the aforesaid dues were outstanding as at 31st March, 2004 for a period of more than six months from the date of becoming payable.
- b) The disputed statutory dues aggregating to Rs.21.45 Lacs, that have not been deposited on account of matters pending before appropriate authorities are as under:

S.No.	Name of the Statute	Nature of the dues	Forum where dispute is pending	Amount (Rs. in Lacs)
1.	Central Sales Tax Act	Sales Tax	Appellate Assistant Commissioner (CT)	1.90
2.	Electricity Act	Electricity Tax	High Court of Madras	19.55

10. The Company has no accumulated losses and has not incurred any cash losses during the financial year covered by our audit or in the immediately preceding financial year.
11. Based on our audit procedures and according to the information and explanation given to us, we are of the opinion that the Company has not defaulted in repayment of dues to financial institutions, banks or debenture holders.
12. In our opinion and according to the 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.
13. In our opinion, the Company is not a chit fund or a nidhi/mutual benefit fund/society, Therefore, clause 4 (xiii) of the Companies (Auditor's Report) Order 2003 is not applicable to the Company.
14. According to the records of the Company, there are no transactions and contracts in respect of trading in securities, debentures and other investments; all shares, debentures and other investments have been held by the Company in its own name.
15. The Company has not given any guarantee for loans taken by others from Bank or Financial Institutions.
16. The Term loans raised by the Company have been applied for the purpose for which they were raised.
17. In our opinion and according to the information and explanations given to us and on over all examination of the Balance Sheet of the Company, we report that no funds raised on short term basis have been used for long term investment and vice-versa.
18. During the year, the Company has not made any preferential allotment of share to parties and companies covered in the Register maintained under Section 301 of the Companies Act, 1956.
19. The Company has not issued any debentures during the period under audit.
20. The Company has not raised any money by way of public issue during the year.
21. In our opinion and according to the information and explanations 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 VKS AIYER AND COY
Chartered Accountants

(Sd)..

Place: COIMBATORE

Date : 21.06.2004

V.S.SRINIVASAN

Partner

BALANCE SHEET AS AT 31ST MARCH 2004

	Sch No.	Current Year As at 31.3.2004 Rs.	Previous Year As at 31.3.2003 Rs.
SOURCES OF FUNDS			
SHAREHOLDERS FUNDS:-			
Share Capital	1	52173780	51956500
Reserves & Surplus	2	22042023	24831239
DEFERRED TAX LIABILITY		27063000	14331000
LOAN FUNDS:-			
Secured Loans	3	110413176	94606394
Unsecured Loans	4	56503427	45031526
		<u>268195406</u>	<u>230756659</u>
APPLICATION OF FUNDS:-			
FIXED ASSETS:			
Gross Block	5	213298969	213882949
Less: Depreciation		89250689	70178711
		<u>124048280</u>	<u>143704238</u>
Add: Capital Work-in progress		185863	0
Net Block		<u>124234143</u>	<u>143704238</u>
	6	258000	258000
INVESTMENTS:-			
CURRENT ASSETS, LOANS & ADVANCES:			
Inventories	7	112224632	74916615
Sundry Debtors	8	26443021	18934404
Cash & Bank Balances	9	8194864	12292035
Loans & Advances	10	9381530	8659948
Accrued Income		781689	478931
		<u>157025736</u>	<u>115281933</u>
CURRENT LIABILITIES & PROVISIONS:			
i) Liabilities	11	16582857	30766813
ii) Provisions		6934391	7486362
		<u>23517248</u>	<u>38253175</u>
NET CURRENT ASSETS (a - b)		<u>133508488</u>	<u>77028758</u>
MISCELLANEOUS EXPENDITURES:			
Expenses Amortised (To the extent not written off)	12	347775	521663
DEFERRED TAX ASSET		9847000	9244000
		<u>268195406</u>	<u>230756659</u>

SIGNATURE TO THE BALANCE SHEET AND SCHEDULE 1 TO 12

SUBJECT TO OUR REPORT OF EVEN DATE ATTACHED
for VKS AIYER AND COY
Chartered Accountants

ON BEHALF OF THE BOARD

(Sd)..

(Sd)..

(V.S.SRINIVASAN)
Partner

SHYAMLAL AGARWALA
Managing Director

Place : COIMBATORE
Date : 21.06.2004

(Sd)..

MANOJ KUMAR JHAJHARIA
Director

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PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH 2004

