

**BOARD OF DIRECTORS**

MR. SHEKHAR CHATTERJEE	-	Chairman
MR. R. P. SEHGAL	-	Managing Director
MR. SUVOBRATA SAHA	-	Joint Managing Director
MR. ARUN KR. BOSE	-	Whole time Director
MR. R. C. JHA	-	Director
MR. B. K. DATTA	-	Director

**REGISTERED OFFICE**

28/1, JHEEL ROAD  
SALKIA, HOWRAH – 711 106.  
TELEPHONE : (033) 2645 4785

**AUDIT COMMITTEE**

Mr. Shekhar Chatterjee  
Mr. R. C. Jha  
Mr. B. K. Datta

**REMUNERATION COMMITTEE**

Mr. Shekhar Chatterjee  
Mr. R. C. Jha  
Mr. B. K. Datta

**SHARE HOLDERS'/ INVESTORS'  
GRIEVANCE COMMITTEE**

Mr. R. C. Jha  
Mr. R. P. Sehgal

**CHIEF FINANCIAL OFFICER  
& COMPANY SECRETARY**

Mr. Sanjay Agarwal

**CORPORATE & HEAD OFFICE**

222, A. J. C. BOSE ROAD  
1<sup>st</sup> FLOOR, ROOM NO. 4 & 5  
KOLKATA – 700 017.  
PHONE : (033) 2290 2256/2287 8229  
FAX NO.: (033) 2287 9938  
E-Mail : carcast@vsnl.net  
Website : carnationindustries.com

**REGISTRAR & SHARE TRANSFER AGENT**

R&D Infotech Pvt. Limited  
22/4, Nakuleashwar Bhattacharjee Lane  
Kolkata – 700 026  
Phone: (033) 2463 1657 / 58

**SOLICITORS & ADVOCATES**

R. GINODIA & CO.  
4E & F, HASTINGS CHAMBER  
7C, KIRAN SHANKAR ROY ROAD  
KOLKATA – 700 001

**AUDITORS**

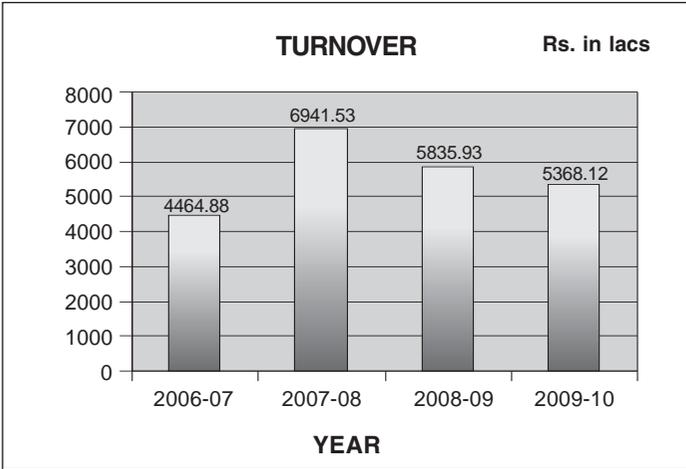
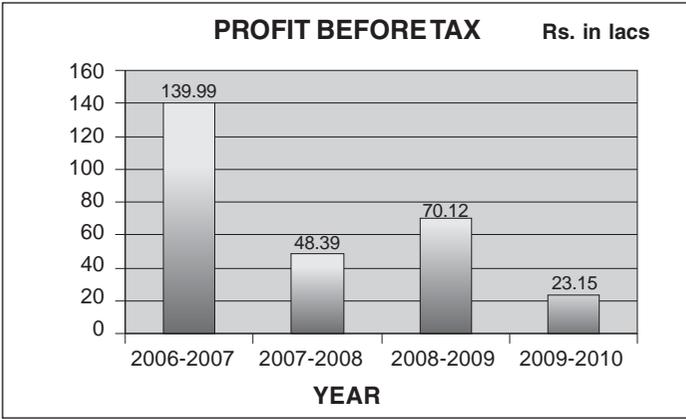
M/s. JAIN & BAGARIA  
CHARTERED ACCOUNTANTS  
27/8A, WATERLOO STREET  
KOLKATA-700 069

**BANKERS**

STATE BANK OF HYDERABAD  
PUNJAB NATIONAL BANK

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## NOTICE

Notice is hereby given that the 27<sup>th</sup> Annual General Meeting of the Company will be held on Friday, 24<sup>th</sup> September, 2010 at 10.00 A.M. at "SARAT SADAN", 5, Mahatma Gandhi Road, Howrah- 711 101 to transact the following business:

### ORDINARY BUSINESS

1. To receive, consider and adopt the Profit and Loss Account for the year ended 31<sup>st</sup> March, 2010 and the Balance Sheet as on that date alongwith the report of the Directors' and Auditors' thereon.
2. To declare dividend on equity shares.
3. To appoint a Director in place of Mr. R.C. Jha who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint Auditor of the Company and to fix their remuneration and in this regard to consider and if thought fit, to pass, with or without modification(s), the following resolution as an Ordinary Resolution:  
"RESOLVED THAT M/s. Jain and Bagaria, Chartered Accountants, (Regn. No. 310045E), be and are hereby re-appointed as Auditors of the Company from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company on such remuneration as shall be fixed by the Board of Directors."

### SPECIAL BUSINESS

#### ITEM NO. 5

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

"RESOLVED THAT Mr. B. K. Datta who was appointed as an Additional Director by the Board under section 260 of the Companies Act, 1956 and Article 115 of the Article of Association of the Company and who holds office only upto the date of the Annual General Meeting and in respect of whom the Company has received notice in writing under section 257 of the Companies Act, 1956 from a member proposing his candidature for the office of a Director of the Company, be and is hereby appointed as Director of the Company liable to retire by rotation."

#### ITEM NO. 6

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

"RESOLVED THAT subject to such consents, permissions and approvals as may be required and pursuant to Section 198,269,309,310,311 and other applicable provisions of the Companies Act, 1956 read with Schedule XIII (including any statutory modifications or re-enactment thereof) of the Act, the Company hereby accords its approval for the re-appointment of Mr. R.P. Sehgal as Managing Director of the Company for a period of 5 (five) years with effect from 1.9.2010 on such terms and conditions as specified in the Explanatory Statement annexed hereto provided

that the total remuneration (including the perquisites) shall be within the overall ceiling as provided under different applicable provisions and Schedule XIII of the Companies Act, 1956.”

### ITEM NO. 7

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

“RESOLVED THAT subject to such consents, permissions and approvals as may be required and pursuant to Section 198,269,309,310,311 and other applicable provisions of the Companies Act, 1956 read with Schedule XIII (including any statutory modifications or re-enactment thereof) of the Act, the Company hereby accords its approval for the appointment of Mr. Suvobrata Saha as Jt. Managing Director of the Company for a period of 5 (five) years with effect from 1.9.2010 on such terms and conditions as specified in the Explanatory Statement annexed hereto provided that the total remuneration (including the perquisites) shall be within the overall ceiling as provided under different applicable provisions and Schedule XIII of the Companies Act, 1956.”

Place : Kolkata  
Date : 6th August, 2010

By order of the Board

**(SANJAY AGARWAL)**  
CFO & Company Secretary

## NOTES

1. An Explanatory Statement under section 173(2) of the Companies Act, 1956 is annexed herewith and forms part of this Notice.
2. **A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on a poll instead of himself and such proxy need not be a member of the Company. Proxies in order to be effective must be received by the Company not less than 48 hours before the commencement of the meeting.**
3. The Register of Members and Share Transfer Books of the Company will remain closed from 20.9.2010 to 24.9.2010 (both days inclusive) for ascertaining the eligibility of members for the purpose of payment of Dividend on Equity Shares. The Dividend on Equity Shares as recommended by the Directors, if approved, at the meeting will be payable to those Shareholders whose name shall appear in the Register of Members as on 24<sup>th</sup> September, 2010. In respect of shares held in electronic form, the dividend will be paid on the basis of the Beneficial Ownership as per details furnished by National Securities Depository Limited / Central Depository Services Limited for the above purpose.
4. Members holding shares in physical form are requested to notify immediately any change in their address along with address proof, i.e. Electric/ Telephone Bill, Driving License or a Copy of Passport and Bank particulars to the Company or its Registrar & Share Transfer Agent and in case their shares are held in dematerialized form, this information should be passed on directly to their respective Depository Participants and not to the Company/ RTA without any delay.
5. Members / Proxies should bring the attendance slip duly filled in for attending the meeting.
6. Members who hold shares in dematerialized form are requested to bring their client ID and DPID numbers for easy identification of attendance at the meeting.
7. The facility for making nomination is available to the members in respect of the shares held by him.
8. All documents referred to in the Notice and Explanatory Statement are open for inspection to the members at the Registered Office of the Company between 11.00 A.M. and 1.00 P.M. on all working days upto the date of this Annual General Meeting.
9. Members desirous of seeking any further information about the accounts and / or operations of the company are requested to address their queries to the CFO & Company Secretary of the Company atleast ten days in advance of the meeting, so that the information, to the extent practicable, can be made available at the meeting.
10. SEBI has made it mandatory for all Companies to use bank details furnished by the investors for distributing dividend to them through National Electronic Clearing Services (NECS), wherever NECS and bank details are available. In the absence of NECS facility, the Companies are required to print the bank details, if available, on payment instrument, for distribution of dividends to the investors. Therefore members holding shares in physical

mode are requested to provide their bank details to the Company/Registrar. Members holding shares in demat mode are requested to record the NECS mandate with their Depository Participants.

11. Pursuant to the provisions of section 205A (5) and 205C of the Companies Act, 1956 the Company has transferred the unpaid or unclaimed dividends, upto the financial year ended 31.3.2003, to the Investor Education Protection Fund (IEPF) established by the Central Government.
12. The Securities and Exchange Board of India (SEBI) has mandated the submission of Permanent Account Number (PAN) by every participant in securities market. Members holding shares in electronic form are, therefore, requested to submit PAN to their Depository Participants with whom they are maintaining their demat accounts. Members holding shares in physical form can submit their PAN details to the Company.

By order of the Board

**(SANJAY AGARWAL)**

(CFO & Company Secretary)

Place : Kolkata

Date : 6th August, 2010



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

**ITEM NO. 5**

Mr. B.K.Datta joined the Board of the Company on 28.10.2009 as an Additional Director and as per the provisions of section 260 of Companies Act, 1956 he will hold office as a Director up to the date of this Annual General Meeting. Company has received Notice as prescribed under section 257 of the Companies Act, 1956 from a member along with a deposit of Rs. 500/-, signifying his intention to propose Mr. B.K. Datta for appointment as a Director.

The Board of Directors recommends the passing of the resolution.

None of the Directors except Mr. B. K. Datta is in any way concerned or interested in the resolution.

**ITEM NO. 6**

The members at the 26th Annual General Meeting held on 4th September, 2009 had appointed Mr. R. P. Sehgal as the Managing Director of the Company for a period of 5 (five) years with effect from 1.12.2009. The service agreement with Mr. R. P. Sehgal stands determined by mutual consent with effect from the close of business on 31.8.2010.

The terms and conditions on which Mr. R. P. Sehgal has been appointed as the Managing Director for 5 (five) years with effect from 1.9.2010 shall contain the following remuneration within the overall ceiling specified in Schedule XIII of the Companies Act, 1956.

**REMUNERATION**

- Salary : Basic Salary Rs.60000/- per month in the range of Rs.60,000/- – Rs.1,00,000/-. The Increment will be decided by the Remuneration Committee and the Board of Directors of the Company.
- Percentage of Net Profit : 3.5% of Net Profit subject to the provision that the total remuneration (including the perquisites) does not exceed the ceiling as provided under different applicable provisions and Schedule XIII of the Companies Act, 1956.
- Performance Pay : Performance Pay as may be determined by the Remuneration Committee and approved by the Board subject to the ceiling of Rs. 1,80,000/- for the year ending 31.3.2011 and a ceiling of Rs. 5,00,000/- for subsequent years.
- Perquisites : The Managing Director shall be entitled to the following perquisites provided the value thereof will be restricted to the amount equal to annual salary or actual expenditure incurred, whichever is less.
- Residential Accommodation: Furnished / Unfurnished Accommodation. In case no accommodation is provided by the company he shall be entitled to 30% of salary per month in lieu thereof as house rent allowance.  
Value of perquisites shall be done as per Income-Tax Act.
  - Gas, Electricity and Water: The expenditure by the company on gas, electricity and water shall be valued as per Income-Tax Act.
  - Medical Reimbursement: Expenses incurred by the Managing Director and his family shall be subject to a ceiling of 1 (one) month's salary in a year or three month's salary over a period of three years.

- d. Club Fees: Fees of the clubs subject to the maximum of two clubs. This will not include Admission and Life Membership fees.
- e. Personal Accident Insurance: Premium not to exceed Rs.4,000/- per annum.

Explanation: The term family means spouse, dependant children and dependant parents of the Managing Director.

### **PART - B**

- a. Gratuity payable at a rate not exceeding half a month's salary for each completed year of service. However, this will not be included in computation of the ceiling on remuneration.
- b. Encashment of leave at the end of the tenure. Encashment of leave at the end of the tenure will not be included in computation of the ceiling on remuneration.

### **PART - C**

Car for use on company business and telephone at the residence will not be considered as perquisites. Use of Car for private purpose and personal long distance calls on telephone shall be billed by the company to the Managing Director.

### **MINIMUM REMUNERATION**

In the event of loss or inadequacy of profits in any financial year during the tenure of service, payment of salary, perquisites and other allowances shall be governed by provisions of Section II of Part II of Schedule XIII, provided the following will not be included in computation of the ceiling limit.

- a. Gratuity payable at the rate of half month's salary for each year of completed service.
- b. Encashment of leave at the end of the tenure.

The Board of Directors recommends passing of the resolution.

None of the Directors except Mr. R. P. Sehgal shall be deemed to be concerned or interested in the above resolution.

### **ITEM NO. 7**

The members at the 24th Annual General Meeting held on 3rd August, 2007 had appointed Mr. Suvabrata Saha as the Jt. Managing Director of the Company for a period of 5 (five) years with effect from 21.8.2006. The service agreement with Mr. Suvabrata Saha stands determined by mutual consent with effect from the close of business on 31.8.2010.

The terms and conditions on which Mr. Suvabrata Saha has been appointed as the Jt. Managing Director for 5 (five) years with effect from 1.9.2010 shall contain the following remuneration within the overall ceiling specified in Schedule XIII of the Companies Act, 1956.

### **REMUNERATION**

Salary	:	Basic Salary Rs.60000/- per month in the range of Rs. 60000-100000/-. The Increment will be decided by the Remuneration Committee and the Board of Directors of the Company.
Percentage of Net Profit	:	3.5% of Net Profit subject to the provision that the total remuneration (including the perquisites) does not exceed the ceiling as provided under different applicable provisions and Schedule XIII of the Companies Act, 1956.
Performance Pay	:	Performance Pay as may be determined by the Remuneration Committee and approved by the Board subject to the ceiling of

Rs. 1,80,000/- for the year ending 31.3.2011 and a ceiling of Rs. 5,00,000/- for subsequent years.