	Sch No.	Current Year ended 31.3.2004 Rs.	Previous Year ended 31.3.2003 Rs.
INCOME			
Sales	13	293147590	240334958
Other Income	14	12273140	744624
Increase in Inventory of Process & Finished Goods	15	5245381	4135712
TOTAL		<u>310666111</u>	<u>245215294</u>
EXPENDITURE			
Raw Materials Consumed	16	215487574	157005033
Purchase of Trading Goods-Yarn		158200	4566400
Stores, Spares & Packing Materials Consumed		5454320	6524999
Power & Fuel	17	25493501	23292126
Repairs & Maintenance	18	2869548	3194002
Salaries, Wages & Other Benefits	19	7976545	7117636
Remuneration to Directors	20	876242	612997
Administrative & other Expenses	21	5227504	4775892
Rent, Rates, Taxes & Insurance	22	2150824	2753710
Selling & Distribution Expenses	23	2472287	3400274
		<u>268166545</u>	<u>213243069</u>
PROFIT BEFORE INTEREST & DEPRECIATION		42499566	31972225
Interest & Finance Charges	24	8016825	5774262
PROFIT BEFORE DEPRECIATION		<u>34482741</u>	<u>26197963</u>
Depreciation		19578566	13378236
PROFIT BEFORE TAX		<u>14904175</u>	<u>12819727</u>
LESS: Provision for Income Tax		<u>1150000</u>	<u>1000000</u>
NET PROFIT		13754175	11819727
LESS : Provision for Deferred Tax - Current Year		5589000	0
LESS : Provision for Deferred Tax - Previous Year		6540000	0
ADD: Provision for Deferred Tax - Prior Years		0	1858000
LESS/ADD : Credit Balance from Last Year		<u>24831239</u>	<u>15549520</u>
		<u>26456414</u>	<u>29227247</u>
APPROPRIATIONS			
Proposed Dividend on Equity Shares		3913034	3896738
Tax on Dividend		501357	499270
Surplus carried over to Balance Sheet		<u>22042023</u>	<u>24831239</u>
		<u>26456414</u>	<u>29227247</u>

SIGNATURE TO THE PROFIT AND LOSS ACCOUNT AND SCHEDULE 13 TO 24

SUBJECT TO OUR REPORT OF EVEN DATE ATTACHED
for VKS AIYER AND COY
Chartered Accountants

(Sd)..
(V.S.SRINIVASAN)
Partner

Place: COIMBATORE
Date : 21.06.2004

ON BEHALF OF THE BOARD

(Sd)..
SHYAMLAL AGARWALA
Managing Director

(Sd)..
MANOJ KUMAR JHAJHARIA
Director

SCHEDULES TO BALANCE SHEET AS AT 31ST MARCH 2004

	Current Year As at 31.3.2004 Rs.	Previous Year As at 31.3.2003 Rs.
SCHEDULE No.1		
SHARE CAPITAL :-		
AUTHORISED :		
6000000 (6000000) Equity Shares of Rs 10/- each.	60000000	60000000
ISSUED, SUBSCRIBED & PAID UP :		
5351100 (5351100) Equity Shares of Rs 10/- each.	53511000	53511000
Less : Calls in Arrears	1337220	1554500
	<u>52173780</u>	<u>51956500</u>
SCHEDULE No.2		
RESERVES & SURPLUS		
Profit & Loss A/C-Surplus	22042023	24831239
	<u>22042023</u>	<u>24831239</u>
SCHEDULE No.3		
SECURED LOANS :		
i) Term Loans from Banks:		
Union Bank of India	707444	3831645
The Catholic Syrian Bank Ltd.	50954134	16304051
The Catholic Syrian Bank Ltd., VSL Loan	0	2700000
The Catholic Syrian Bank Ltd.		
Liability under L.C. (Convertible to Term Loan)	0	38500000
(Out of above, repayable within a year is Rs 107.07 Lacs)		
(Last year 109.52 Lacs)		
ii) Foreign Currency Loan - Union Bank of India	18247200	0
iii) Cash Credit from Banks :		
Union Bank of India	10382	18714442
The Catholic Syrian Bank Ltd.	24120314	7889832
iv) Packing Credit from Banks :		
Union Bank of India	12434000	6214595
v) Foreign Bills purchased by Banks :		
Union Bank of India	2317624	0
vi) Hire purchase finance		
	0	105776
vii) Interest accrued and due on Term Loans		
	1622078	346053
	<u>110413176</u>	<u>94606394</u>
SCHEDULE No.4		
UNSECURED LOANS:		
Intercorporate Loans	3250000	3250000
Interest accrued and due	310048	71815
IFST Deferral Scheme	52943379	41709711
	<u>56503427</u>	<u>45031526</u>

SCHEDULES TO BALANCE SHEET AS AT 31ST MARCH 2004

SCHEDULE No.5 FIXED ASSETS

	COST				DEPRECIATION				W.D.V	
	As at	Additions	Deletions/	As at	As at	for the year		As at	As at	As at
	01.04.2003 RS	Transfers Rs	Transfers Rs	31.03.2004 Rs	01.04.2003 Rs	Additions Rs	Deduction Rs	31.03.2004 Rs	31.03.2004 Rs	31.3.2003 Rs
Land	761422	0	0	761422	0	0	0	0	761422	761422
Buildings	28401236	171430	0	28572666	5288689	850722	0	6139411	22433255	23112547
Plant & Machinery	126801612	0	992440	125809172	63696167	12760196	506588	75949775	49859397	63105445
Wind Electric Generator	54806530	0	0	54806530	15526	5666995	0	5682521	49124009	54791004
Vehicles	1541903	61756	0	1603659	479348	148369	0	627717	975942	1062555
Furniture & Fittings	434319	10294	0	444613	170862	19549	0	190411	254202	263457
Office Equipments	1124727	164980	0	1289707	526498	132203	0	658701	631006	598229
Canteen Equipments	11200	0	0	11200	1621	532	0	2153	9047	9579
TOTAL	213882949	408460	992440	213298969	70178711	19578566	506588	89250689	124048280	143704238
Capital Work in progress -Machinery		185863		185863					185863	
	213882949	594323	992440	213484832	70178711	19578566	506588	89250689	124234143	143704238
Previous Year Total	141664261	72218688	0	213882949	56800475	13378236	0	70178711	143704238	84863786

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SCHEDULES TO BALANCE SHEET AS AT 31ST MARCH 2004

	Current Year As at 31.3.2004 Rs.	Previous Year As at 31.3.2003 Rs.
SCHEDULE No.6		
INVESTMENTS		
In Equity Shares (Quoted) :		
3500 Equity shares of Rs. 16/ each in Union Bank of India (Market Value Rs. 88025)	56000	56000
In Equity Shares (Unquoted) :		
20000 Equity shares of Rs 10/each in Sarvamangalam Synthetics Ltd.	200000	200000
In Government Securities (Unquoted) :		
National Savings Certificate (Pledged with Government of India)	2000	2000
	<u>258000</u>	<u>258000</u>
SCHEDULE No.7		
INVENTORIES		
Stock of Finished goods-Yarn	22239775	16892519
Stock in Process	5385734	3015794
Stock of Waste-Cotton	154894	316474
Stock of Stores,Spares & Packing Materials	1754975	1632599
Stock of Raw Materials	82689254	53059229
	<u>112224632</u>	<u>74916615</u>
SCHEDULE No.8		
SUNDRY DEBTORS (Unsecured)		
(i) Considered Good		
Debts Exceeding Six months	2601941	5759975
Other Debts	20798344	13174429
	<u>23400285</u>	<u>18934404</u>
(ii) Considered Doubtful		
Debts Exceeding Six months	4562736	869601
Less : Provision for Doubtful debts	1520000	869601
	<u>3042736</u>	<u>0</u>
SCHEDULE No.9		
CASH & BANK BALANCES		
Cash on hand	187461	246367
Cash with Scheduled Banks - in Current A/Cs	3594011	2823531
- in Deposit A/Cs	4413392	9222137
	<u>8194864</u>	<u>12292035</u>

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SCHEDULES TO BALANCE SHEET AS AT 31ST MARCH 2004

	Current Year As at 31.3.2004 Rs.	Previous Year As at 31.3.2003 Rs.
SCHEDULE No.10		
LOANS AND ADVANCES (Unsecured, Considered good, Recoverable in Cash or in kind)		
Advances for Purchases / Expenses	1782962	883286
Advance to Staff and other operatives	135738	86531
Deposits with Govt. & Other Authorities	2973557	2813195
Excise Duty/Modvat Advances	409902	740354
Prepaid Expenses	284811	225868
Advance Income Tax/TDS	3679750	3289694
Advances to others	114810	621020
	<u>9381530</u>	<u>8659948</u>
SCHEDULE No.11		
A) CURRENT LIABILITIES		
Liability for Capital Expenses	0	7016000
Liability for Purchases	9936292	17655589
Liability for Expenses	6496892	6095224
Unclaimed Dividends	149673	0
	<u>16582857</u>	<u>30766813</u>
B) PROVISIONS		
Provision for Income Tax	2520000	3090354
Proposed Dividend	3913034	3896738
Tax on Dividend	501357	499270
	<u>6934391</u>	<u>7486362</u>
SCHEDULE No.12		
MISCELLANEOUS EXPENDITURES:		
Preliminary & Pre Operative Expenses	97455	129940
Less:1/10th written off	32485	32485
	<u>64970</u>	<u>97455</u>
Share Issue Expenses	424208	565611
Less:1/10th written off	141403	141403
	<u>282805</u>	<u>424208</u>
Total	<u>347775</u>	<u>521663</u>

SCHEDULES TO PROFIT & LOSS A/C FOR THE YEAR ENDED 31ST MARCH 2004

	Current Year As at 31.3.2004 Rs.	Previous Year As at 31.3.2003 Rs.
SCHEDULE No.13		
SALES		
Yarn Sales :		
Domestic Sales(Incl. Excise Duty)	259021819	233310258
Direct Export Sales	9338223	11978628
Merchant Export Sales	20634987	214225
	<u>288995029</u>	<u>245503111</u>
Less: Excise Duty	17392804	19636717
	<u>271602225</u>	<u>225866394</u>
Waste Sales	20954756	13798751
Export Incentive Sales	590609	669813
	<u>293147590</u>	<u>240334958</u>
SCHEDULE No.14		
OTHER INCOME		
Interest on Bank Deposits and others	951698	681395
Wind Electricity Charges	11230150	1199
Income from Investment - Dividend	14350	0
Hank Yarn Obligation Premium	0	1748
Miscellaneous Sales	76942	60282
	<u>12273140</u>	<u>744624</u>
SCHEDULE No.15		
CHANGE IN STOCK OF FINISHED GOODS & SEMI FINISHED GOODS		
Opening Stock:		
Finished Goods - Yarn	16892519	12446448
Trading - Yarn	0	200854
Stock in Process	61312	308291
Stock of Waste Cotton	316474	179000
	<u>17270305</u>	<u>13134593</u>
A		
Closing Stock:		
Finished Goods -Yarn	22239775	16892519
Trading - Yarn	0	0
Stock in Process	121017	61312
Stock of Waste Cotton	154894	316474
	<u>22515686</u>	<u>17270305</u>
B		
A-B	<u>-5245381</u>	<u>-4135712</u>