- Perquisites : The Jt. Managing Director shall be entitled to the following perquisites provided the value thereof will be restricted to the amount equal to annual salary or actual expenditure incurred, whichever is less.
- Residential Accommodation: Furnished / Unfurnished Accommodation. In case no accommodation is provided by the Company he shall be entitled to 30% of salary per month in lieu thereof as house rent allowance.  
Value of perquisites shall be done as per Income-Tax Act.
  - Gas, Electricity and Water: The expenditure by the company on gas, electricity and water shall be valued as per Income-Tax Act.
  - Medical Reimbursement: Expenses incurred by the Jt. Managing Director and his family shall be subject to a ceiling of one month's salary in a year or three month's salary over a period of three years.
  - Club Fees: Fees of the clubs subject to the maximum of two clubs. This will not include Admission and Life Membership fees.
  - Personal Accident Insurance: Premium not to exceed Rs.4,000/- per annum.

Explanation: The term family means spouse, dependant children and dependant parents of the Jt. Managing Director.

**PART - B**

- Gratuity payable at a rate not exceeding half a month's salary for each completed year of service. However, this will not be included in computation of the ceiling on remuneration.
- Encashment of leave at the end of the tenure. Encashment of leave at the end of the tenure will not be included in computation of the ceiling on remuneration.

**PART - C**

Car for use on company business and telephone at the residence will not be considered as perquisites. Use of Car for private purpose and personal long distance calls on telephone shall be billed by the company to the Jt. Managing Director.

**MINIMUM REMUNERATION**

In the event of loss or inadequacy of profits in any financial year during the tenure of service, payment of salary, perquisites and other allowances shall be governed by provisions of Section II of Part II of Schedule XIII, provided the following will not be included in computation of the ceiling limit.

- Gratuity payable at the rate of half month's salary for each year of completed service.
- Encashment of leave at the end of the tenure.

The Board of Directors recommends the passing of the resolution.

None of the Directors except Mr. Suvobrata Saha shall be deemed to be concerned or interested in the above resolution.

By order of the Board

Place : Kolkata  
Date : 6th August, 2010

(SANJAY AGARWAL)  
CFO & Company Secretary

**Details of Directors seeking Appointment / Re-appointment at the 27<sup>th</sup> Annual General Meeting**

Name of the Director	Mr. R. C. Jha	Mr. B. K. Datta
Date of Birth	18.10.1942	30.11.1945
Date of Appointment	30.1.2008	28.10.2009
Qualification	Bachelor Degree in Metallurgical Engineering	First Class Post Graduate (M.SC) from Kalyani University, West Bengal
Expertise in specific Functional Areas	Has rich experience in the Iron & Steel Industry. Former Managing Director of Rourkela Steel Plant and former Director of Vizag Steel Plant.	Has rich experience in the Banking Sector. Former Executive Director of UCO Bank.
List of Companies In which other Directorship held	Stollberg India Pvt. Ltd Rescon (India) Pvt. Ltd	Aum Capital Market (P) Ltd. Motilal Oswal Trustee Company Ltd. Budge Budge Company Ltd.
Chairman/Member of the Committee of the Board of the Companies in which he is a Director	NIL	NIL
Shareholding in the Company (No. of Equity Shares)	NIL	NIL

**Details of Directors seeking Appointment / Re-appointment at the 27<sup>th</sup> Annual General Meeting**

Name of the Director	Mr. R. P. Sehgal	Mr. Suvobrata Saha
Date of Birth	14.10.1955	4.9.1961
Date of Appointment	01.03.1983	21.08.2006
Qualification	Bachelor of Technology (Hons.), Diploma in Business & Industrial Management and Diploma in Export Marketing	B.Com
Expertise in specific Functional Areas	More than 32 years of experience in Iron & Steel Industry in India and Abroad and in foreign trade. Former Chairman of Engineering Export Promotion Council(ER) and Former President of the Institute of Indian Foundrymen. Currently Executive Committee Member of Indian Foundry Association. Successfully led the Company to win awards each year for its performance and growth. Has also led several delegations Overseas and made Carnation an International Brand name in Castings	Has long experience in managing big Organization and Marketing of casting products all over the World.
List of Companies in which other Directorship held	NIL	NIL
Chairman/Member of the Committee of the Board of the Compa nies in which he is a Director	NIL	NIL
Shareholding in the Company (No. of Equity Shares)	543240	498368

### DIRECTORS' REPORT AND MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Your Directors are pleased to present the Annual Report and the Audited Statement of Accounts for the year ended 31st March, 2010.

#### FINANCIAL PERFORMANCE

	For Year ended 31.03.2010	(Rs. in Lakhs) For Year ended 31.03.2009
Export Sales (Net of Freight)	5260.80	5835.93
Local Sales	107.32	—
Other Income	386.62	331.22
Gross Profit (before Depreciation		
Interest & Finance charges)	349.98	473.53
Interest & Finance charges	187.21	277.96
Depreciation & Amortisation	139.62	125.45
Profit before Tax	23.15	70.12
Provision for Tax		
— Current	3.88	9.43
— Deferred	11.19	4.95
— Fringe Benefit	—	4.60
— Tax for Earlier Year	(49.40)	—
Profit after Tax	57.48	51.14
Profit/(Loss) Brought forward	178.19	151.32
Profit Available for Appropriation	235.67	202.46
Proposed Dividend	20.74	20.74
Dividend Distribution Tax	3.44	3.53
Surplus carried to Balance Sheet	211.49	178.19

#### FINANCIAL REVIEW

The export sale (net of freight) for the year ended 31<sup>st</sup> March, 2010 at Rs 5260.80 lakhs recorded a decline of about 10% compared to Rs 5835.93 lakhs in the previous year. The Gross Operating Profit, during the year, before Depreciation, Interest and Finance Charges at Rs 349.98 lakhs was about 6% of total income compared to the previous year's level of 7.67% at Rs 473.53 lakhs. Interest and finance charges however recorded significant reduction of Rs 90.45 lakhs.

Based on lower income (sales and other income) the profit before tax was very subdued and moderate. There was a significant write back of Rs 49.40 lakhs in the tax provision of earlier years based on the orders of the Commissioner of the Income Tax ( Appeals) in respect of Assessment Years 2000-01, 2001-02 and 2002-03, resulting in the profit after tax recording an increase of Rs 6.34 lakhs over the previous year.

The depressed performance in the year was mainly attributable to the continued recessionary trends in all the overseas markets for the Company's exports belying all expectations of any surge in demand.

## **FINANCE**

Cash generation from operation was at a lower level than the previous year essentially due to increase in sundry debtors on account of longer credit period due to liquidity crunch of the customers and non recovery of claims for refund of input tax credit (VAT). Your Company has however substantially reduced the finished goods inventory by about 45 % as compared to the previous year.

The reduction of Rs 90.45 lakhs in the interest and finance charges resulted from reduced incidence of interest against all the facilities in the Company's borrowing programme during the year, though the year end loan funds recorded increase over the previous year essentially due to the drawdown of the loans towards the end of the financial year.