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SCHEDULES TO PROFIT & LOSS A/C FOR THE YEAR ENDED 31ST MARCH 2004

	Current Year As at 31.3.2004 Rs.	Previous Year As at 31.3.2003 Rs.
SCHEDULE No.16		
RAW MATERIAL CONSUMED :		
Opening Stock-Cotton	53059229	21946930
-Cotton in Process	2954482	2094037
Add: Cost of Cotton purchased	<u>247427834</u>	<u>188977777</u>
	303441545	213018744
Less: Closing Stock-Cotton	82689254	53059229
-Cotton in Process	<u>5264717</u>	<u>2954482</u>
	<u>215487574</u>	<u>157005033</u>
SCHEDULE No.17		
POWER & FUEL		
Power	24835572	21839255
Generator Fuel	<u>657929</u>	<u>1452871</u>
	<u>25493501</u>	<u>23292126</u>
SCHEDULE No.18		
REPAIRS & MAINTENANCE		
Machinery Maintenance	1642456	1418313
Electrical Maintenance	60323	108762
Generator Maintenance	11051	192286
Building Maintenance	436782	800275
Vehicle Maintenance	394030	442409
Office Equipment Maintenance	188757	65286
General Maintenance	<u>136149</u>	<u>166671</u>
	<u>2869548</u>	<u>3194002</u>
SCHEDULE No.19		
SALARIES, WAGES AND OTHER BENEFITS		
Salaries, Wages & Bonus	4902640	3977548
Stipend to Trainees	986122	929235
PF Contribution	204049	216209
Employee Gratuity	53705	249017
Other Benefits	<u>1830029</u>	<u>1745627</u>
	<u>7976545</u>	<u>7117636</u>
SCHEDULE No.20		
REMUNERATION TO DIRECTORS		
Remuneration to Managing Director	450000	300000
Remuneration to Whole time Director	270000	180000
Commission to Managing Director	<u>156242</u>	<u>132997</u>
	<u>876242</u>	<u>612997</u>

SCHEDULES TO PROFIT & LOSS A/C FOR THE YEAR ENDED 31ST MARCH 2004

	Current Year As at 31.3.2004 Rs.	Previous Year As at 31.3.2003 Rs.
SCHEDULE No.21		
ADMINISTRATIVE AND OTHER EXPENSES		
Directors Sitting Fees	13000	11000
Printing and stationery	175211	150901
Postage, Telephone and Telegram	425760	392651
Professional charges & Legal Fees	239395	344237
Travelling & conveyance expenses	715726	610656
Advertisement Expenses	33715	47664
Bad Debts Written off	0	540217
Provision for Doubtful Debts	1520000	869601
Preliminary & Pre Operative Expenses Written Off	32485	32485
Share Issue Expenses written off	141403	141403
Loss on Sale of Assets	155852	0
Other Expenses	1774957	1635077
	<u>5227504</u>	<u>4775892</u>
SCHEDULE No.22		
RENT, TAXES & INSURANCE		
Insurance	1460634	864500
Rent	150000	161500
Rates & Taxes	540190	1727710
	<u>2150824</u>	<u>2753710</u>
SCHEDULE No.23		
SELLING AND DISTRIBUTION EXPENSES		
Commission, Brokerage & Rebates	1962179	2435668
Expenses on Export Sales	458270	741190
Freight on Yarn sales	51838	223416
	<u>2472287</u>	<u>3400274</u>
SCHEDULE No.24		
INTEREST & FINANCE CHARGES		
Interest on Fixed Loans	4876071	2539024
Interest on Working Capital Credits	1826169	1960773
Interest on Unsecured Loans	390000	90904
Bank Charges	913199	1021493
Hire Purchase Finance Charges	4000	38009
Bill discounting charges	7386	124059
	<u>8016825</u>	<u>5774262</u>

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SCHEDULE NO.25

NOTES ATTACHED TO AND FORMING PART OF THE ACCOUNTS FOR THE YEAR ENDED 31.3.2004

1. Significant accounting policies

(A) BASIS FOR PREPARATION OF ACCOUNTS :

The accounts have been prepared on historical cost convention method and as a going concern, complying in all material aspects with applicable accounting principles and the Accounting Standards prevailing in the country.

(B) REVENUE RECOGNITION :

- i. Accrual basis of accounting is followed by the company for all regular sources of income and expenses.
- ii. Sales are accounted on transfer of property in the goods to the buyers for a definite consideration; Sales include exchange fluctuation gain/loss realised or incurred during the year in respect of export sales.
- iii. Income from import entitlements representing face value of DEPB Licence is accounted for in the year in which the export sale is made and the premium from sale of such Licence is accounted for as and when the sale is made.
- iv. Income includes value of captive consumption of Wind Electricity produced and consumed by the Textile Mill, evaluated at the rates charged by the State Electricity Board.

(C) PRELIMINARY, PRE-OPERATIVE AND SHARE ISSUE EXPENSES :

- i. Preliminary Expenses, specified Pre-operative expenses and share issue expenses have been amortised and 1/10th of the aggregate expenses has been charged to the Profit and Loss Account from the year of commencement of Commercial production.
- ii. All other pre-operative expenses have been capitalised under buildings, plant and machinery.

(D) FIXED ASSETS :

- i. Fixed assets are stated at cost and are inclusive of pre-operative expenses capitalised.
- ii. Provision for Depreciation on Fixed assets has been made adopting the Straight Line Method and the rates prescribed in Schedule XIV of the Companies Act, 1956; (For items costing Rs.5000/- each or less, 100% depreciation has been charged .) For additions during the year prorata charge has been made from the date the asset is put into use. No depreciation is charged in the year of sale of the asset.

(E) CENVAT CREDIT :

- i. The value of eligible CENVAT Credit against Central Excise duty paid on purchase of capital goods has been deducted from the cost of relevant plant & machinery capitalised.
- ii. The value of eligible CENVAT Credit against Central Excise Duty paid has been adjusted against the relevant materials purchased and inventory of materials has been valued at rates net of CENVAT Credit.
- iii. CENVAT Credit availed has been adjusted against Central Excise duty incurred on finished goods despatched and unavailed deferred CENVAT Credit are carried over as advance.

(F) INVESTMENTS :

All the investments are treated as Non-current and valued at cost.

(G) INVENTORY :

Inventories as at the close of the year are being valued as stated below and quantities adopted are as certified by the management:-

- i) Raw Materials : at lot wise cost
- ii) Finished goods - Yarn : at cost (inclusive of excise duty) or market rate whichever is less
- saleable waste : at since realised market rate
- iii) Stock in process : at cost
- iv) Stock of packing : at cost on FIFO method
- materials and Stores/Spares

(H) FOREIGN CURRENCY TRANSACTIONS:

Foreign currency transactions chargeable to revenue have been accounted for by adopting the exchange rate as per documents negotiated with the bankers. Export sales is net of exchange fluctuation gain/loss realised/incurred and accounted for as per realisation certificate received from the bankers.

(I) RETIREMENT BENEFITS:

The Company has made provision for accrued employee gratuity evaluated on actual basis ; there are no other schemes for retirement benefit in force in the company.

(J) DEFERRED TAX:

As per Accounting Standard 22 of Institute of Chartered Accountants of India (ICAI), provision for deferred tax liability and deferred tax assets, has been created for timing difference in tax treatment of income/expenses, with reference to the Accounting treatment adopted by the Company; Adjustment for increase/decrease in deferred tax liability or assets for subsequent periods, is made through Profit and Loss account of the respective years.

2. (i) Term Loans for phase III of the project aggregating to Rs.75.00 lacs (Amount outstanding Rs. 7.53 lacs) from UBI are secured by hypothecation of the machinery purchased under the project.
 - (ii) Term Loans for phase IV of the project aggregating to Rs.150.00 lacs (Amount outstanding Rs.113.16 lacs) from The Catholic Syrian Bank Ltd., is secured by hypothecation of the machinery purchased under the Project.
 - (iii) Machinery Loan of Rs.412.50 Lacs (Amount outstanding Rs. 412.15 Lacs) from the Catholic Syrian Bank Ltd., for purchase of two numbers of Wind Electric Generators is secured by hypothecation of the machinery.
 - (iv) Cash Credit and other working capital loans aggregating to Rs. 456.37 lacs (Limit sanctioned), Import DALC limit of Rs.300.00 lacs and Foreign Bills discounting facilities Rs 100.00 Lacs (Limit sanctioned) from UBI and CSB are secured by hypothecation of stocks of raw materials, finished and semi finished goods, stock of stores and spares and receivables on sales; Adhoc limit from CSB for Rs.200.00 Lacs is secured by additional charge created on all existing items of collateral security.
 - (v) Foreign Currency Loan of USD 4.00 Lacs granted by Union Bank of India was availed in partial reduction of Cash credit Loan; the same is repayable in six months with facility to rollover for further period; the liability is covered by forward exchange contract.
 - (vi) The above loans are secured by equitable mortgage by deposit of title deeds of immovable property belonging to the Company; the loans are further secured by mortgage of personal property of the Managing Director and a Director, besides personal guarantee of the Managing Director and Three Directors of the Company. The loans are ranking pari-passu with each other as per agreement executed between the Bankers and the Company.
3. Investment of Rs.2,000 in National Savings Certificate has been pledged with Government authorities in connection with the Company's business.
 4. Deposits with Banks include :
 - (i) Rs.16,75,619/- pledged with the Bank as security for guarantee issued by them in favour of TNEB authorities against electricity subsidy availed and disputed by TNEB authorities, pending disposal of the suit filed by the Company;