## **FOREIGN EXCHANGE EARNINGS AND OUTGO**

	<b>For Year ended 31.03.2010</b>	<b>(Rs. in Lakhs) For Year ended 31.03.2009</b>
Earning - Export (F.O.B.)	5260.80	5835.93
<u>Outgoings</u>		
Travelling & Conveyance	15.39	24.86
Certification Charge	1.65	1.80
Commission	46.06	53.66
Foreign Bank Charges	12.78	13.01
Law Charges	—	0.67
Grinding, Painting & Finishing	11.91	17.50
Raw Material & Other Purchase(CIF Value)	130.12	1116.84

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **INDUSTRY STRUCTURE AND DEVELOPMENT**

The economic revival of USA and Europe in the second half of 2009-2010 did not materialize at the predicted level. The only positive aspect was that the markets held and did not slide further. There were the compounding effects from the collapse of Dubai followed by collapse of Greece with Portugal, Spain and Ireland not far behind.

In the Middle-East construction work did slow down in the last quarter but is expected to normalize by the first quarter of 2010-2011. The Indian economy, however, did well to sustain and improve despite the global recession. It is for this that your Directors have initiated developing Indian market for your Company's products and towards this end a beginning was made in 2009-2010 through a token local sale of Rs 107.32 lakhs.

### **OPPORTUNITIES AND THREAT**

With several new projects announced in the Gulf market, the market there is expected to improve in the early part of next fiscal. The USA market is slowly returning to normalcy and the housing starts, though not very optimistic, are definitely showing resurgence of the confidence levels in the market. Europe's growth plans are at varying levels for countries, with Germany ahead of others.

Comparatively the domestic market is holding out better opportunity today for your Company's products and accordingly it is gearing itself to show more pronounced presence in the domestic market. The only constraint to the growth with newer products and market is the availability of skilled labor for which over the years many new foundries have come up without the proportionate growth in availability of trained manpower.

### **RISKS AND CONCERN**

Being predominantly in export, your Company's revenues are always subject to risks of exchange fluctuations. Euro's high volatility during the year in the range of Rs 70 to Rs 54 to one euro is a case in point. Additionally there is a time lag between drop in currency and the customer's action to permit increase in the price. The raw material prices also were very volatile and the last quarter saw the pig iron plants virtually announcing the increase in prices every week. Such sudden changes in the raw material prices are incapable of being factored into otherwise firm prices adversely affecting the performance and profitability.

### **FUTURE OUTLOOK**

In the current fiscal year we expect to strengthen our presence in the US and German markets by addition of newer products and customers. We also have plans to do major business in domestic market. This should bring in additional growth in the turnover and would also help mitigate the impact of recession in the overseas market. The areas of concern are the increase in pig iron, scrap and coke prices and the fall in the value of dollar and euro.

### **SEGMENTWISE PERFORMANCE**

The Management reviewed the disclosure requirement of segment wise reporting and is of the view that since the Company manufactures Castings & M.S. products which are subject to same risk and returns and hence there is one primary segment in terms of AS-17, a separate disclosure on reporting by business segments is not required. The analysis of geographical segments is based on the areas in which the company operates.

### **EXPANSION AND NEW PROJECT**

The sand plant at Uluberia commissioned last year is continuing to run well and has enabled us to get into several intricate castings in the domestic and export market.

The new grey iron plant has been well established and the quality from that unit has been well accepted in the European and US markets.

At the Ductile Plant plans have been worked out for increasing the Melting and Moulding capacities by the addition of a Furnace & Moulding Line which are expected to be taken up in the

early 2010-2011. This would enable the Company to add volumes to the sale of castings both in the domestic and export market from the fourth quarter of 2010-2011.

### **INTERNAL CONTROL SYSTEM AND THEIR ADEQUACY**

Your Company has an adequate system of internal control commensurate with the size and nature of its business which ensures that all transactions are recorded, authorized and reported correctly apart from safeguarding its assets against loss from wastage, unauthorized use and removal. The internal audit process strives to ensure compliance of internal control systems through submission of detailed internal audit reports periodically to the Management and the Audit Committee. The Audit Committee reviews the adequacy of internal controls based on such reports and provides guidelines for improvement of the same.

Your Company's Statutory Auditor's have in their report confirmed the adequacy of the internal control procedures.

### **HUMAN RESOURCES DEVELOPMENT**

Your Company continues to have cordial and harmonious relations with its employees at all levels during the period under review. The operations of the Company across functions have been strengthened through induction of appropriately qualified and experienced manpower. Management of your Company strongly focuses on the performance of the managers. The Board acknowledges its thanks to all the shop floor personnel and other employees for making significant contribution to your Company.

The Company has conducted several training programs for its employees to improve the working. Besides this the training programs have been conducted for improving safety and health standards of the employees.

### **DIVIDEND**

Yours Directors are pleased to recommend a Dividend of 6% (Re. 0.60 per Equity Share of Rs. 10 each) for the year 2009-10, the same as the previous year. The dividend together with the dividend tax will entail a cash outlay of Rs. 24.18 lakhs (previous year Rs. 24.27 lakhs) The Dividend will be paid to all those share holders whose names appear in the Register of Members as on 24/9/2010.

### **POLLUTION CONTROL MEASURES**

The Pollution control measures installed in the units of the Company are in full operation as required under the statutes. The Company has taken immediate steps to rectify the Pollution Control devices wherever minor variations were noticed by the Management during the year under review.

### **DIRECTORS**

Mr. R. P. Sehgal was appointed as the Managing Director of the Company for a period of five years with effect from 1.12.2009. The service agreement with Mr. R.P. Sehgal stands determined by mutual consent with effect from the close of business on 31.8.2010. The Board of Directors at its meeting held on 6<sup>th</sup> August, 2010 approved the reappointment of Mr. Sehgal for a further period of five years effective from 1.9.2010. The members are requested to consider the re-appointment of Mr. Sehgal at the ensuing AGM.

Mr. S. Saha was appointed as the Jt. Managing Director of the Company for a period of five years with effect from 21.08.2006. The service agreement with Mr. S. Saha stands determined by mutual consent with effect from the close of business on 31.8.2010. The Board of Directors at its meeting held on 6<sup>th</sup> August, 2010 approved the reappointment of Mr. Saha for a further period of five years effective from 1.9.2010. The members are requested to consider the re-appointment of Mr. Saha at the ensuing AGM.

Mr. B.K. Datta was appointed as Additional Non Executive Director of the Company with effect from 28.10.2009 and holds office upto the date of this Annual General Meeting. The Company has received notice proposing his candidature for the office of the Directorship of the Company.

In terms of section 256 of the Companies Act, 1956 and Articles of Association of the Company, Mr. R.C. Jha who retires by rotation and being eligible offers himself for re-appointment.

Appropriate resolutions seeking your approval to the appointments of Mr. Sehgal, Mr. Saha, Mr. Datta and Mr. Jha are appearing in the notice covering the 27th AGM of the Company.

The code of conduct applicable to the Board and employees of the Company has been adopted by the Board and all Directors and senior management of the Company have confirmed compliance with the Code of Conduct.

### **STATUTORY AUDITORS**

The Auditors of the Company M/s. Jain & Bagaria, Chartered Accountants, retire at the ensuing Annual General Meeting of the Company and have given their consent for re-appointment. The Company has also received their Certificate pursuant to Section 224(1B) of the Companies Act, 1956.

### **CONSERVATION OF ENERGY, TECHNOLOGY ABSORBTION AND RESEARCH AND DEVELOPMENT**

The particulars in respect of energy conservation as per Companies (Disclosure of Particulars) Rules, 1988 is not required to be provided by your Company as it is not the industry included in the Schedule to the Rules. The Company has however taken measures for conservation of energy. The Company has installed a Divided Blast Cupola in the units at Liluah which has significantly reduced the coke consumption. Further a new Cupola has been installed at the Uluberia unit of the Company which will significantly reduce the energy consumption by the above unit. The production was carried using the previous technology. The company has a quality cell which ensures the quality of the product before being sent to customers.