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- (ii) Rs.1,33,015/- pledged with Bank as security for guarantee issued in favour of the Commercial Taxes Department, Coimbatore, for grant of stay of disputed demands, pending in appeal; and
- (iii) Rs.6,33,685/- pledged with Bank as security for guarantee issued in favour of The President of India, acting through the Commissioner of Customs, Tuticorin for Import of raw cotton & Import Machinery against export obligation.
- 5 (i) Provision for Income-tax (Minimum Alternative Tax) has been made in the accounts on book profits as per Section 115JB of Income Tax Act, 1961; the company is otherwise not liable for regular income tax.
- (ii) Income Tax Assessments of the Company have been completed upto the Assessment Year 2001-2002; no further tax liability is likely to arise in respect of pending assessments.
- (iii) Provision for deferred tax liability has been worked out as under :

	Year Ended 31.3.2004 (Rs. in Lacs)	Year Ended 31.3.2003 (Rs. in Lacs)
<u>Deferred Tax Liability :</u>		
Tax on Depreciation difference	281.31	224.03
<u>Deferred Tax Asset :</u>		
Tax on Unabsorbed Depreciation & Others	98.47	96.56
Deferred Tax Liability	182.84	127.47
Less : Tax credit u/s. 115JAA	10.68	11.20
Net Deferred Tax Liability	172.16	116.27
Increase in Deferred Tax Liability	55.89	

6. Excise Duty on finished goods is paid at the time of clearance of such goods; however, to comply with Accounting Standard 2 of the Institute of Chartered Accountants of India (ICAI), Excise duty on stocks of finished goods estimated at Rs.18.74 Lacs (Rs.14.23 Lacs) has been charged to the Revenue by making a provision. Hence closing stock is valued inclusive of excise duty; the method of accounting and valuation of stock has no effect on the Profits for the year.
7. The Company is contingently liable :-
- For electricity tariff subsidy availed, the claim being disputed by the Department: Rs.52.75lacs (Rs.52.75lacs)
 - Disputed sales tax liability pending in appeal Rs.1.90 lacs (1.90 lacs)
 - Claim by Foreign Supplier not acknowledged as debts towards import of cotton Rs.11.90 lacs (Rs.11.90 lacs)
 - Disputed Electricity tax on power consumed Demand stayed by the High Court of Madras Rs. 19.55Lacs (Rs. 12.53 Lacs)
 - Estimated amount of contract on capital account, not provided for Rs. 186.46 (Rs. NIL)
8. Other Income includes Wind Electricity charges of Rs.112.30 Lacs earned by Captive Consumption of Wind Electricity Produced and transferred to the Textile Mill.
9. i) Managerial Remuneration :

Remuneration	(Rupees)			
	Fixed Salary	Perquisites	Commission	Total
Managing Director	3,00,000 (3,00,000)	1,50,000 (NIL)	1,56,242 (1,32,997)	6,06,242 (4,32,997)
Whole Time Director	1,80,000 (1,80,000)	90,000 (NIL)	NIL (NIL)	2,70,000 (1,80,000)

ii) Calculation of commission to Managing Director

		Rs.
Net Profit as per Profit & Loss Account		13754175
Add : Depreciation charged to account	19578566	
Provision for Taxation	1150000	
Managing Director's Remuneration	606242	
Director's Remuneration	270000	
		21604808
		35358983
Less : Depreciation under section 350		19578566
		15780417
Commission 1% on Net profit payable to the Managing Director		156242

10. Remuneration to Auditors :

- i. Out of other Administration expenses (Schedule 21): - Rs.35,100/- (Rs.34,125) for Audit fee, Rs.8,100/- (Rs.7,875/-) for Tax Audit , Rs.15,120/- (Rs. Nil) for Taxation services.
- ii. Out of Professional charges & Legal fees: - Towards Certificates issued Rs.17,300/- (Rs.6,900/-) and for Financial/Company Law advisory services Rs.20,200/- (Rs.11,500/-)

11. Related Party Disclosure :

The following are the disclosure and transactions with related parties in terms of Accounting Standard 18 issued by the Institute of Chartered Accountants of India (ICAI) :

KEY MANAGEMENT PERSONNEL :

Sl. No.	Name of the related party	Relatives
01.	Shri SHYAMLAL AGARWALA (Managing Director)	a) Mrs. Pista Devi Jhajharia (Wife) b) Mr. Manoj Kumar Jhajharia (Son) c) Mr. Pramod Kumar Jhajharia (Son) d) Mr. Arun Kumar Jhajharia (Son) e) Mr. Mahesh Agarwala (Brother)
02.	Shri MANOJ KUMAR JHAJHARIA (Joint Managing Director)	a) Mr. Shyamlal Agarwala (Father) b) Mrs. Pista Devi Jhajharia (Mother) c) Mrs. Krishna Agarwala (Wife) d) Mr. Pramod Kumar Jhajharia (Brother) e) Mr. Arun Kumar Jhajharia (Brother)
03.	Shri PRAMOD KUMAR JHAJHARIA (Chief Executive)	a) Mr. Shyamlal Agarwala (Father) b) Mrs. Pista Devi Jhajharia (Mother) c) Mr. Manoj Kumar Jhajharia (Brother) d) Mr. Arun Kumar Jhajharia (Brother) e) Mrs. Sabita Agarwala (Wife)