### **PARTICULARS OF EMPLOYEES**

The information required under section 217(2A) of the Companies Act ,1956 read with Companies (Particulars of Employees) Rules, 1975 is not applicable as none of the employees is drawing salary more than the limit prescribed under the aforesaid Rule.

### **PUBLIC DEPOSITS**

The Company has not taken any Public Deposits during the year.

## **STOCK EXCHANGE**

The Equity Shares of the Company are listed with The Calcutta Stock Exchange Association Limited and Bombay Stock Exchange Limited.

## **CORPORATE GOVERNANCE**

Your Company attaches considerable significance to good Corporate Governance. Pursuant to clause 49 of the Listing Agreement with the Stock Exchange, a compliance report on Corporate Governance and Management Discussion and Analysis Report form part of the Annual Report alongwith the Auditor's Certificate on its compliance.

## **DIRECTORS RESPONSIBILITY STATEMENT**

Your Directors confirm that in preparation of the Annual Accounts the applicable accounting standards have been followed along with proper explanation relating to material departures. The Directors have selected such accounting policies and applies them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as on 31.03.2010 and of the Profit and Loss of the Company for that period. The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities. The Directors have prepared the accounts on a going concern basis.

## **ACKNOWLEDGEMENT**

Your Directors wish to place on record their appreciation and thanks to the Banks, Financial Institutions, various Government Authorities for their valuable assistance and co-operation and for the trust and confidence reposed in the Company by the Overseas Customers and Shareholders.

Your Directors also thank the Executives, Staff and Workforce of the Company for their efficient and dedicated services.

On Behalf of the Board

**R.P. Sehgal**  
Managing Director

Place: Kolkata  
Dated: 6<sup>th</sup> August, 2010

**S. Saha**  
Jt. Managing Director

## CORPORATE GOVERNANCE REPORT

In accordance with Clause 49 of the Listing Agreement entered into with the Stock Exchanges in India, the Company sets out its philosophy and the process followed in compliance as under.

### 1. COMPANY PHILOSOPHY ON CODE OF GOVERNANCE

Carnation Industries Limited believes in sound Corporate Governance and continuously endeavors to improve focus on it by increasing transparency and accountability to its shareholders in particular and other stake holders in general. Your Company believes in professionalism in management and sound business ethics. With these objectives in view timely and accurate disclosure of information regarding the financial situation, performance, ownership and governance of the Company, is an integral part of Corporate Governance. Your Company is also committed to establish itself as a distinguished brand.

### 2. BOARD OF DIRECTORS

#### Composition of Board

The Company follows the policy to have an appropriate mix of Executive and Independent Non-Executive Directors to impart the right balance to the Board and bring independent judgment in its deliberations and decisions. As on 31.3.2010 the Board consisted of three Independent Non-Executive Directors and three Executive Directors. The Chairman is an Independent Non-Executive Director. During the year ended 31.03.2010, the Company had five Board Meetings which were held on 29.04.2009, 30.07.2009, 5.8.2009, 28.10.2009 and 29.1.2010. The Composition of the Board is in conformity with clause 49 of the listing agreement entered into with the stock exchanges.

None of the Directors on the Board is member in more than ten committees and does not act as Chairman of more than five committees across all Companies in which they are the Directors.

The agenda papers, alongwith explanatory statements, were circulated to the Directors in advance of these meetings. All relevant information, as per clause 49 of the Listing Agreement, was placed before the Board from time to time.

**Attendance of Directors at the Board Meetings, Last Annual General Meeting, Number of other Directorships and Chairmanship/ other Board Committees Memberships held as on 31.3.2010 are as under :-**

Name	Category of Directorship	Attendance Particulars		No. of Directorship & Committee Member Chairmanship		
		Board Meeting	Last AGM	Other Directorships *	Committee Membership **	Committee Chairmanship **
Mr. Shekhar Chatterjee	NED & C	5	Yes	-	-	1
Mr. Ravindra Prakash Sehgal	MD	5	Yes	-	1	-
Mr. Suvobrata Saha	JMD	5	Yes	-	-	-
Mr. Arun Kumar Bose	WD	5	Yes	-	-	-
Mr. R. C. Jha	NED	5	Yes	-	1	1
Mr. B. K. Datta***	NED	1	N.A.	2	1	-

\*The Directorships held by the Directors as mentioned above, do not include Alternate Directorships and Directorships in Foreign Companies, Companies Registered under section 25 of the Companies Act, 1956 and Private limited Companies.

\*\*Only Audit Committee and Shareholders' Grievance Committee.

\*\*\*appointed as Additional Director w.e.f. 28.10.2009.

**NED&C - Non-Executive Director & Chairman**

**MD - Managing Director**

**JMD - Joint Managing Director**

**WD – Wholetime Director**

**NED – Non Executive Director**

**Details of Remuneration paid to Directors**

The remuneration payable to Directors is determined at the Board Meeting. The Company does not have an incentive plan which is linked to performance. The Company does not have stock option scheme. The remuneration paid to Directors during the year are:

Name	Directorship	Salary	Perquisites & Allowances	Total
Ravindra Prakash Sehgal	Managing Director	300000	187315	487315
Suvobrata Saha	Joint Managing Director	300000	156465	456465
Arun Kumar Bose	Whole time Director	246000	42000	288000

The Company pays Rs. 10000/- as sitting fees for attending the Board Meetings, Rs.3000/- for attending Audit Committee & Remuneration Committee Meetings and Rs.1000/- for attending Shareholders'/ Investors' Grievance Committee Meetings to both Executive and Non- Executive Directors.

**Details of the Shares held by the Non Executive Directors of the Company as on March 31, 2010 are as follows:**

Name	No of shares held
Mr. Shekhar Chatterjee	100
Mr. R. C. Jha	Nil
Mr. B. K. Datta	Nil

**3. COMMITTEE OF THE BOARD**

**A) AUDIT COMMITTEE**

As a measure of good Corporate Governance and to provide assistance to the Board in fulfilling its responsibilities, an Audit Committee has been constituted as a sub-committee to the Board.

The powers and terms of reference of the Audit Committee are based on Clause 49 of the listing agreement and Section 292A of the Companies Act, 1956. The terms of reference/ powers of the Audit Committee are as under.

**i) Powers of the Audit Committee**

1. To investigate any activity within its terms of reference.
2. To seek information from any employee.
3. To obtain outside legal or other independent advice.
4. To secure the attendance of outsiders with relevant experience, when considered necessary.

**ii) The role of the Audit Committee includes :**

1. Oversight of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statements are correct, sufficient and credible.
2. Recommending to the Board, the appointment, reappointment and, if required, the replacement or removal of the Statutory Auditor and the fixation of fees.
3. Approval of payments of fees for any other services rendered by the Statutory Auditor.
4. Reviewing, with the management, the annual financial statements before submission to the Board, focusing primarily on :
  - Matters required to be included in the Directors' Responsibility Statement to be included in the Board's report in terms of clause (2AA) of section 217 of the Companies Act, 1956.
  - Any changes, in accounting policies and practices and reasons for the same.
  - The going concern assumption.
  - Compliance with accounting standards.
  - Major accounting entries involving estimates based on the exercise of judgment by the management.
  - Significant adjustments made in the financial statements arising out of audit findings.
  - Compliance with listing and other legal requirements relating to financial statements.
  - Disclosure of any related party transactions.
  - Qualifications in draft audit report.
5. Reviewing with the management, the quarterly financial statements before submission to the Board for approval.
6. Reviewing with the management, performance of statutory and internal auditors, and adequacy of the internal control systems.
7. Reviewing the adequacy of internal audit function, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.

8. Discussion with internal auditors any significant findings and follow up thereon.
9. Reviewing the findings of any internal investigations by the internal auditors and the executive management's response on matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.
10. Discussion with statutory auditor before the audit commences, about the nature and scope of audit as well as post audit discussion to ascertain any area of concern.
11. To look into the reasons for substantial defaults, if any, in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.
12. Reviewing the Company's financial and risk management policies.
13. Considering such other matters as may be required by the Board.
14. Review of uses/application of funds raised through an issue (public issue, rights issue, preferential issue, etc.).
15. To review the following information:
  - Management discussion and analysis of financial condition and results of operations;
  - Statement of significant related party transactions submitted by the management;
  - Internal audit reports relating to internal control weaknesses; and
  - The appointment, removal and terms of remuneration of the Chief Internal Auditor/ appointment of external firm of Chartered Accountants as internal auditor shall be subject to review by the Audit Committee.

### iii) Composition of Audit Committee

The Audit Committee comprises of three non-executive independent Directors, i.e. Mr. Shekhar Chatterjee, Mr. R. C. Jha and Mr. B. K. Datta.

During the financial year ended 31<sup>st</sup> March 2010, five Audit Committee meetings were held on 29.4.2009, 30.7.2009, 5.8.2009, 28.10.2009 and 25.1.2010. The gap between any two consecutive meetings did not exceed four months. The attendance of the members at these meetings was as follows:

Name of the Committee Member	No. of meetings held	No. of meetings attended
Mr. Shekhar Chatterjee	5	5
Mr. R. C. Jha	5	5
Mr. Suvobrata Saha*	5	4
Mr. B. K. Datta**	5	1

\*upto 28/10/2009

\*\*w.e.f. 28/10/2009

### B) SHAREHOLDERS'/INVESTORS' GRIEVANCE COMMITTEE

The Committee consists of Mr. R.C. Jha and Mr. R. P. Sehgal. The Committee has been constituted to oversee and redress the shareholders complaints and to oversee the performance of the Registrar and the Transfer Agents. The Company has authorised Mr. Sanjay Agarwal, CFO & Company Secretary, to approve the Share Transfers and also appointed him as the Compliance Officer of the Company. The Company has received only one complaint from a shareholder of the Company during the year 2009-10 which was duly addressed. The Company confirms that there are no shareholders' complaints lying pending as on 31.3.2010.

### C) REMUNERATION COMMITTEE

The Remuneration Committee of the Board constituted on 28.10.2009 comprises of three Independent Directors, namely, Mr. Shekhar Chatterjee, Mr. R. C. Jha and Mr. B. K. Datta. The Committee is responsible for recommending to the Board remuneration package of Managing Director, Jt. Managing Director and the Wholetime Director including their annual increments, variable compensation pay etc., after reviewing their performance.

## 4. GENERAL BODY MEETINGS

The last three Annual General Meetings of the Company were held as under:

Financial Year	Date of AGM	Venue	Time
2008-09	04.09.09	Bally Rabindra Bhavan 384, G.T. Road, Bally Howrah-711 201	10.00A.M.
2007-08	27.08.08	Sarat Sadan 5, M.G.Road Howrah – 711 101	10.00 A.M.
2006-07	03.08.07	Sarat Sadan 5, M.G.Road Howrah – 711 101	10.00 A.M.

### Note:

No postal Ballots were used/ invited for voting at these meetings in respect of special resolution. At the forthcoming Annual General Meeting there is no item in the Agenda which requires approval by postal ballot. The Company shall comply with the requirement of postal ballot as and when required.

## 5. DISCLOSURES

- Disclosure on materially significant related party transactions, i.e., transactions of the Company of material nature, with its Promoters, the Directors and the Management, their Subsidiaries or Relatives etc., that may have potential conflict with the interests of the Company at large.**

None of the transactions with any of the related parties were in conflict with the interest of the Company.

**b) Details of non-compliance by the Company, penalties strictures imposed on the Company by Stock Exchanges or SEBI, or any other statutory authority, on any matter related to capital market during the last three year.**

There has been no instance of non-compliance by the Company on any matter related to capital markets during the last three years and hence no penalties or strictures have been imposed on the Company by the Stock Exchanges or SEBI or any other statutory authority.

**6. MEANS OF COMMUNICATION**

The Quarterly, Half Yearly and the Annual results of the Company are communicated to all the Stock Exchanges where the Shares of the Company are listed as soon as the same are approved by the Board of Directors of the Company. Further the results of the Company are published in one leading prominent business daily in English and a regional newspaper published in Bengali.

The Management discussion and analysis report forms part of the Directors' Report.

**7. GENERAL SHAREHOLDER INFORMATION**

**i) Annual General Meeting**

**Date & Time** : 24.9.2010 at 10.00 A.M.

**Venue** : SARAT SADAN  
5, M.G. Road  
Howrah – 711 101

**ii) Financial Calendar 2010-2011(Tentative)**

Financial Reporting for  
quarter ended 30.06.2010 : 1<sup>st</sup>/2<sup>nd</sup> week of August, 2010

Financial Reporting for  
quarter ended 30.09.2010 : 1<sup>st</sup>/2<sup>nd</sup> week of November, 2010

Financial Reporting for  
quarter ended 31.12.2010 : 1<sup>st</sup>/2<sup>nd</sup> week of February, 2011

Financial Reporting for  
quarter ended 31.03.2011 : 1<sup>st</sup>/2<sup>nd</sup> week of May, 2011

**iii) Date of Book closure**

The Share Transfer Books and Register of Members of the Company will remain closed from September 20, 2010 to September 24, 2010 (both days inclusive).

- iv) **Dividend Payment Date** : **On or after September 25, 2010**
- v) **Listing of Stock Exchanges** : Bombay Stock Exchange Limited  
The Calcutta Stock Exchange  
Association Ltd.

The company has paid the listing fees for the financial year 2010-11 to the above Stock Exchanges.

**vi) Stock Codes of Equity Shares of the Company are as under:**

- Bombay Stock Exchange Limited : Scrip Code No 530609
- Calcutta Stock Exchange Association Ltd. : Scrip Code No 13067
- Corporate Identity(CIN) : L27209WB1983PLC035920
- Demat ISIN No: INE 081B01010

**vii) Market Price Data & Comparison with BSE Sensex**

	Stock Exchange		BSE Sensex	
	Mumbai		High	Low
	High	Low		
April'09	11.20	8.20	11492.10	9546.29
May'09	12.50	9.35	14930.54	11621.30
June'09	14.68	10.63	15600.30	14016.95
July'09	16.19	11.55	15732.81	13219.99
August'09	17.75	14.30	16002.46	14684.45
September'09	17.70	13.80	17142.52	15356.72
October'09	17.45	12.65	17493.17	15805.20
November'09	18.00	13.00	17290.48	15330.56
December'09	25.20	13.00	17530.94	16577.78
January'10	28.00	21.85	17790.33	15982.08
February'10	23.85	19.75	16669.25	15651.99
March'10	22.90	15.05	17793.01	16438.45

- viii) **Registrar and Transfer Agents** : R&D Infotech Pvt. Ltd.  
22/4, Nakuleshwar Bhattacharjee Lane  
Kolkata – 700 026.

**ix) Share Transfer System:**

Share transfers are registered and returned within the period of 30 days from the date of lodgment if the documents are complete in all respects. As per the directives issued by SEBI, it is compulsory to trade in the Company's equity shares in dematerialized form. The Company offers the facility of transfer cum dematerialization to its shareholders.