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RELATED ENTERPRISES

(Rupees)

Sl. No.	Name of the Related Enterprise	Nature of transaction	Amount Rs.	Amount Outstanding as on 31.3.04	Amount written off/ written back during the period
01.	M/s. Preeti Tex (Partnership firm of 2 directors and their relatives)	Purchase of Raw Material & Sale of Finished goods	33411790	NIL	NIL
02.	M/s. Preeti Enterprises (Smt. Pista Devi Jhajharia W/o. Shyamli Agarwala-Proprietrix)	Sale of Finished goods	2114589	NIL	NIL
03.	Smt. Sabita Agarwala (W/o. Shri. Pramod Kumar Jhajharia)	Rent for Administrative Office Building	72000	60000 (Rent Advance)	NIL

12. Quantitative and other particulars:-

		Current year	Previous year
i) Details of Capacity			
a) Licenced capacity		NA	NA
b) Installed capacity(Spindles)		10800	10800
ii) Details of Production			
a) Cotton Yarn	Kgs.	2473579	2357754
b) Waste	Kgs.	859932	797714
c) Wind Electricity	Units.	3434400	342
iii) Details of Turnover			
a) Cotton Yarn - Own Manufacture	Kgs.	2473579	2342043
	Rs.	271437825	221220907
b) Cotton Yarn - Trading	Kgs.	1200	35625
	Rs.	164400	4645487
c) Waste	Kgs.	863987	789806
	Rs.	20954756	13798751
d) Wind Electricity	Units.	3138610	342
	Rs.	11230150	1199
iv) Details of Purchases			
Cotton Yarn for Trade	Kgs.	1200	33765
	Rs.	158200	4566400
v) Details of Consumption : Cotton			
Indigenous	Kgs.	3232159	2859326
	Rs.	203475021	141921657
Imported	Kgs.	211306	359261
	Rs.	14322788	15943821
vi) Details of Opening & Closing Stocks :-			
a) Opening Stock			
Finished goods:-			
Cotton Yarn	Kgs	170412	154702
	Rs	16892519	12446448
Trading Yarn	Kgs.	Nil	1860
	Rs.	Nil	200854
Saleable Waste	Kgs.	19438	11531
	Rs.	316474	179000
Process stock	Rs.	61312	308291

Raw materials	Kgs.	951793	486052
	Rs.	53059229	21946930
b) Closing Stock			
Finished goods:-			
Cotton Yarn	Kgs.	173688	170412
	Rs.	22239775	16892519
Trading Yarn	Kgs.	Nil	Nil
	Rs.	Nil	Nil
Saleable Waste	Kgs.	15383	19438
	Rs.	154894	316474
Process stock	Rs.	121017	61312
Raw Materials	Kgs.	1204191	951793
	Rs.	82689254	53059229
vii) Consumption :-			
Spares & Components	Rs.	5454320	6524999
(Fully Indigenous)			
viii) Expenditure in Foreign Currency :			
Import Cotton (C.I.F. Value)	Rs.	Nil	5572292
Import of Machinery (C.I.F. Value)	Rs.	Nil	10830358
Brokerage Commission	Rs.	Nil	135236
Interest on Foreign Currency Loan	Rs.	658342	Nil
ix) Earnings in Foreign Exchange :			
FOB Value of Exports	Rs.	9184022	11645972
x) a) Remittances in Foreign currencies		NIL	NIL
on account of dividends to			
Non-Resident Shareholders			
b) Number of Non-Resident Shareholders		1	1
c) Number of Shares held by them		500	500

13. The previous year figures have been regrouped or reclassified wherever required to correspond to the classifications adopted in the current year; figures in brackets denote previous year figures.

SIGNATORIES FOR SCHEDULES 25

SUBJECT TO OUR REPORT OF
EVEN DATE ATTACHED

ON BEHALF OF THE BOARD

(Sd)..
for VKS AIYER AND COY
Chartered Accountants

(Sd)..
SHYAMLAL AGARWALA
Managing Director

(Sd)..
V.S. SRINIVASAN
Partner

(Sd)..
MANOJ KUMAR JHAJHARIA
Director

Place : COIMBATORE
Date : 21.06.2004

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CASH FLOW STATEMENT FOR THE YEAR ENDED 31st MARCH 2004

	(Rs.inLacs) 31.3.2004	(Rs.in Lacs) 31.3.2003
A. Cash flow from Operating Activities:-		
Profit before tax	149.04	128.20
Adjustments for:-		
Depreciation	195.79	133.78
Preliminary expenses written off	1.74	1.74
Interest paid	80.17	57.74
Interest receipts	(-)9.52	(-)6.81
	<u>417.22</u>	<u>314.65</u>
Operating Profits before Working Capital Changes	417.22	314.65
Adjustments for:-		
Inventories	(-) 373.08	(-) 361.58
Debtors	(-) 75.08	28.71
Loans, advances & Interest	(-) 10.24	26.84
Misc. Expenditure	0.00	0.00
Liabilities	(-) 141.84	110.46
	<u>(-) 183.02</u>	<u>119.08</u>
Total A	<u>(-) 183.02</u>	<u>119.08</u>
B. Cash flow from Investment Activities:-		
Purchase of Fixed Assets	3.98	(-)722.19
Increase in Investments	0.00	0.56
	<u>3.98</u>	<u>(-)722.75</u>
Total B	<u>3.98</u>	<u>(-)722.75</u>
C. Cash flow from Financial Activities:-		
Increase in Share Capital	2.17	0.10
Increase in Borrowings:-	564.18	720.43
Secured Loans	(-)543.01	(-)204.69
Unsecured Loans	114.73	132.11
	<u>138.07</u>	<u>647.95</u>
Total C	<u>138.07</u>	<u>647.95</u>
Net increase in Cash & Cash equivalents A+B+C	(-) 40.97	(-) 44.28
Opening balance Cash & Cash equivalents	122.92	78.64
Closing balance Cash & Cash equivalents	81.95	122.92
	<u>40.97</u>	<u>44.28</u>
Net Increase/(Decrease) in Cash equivalents	40.97	44.28

On Behalf of the Board

(Sd)..

SHYAMLAL AGARWALA
Managing Director

(Sd)..

MANOJ KUMAR JHAJHARIA
Director

Place: COIMBATORE
Date : 21.06.2004

NOTES ATTACHED TO AND FORMING PART OF ACCOUNTS FOR THE YEAR ENDED 31.3.2004

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I. REGISTRATION DETAILS :-

Registration No. : 181-4797
State Code : 18
Balance Sheet date : 31.3.2004

II. CAPITAL RAISED DURING THE YEAR (RS.IN 000'S)

Public issue : —
Rights issue : —
Bonus issue : —
Private placement : —

III. POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS (RS.IN 000'S)

Total Liabilities : 268195
Total Assets : 268195

Sources of Funds (Rs.)

Paid-up Capital : 52174
Share Application Money : 0
Reserves & Surplus : 22042
Deferred Tax Liability : 27063
Secured loans : 110413
Unsecured Loans : 56503

Application of Funds (Rs.)

Fixed Assets : 124234
Investments : 258
Net Current Assets : 133508
Miscellaneous Expenditure : 348
Deferred Tax Asset : 9847

IV. PERFORMANCE OF COMPANY (RS.)

Turnover : 310666
Total expenditure : 295762
Profit Before Tax : 14904
Profit After Tax : 1625
Earning per share in Rs. : 0.30
Dividend rate : 7.50%

Generic names of three principal products/services of company (as per monetary terms) :-

Items code No.(ITC Code)	Product description
520511.01	Cotton Yarn

ON BEHALF OF THE BOARD

(Sd)..

(Sd)..

Place: COIMBATORE

SHYAMLAL AGARWALA

MANOJ KUMAR JHAJHARIA

Date : 21.06.2004

Managing Director

Director



Regd. Office : S.F.No.74/12 & 75/3, Sathy Main Road, Pungampalli, Valipalayam (Post), Sathy Taluk

ATTENDANCE SLIP

I hereby record my presence at the Tenth Annual General Meeting of the Company to be held at the Registered Office of the Company at Mill Premises, S.F.No.74/12 & 75/3, Sathy Main Road, Pungampalli, Valipalayam (Post), Sathy Taluk, Erode District, Tamilnadu on Thursday the 16th day of September, 2004 at 10.00 a.m.

Name of the Member
.....
Folio No..... No. of Shares.....

.....
Name of Proxy / Representative (In Block Letters)
(To be filled in if the Proxy attends instead of the Member)

.....
Signature of the Share Holder / Proxy



Regd. Office : S.F.No.74/12 & 75/3, Sathy Main Road, Pungampalli, Vallipalayam (Post), Sathy Taluk

PROXY FORM

I / We.....
of.....
being a member / members of SALONA COTSPIN LIMITED hereby appoint
..... of
or failing him of
or failing him of
as my / our Proxy to attend and vote for me/ us on my / our behalf of the Tenth Annual General Meeting of the Company to be held on Thursday the 16th day of September, 2004 at the Registered Office of the Company at Mill Premises, S.F.No.74/12 & 75/3, Sathy Main Road, Pungampalli, Valipalayam(Post), Sathy Taluk, Erode District, Tamilnadu and at any adjournment thereof.

Signed this.....day of.....2004

Member Folio Number

Signature

Affix a
Rs.1.00
Revenue
Stamp

Note : The Proxy form must be deposited at the Registered Office of the Company not less than 48 hours before the time for holding the Meeting.

Book - Post

If undelivered, please return to :

SALONA COTSPIN LIMITED

9, Ramalinga Nagar, 4th Cross,
Saibaba Colony, Coimbatore - 641 011.

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