**x) Distribution of Shareholding:**

No. of Shares	No. of Share Holders	% of shareholders	Total No. of shares	% of Total holding
1-500	1571	83.03	298496	8.63
501-1000	156	8.24	127909	3.70
1001-2000	67	3.54	104552	3.02
2001-3000	23	1.22	58769	1.70
3001-4000	16	0.85	56566	1.64
4001-5000	14	0.74	65134	1.88
5001-10000	13	0.69	99322	2.87
10001-50000	19	1.00	423685	12.26
50001-100000	3	0.16	220212	6.38
100001 and above	10	0.53	2002515	57.92
	1892	100.00	3457160	100.00

**xi) Shareholding Pattern as on 31.3.2010**

(Holding %)

Promoter & Promoter Group	41.43
Bodies Corporate	3.70
NRI's	6.39
Mutual Funds & UTI	1.40
Public Shareholding	47.08
	100.00

**xii) Dematerialization of Shares and Liquidity**

Shares of the company equivalent to 53% of the total Equity Share Capital has been dematerialized as on 31.03.2010. The trading in the shares of your Company is in compulsory demat form as per the notification issued by Securities and Exchange Board of India.

**xiii) Outstanding GDR/ADR/Warrants or any convertible instrument, conversion date and likely impact on equity**

There is no outstanding GDR/ADR/Warrant or convertible instrument as on 31.03.2010.

**xiv) Plant Location**

- a) Carnation Industries Ltd.  
10, Station Road, Liluah  
Howrah.
- b) Carnation Industries Ltd.  
23, 'O' Road, Belgachia  
Howrah.
- c) Carnation Industries Ltd.  
Mauza Rauta, Kajjuri  
Uluberia, Howrah.

**xv) Address for Correspondence**  
**For Shares held in Physical form**  
R&D Infotech Pvt. Ltd.  
22/4, Nakuleshwar Bhattacharjee Lane  
Kolkata- 700 026.

**For Shares held in Demat Form**  
To the Depository Participant

### 8. NON-MANDATORY REQUIREMENT

**i) Chairman of the Board**

The Chairman of the Company is entitled to reimbursement of expenses incurred for maintenance of Chairman's office.

**ii) Remuneration Committee**

Details already given under the caption "Remuneration Committee" in an earlier part of the report.

**iii) Shareholder Rights**

The company publishes the quarterly, half-yearly and annual results in the newspaper.

**iv) Postal Ballot**

The company shall comply with the requirement of postal ballot as and when it is required.

### 9. OTHER INFORMATION

**i) CEO / CFO certification:**

Pursuant to the provisions of Sub-clause V of the revised Clause 49 of the Listing Agreement with the Stock Exchanges, the Managing Director (CEO) and the CFO have issued a certificate to the Board of Directors, for the financial year ended 31<sup>st</sup> March, 2010, at the Board Meeting of the Company held on 6<sup>th</sup> August, 2010.

**ii) Code of Conduct**

The company has laid down a code of conduct for all the Board Members and Senior Management Personnel of the Company.

### 10. DECLARATION BY THE MANAGING DIRECTOR UNDER REVISED CLAUSE 49 OF THE LISTING AGREEMENT REGARDING COMPLIANCE WITH CODE OF CONDUCT

In accordance with Clause 49 (I) (D) (ii) of the Listing Agreement with the Stock Exchanges, I hereby confirm that, all the Board Members and Senior Management Personnel of the Company have affirmed compliance with the Code of Conduct for the year ended 31<sup>st</sup> March, 2010.

For Carnation Industries Ltd.

Place : Kolkata  
Date : 6th August, 2010

**R.P.Sehgal**  
Managing Director

**CERTIFICATE**

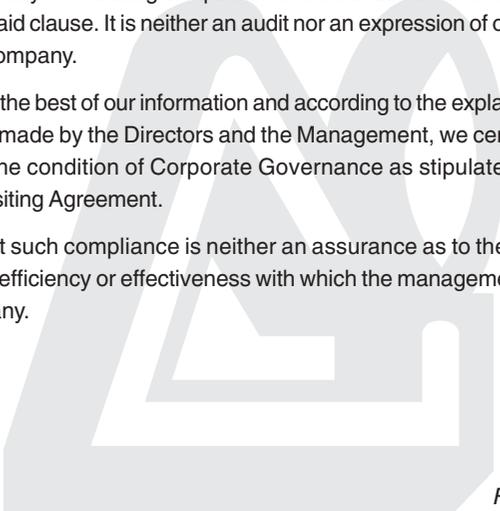
**To the Members of  
CARNATION INDUSTRIES LIMITED**

We have examined the compliance of conditons of Corporate Governance by the Carnation Industries Limited, for the year ended on 31st March, 2010 as stipulated in Clause 49 of the Listing Agreement of the said Company with Stock Exchange.

The Compliance of condition of Corporate Governance is the responsibility of the management. Our examination has been limited to a review of the procedures and implementations thereof adopted by the Company for ensuring compliance of the conditions of the Corporate Governance as stipulated in the said clause. 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 explanation given to us and the representations made by the Directors and the Management, we certify that the Company has complied with the condition of Corporate Governance as stipulated in Clause 49 of the above mentioned Lisiting Agreement.

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 Jain & Bagaria  
Chartered Accountants*

27/8A, Waterloo Street  
Kolkata-700 069  
Dated : 6th August, 2010

**(J. K. Jain)**  
*Partner*  
Membership No. 050019  
FRN: 310045E

**JAIN & BAGARIA  
CHARTERED ACCOUNTANTS**

**REPORT OF THE AUDITORS TO THE MEMBERS  
OF CARNATION INDUSTRIES LIMITED**

We have audited the attached Balance Sheet of CARNATION INDUSTRIES LIMITED as at 31<sup>st</sup> March 2010 and also the Profit & Loss Account & Cash Flow Statement for the year ended on that date annexed thereto. 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.

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, evidences 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.

As required by the Companies (Auditors Report) order, 2003 and on the basis of such examination of the books and records of the Company, as we considered appropriate and on the information and explanations given to us during the course of our audit, we report that in our opinion :

1. The Company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets. As informed to us all fixed assets (except lying with processors/suppliers) have been physically verified by the management at reasonable intervals and no material discrepancies were noticed on such verification. There was no disposal of fixed assets during the year.
2. The management has conducted physical verification of inventory at the end of the year (except stock lying with outside parties). The procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business. The company is maintaining proper records of inventory and no material discrepancies were noticed on such physical verification.
3. The Company has neither granted nor taken any loan, secured or unsecured to/from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act 1956.
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 and fixed assets and for the sale of goods. Further, on the basis of our examination of the books and records of the Company, carried out in accordance with the generally accepted auditing practices in India, we have neither come across nor have we been informed of any instance of a continuing failure to correct major weakness in the aforesaid internal control procedures.
5. In respect of contracts or arrangements referred to in Section 301 of the Companies Act, 1956, to the best of our knowledge and belief and according to the information and explanations given to us:

- (a) The particulars of contracts or arrangements referred to in Section 301 that needed to be entered in the Register, maintained under the said Section has been so entered.
- (b) Where each of such transactions is in excess of Rs. 5 lacs in respect of any party, the transactions have been made at prices which are prima facie 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 company has an internal audit system commensurate with the size and nature of its business.
8. To the best of our knowledge and as explained, the Central Government has not prescribed maintenance of cost records under clause (d) of sub-section (1) of section 209 of the Companies Act, 1956 for the products of the Company.
9. According to the records of the Company, the Company is generally regular in depositing undisputed statutory dues including Provident Fund, Investors Education and Protection Fund, Employees' State Insurance, Income tax, Sales-tax, Wealth tax, Service tax, Custom Duty, Excise duty, cess and other statutory dues applicable to it with the appropriate authorities. According to the information and explanations given to us, no undisputed amounts payable in respect of income tax, wealth tax, sales tax, service tax, custom duty and excise duty were outstanding at the year end for a period of more than six months from the date they became payable. Further according to the records of the Company, there are no dues outstanding of sales tax, income tax, custom duties, wealth tax, service tax, excise duty, cess on account of any dispute other than the following:

<b>Name of the Status</b>	<b>Nature of Dues</b>	<b>Amount (Rs.)</b>	<b>Forum Where Dispute is Pending</b>
Income Tax Act, 1961	Income Tax penalty for the Assessment Year 2003-04	12.75 Lacs	Before the Commissioner of Income Tax (Appeals)
West Bengal Value Added Tax Act, 2003	Value Added Tax for the Financial Year 2005-06	13.17 Lacs	Before the Jt. Commissioner of Sales Tax
Central Excise Act, 1944	Duty and Penalty	136.56 lacs	Before the Commissioner (Appeal – I & II) of Central Excise

10. The Company has no accumulated losses at the end of the financial year and it has not incurred any cash losses in the current and immediately preceding financial year.
11. Based on our audit procedures and on the information and explanations given by the management, we are of the opinion that the company has not defaulted in repayment of dues to bank.
12. According to the information and explanations given to us and based on the documents and records produced to us, the company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

13. In our opinion and according to the information and explanations given to us, the nature of activities of the Company does not attract any special statute applicable to chit fund and nidhi / mutual benefit fund /societies.
14. In respect of dealing/trading in securities and other investments, in our opinion and according to the information and explanations given to us, proper records have been maintained of the transactions and contracts and timely entries have been made therein. The shares, securities and other investments have been held by the company, in its own name.
15. According to the information and explanations given to us, the company has not given any guarantee for loans taken by others, from Bank or financial institution.
16. The term loans were applied for the purpose for which the loans were obtained.
17. We have been informed by the management that the fund raised on short term basis have not been used for long-term investment.
18. The Company has not made any preferential allotment of shares to parties or companies covered in the register maintained under section 301 of the Companies Act 1956.
19. The Company has not raised any money through a public issue during the year.
20. Based upon the procedures performed by us for expressing our opinion on these financial statements and information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.
21. Other provisions of the aforesaid order are not applicable to the Company for the period under review.

Further to the 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 purposes of our audit.
- ii) In our opinion, proper books of account 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 & 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 & Loss Account and Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in Sub-Section 3 (C) of Section 211 of the Companies Act, 1956.
- v) On the basis of written representations received from the Directors, as on 31<sup>st</sup> March, 2010 and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31<sup>st</sup> March 2010 from being appointed as a Director 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 our information and according to the explanations given to us, the said accounts, read together with Schedules and other Notes thereon and statements on significant accounting policies 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 the case of the Balance Sheet, of the State of Affairs of the Company as at 31<sup>st</sup> March, 2010.
- b) In the case of the Profit & Loss Account of the Profit for the year ended on that date; and
- c) In the Case of the Cash Flow Statement, of the Cash Flows for the year ended on that date.

27/8A, Waterloo Street  
Kolkata – 700 069  
Dated : 6<sup>th</sup> August, 2010

For **JAIN & BAGARIA**  
*Chartered Accountants*

**J. K. JAIN**  
*Partner*

Membership No. 050019  
FRN: 310045E



BALANCE SHEET AS AT 31ST MARCH, 2010

(Rs. in Lacs)

	Schedule	As at 31. 03. 2010	As at 31. 03. 2009
<b>I. SOURCES OF FUNDS</b>			
1) <b>Shareholders' Funds</b>			
a) Share Capital	1	345.72	345.72
b) Reserves & Surplus	2	1086.76	1053.46
2) <b>Loan Funds</b>			
a) Secured Loans	3	2529.72	2410.61
3) <b>Deferred Tax Liability</b>		92.85	81.66
<b>TOTAL</b>		<u>4055.05</u>	<u>3891.45</u>
<b>II. APPLICATION OF FUNDS</b>			
1) <b>Fixed Assets</b>	4		
a) Gross Block		2178.61	1972.57
b) Less : Depreciation		954.28	815.83
c) Net Block		1224.33	1156.74
2) <b>Investments</b>	5	0.22	0.22
3) <b>Current Assets, Loans and Advances</b>			
a) Inventories	6	866.83	1340.00
b) Sundry Debtors	7	1691.08	982.69
c) Cash & Bank Balances	8	148.14	191.41
d) Other Current Assets	9	981.80	927.16
e) Loans & Advances	10	484.23	555.48
		<u>4172.08</u>	<u>3996.74</u>
Less: <b>Current Liabilities and Provisions</b>	11		
a) Current Liabilities		926.29	772.34
b) Provisions		416.25	492.03
		<u>1342.54</u>	<u>1264.37</u>
Net Current Assets		2829.54	2732.37
4) <b>Miscellaneous Expenditure</b>	12	0.96	2.12
(To the extent not written off or adjusted)			
<b>TOTAL</b>		<u>4055.05</u>	<u>3891.45</u>
<b>NOTES ON ACCOUNTS</b>	19		

As per our report annexed of even date  
For **JAIN & BAGARIA**  
Chartered Accountants

**J.K.Jain**  
Partner

27/8A, Waterloo Street  
Kolkata - 700 069  
Dated : 6th August, 2010

On behalf of the Board

**R.P.SEHGAL**  
(Managing Director)

**Sanjay Agarwal**  
(CFO & Company Secretary)

**Suvabrata Saha**  
(Jt. Managing Director)

**PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2010**

(Rs. in lacs)

	Schedule	2009-2010		2008-2009	
<b>I. INCOME</b>					
Sales	13	5368.12		5835.93	
Other Income	14	<u>386.62</u>	5754.74	<u>331.22</u>	6167.15
<b>II. EXPENDITURE</b>					
a) Accretion to stock of finished Goods					
Opening Stock		978.90		933.60	
Less : Closing Stock		<u>532.73</u>		<u>978.90</u>	
		446.17		(45.30)	
b) Purchase of finished and semi finished Goods		165.72		140.83	
c) Manufacturing Expenses	15	3855.22		4632.49	
d) Administrative & Selling Expenses	16	472.49		569.13	
e) Payments and benefits to employees	17	<u>406.24</u>	5345.84	<u>336.09</u>	5633.24
<b>III. GROSS OPERATING PROFIT</b>			408.90		533.91
Interest & Finance Charges	18		246.13		336.58
<b>IV. PROFIT BEFORE DEPRECIATION AMORTISATION &amp; TAXATION ETC.</b>			162.77		197.33
Depreciation / Amortisation			138.46		125.45
Amortisation of Miscellaneous Expenditure			1.16		1.76
<b>V. PROFIT / (LOSS) BEFORE TAXATION</b>			23.15		70.12
<b>Provision For Tax</b>					
Current Tax for the year		3.88		9.43	
Fringe Benefit Tax		-		4.60	
Deferred Tax		11.19		4.95	
Tax for Earlier Year		<u>(49.40)</u>	(34.33)	-	18.98
<b>VI. PROFIT / (LOSS) AFTER TAX</b>			57.48		51.14
Surplus brought forward from previous year			178.19		151.32
Available Surplus			235.67		202.46
Proposed Dividend			20.74		20.74
Dividend Distribution Tax thereon			3.44		3.53
<b>SURPLUS CARRIED TO BALANCE SHEET</b>			<u>211.49</u>		<u>178.19</u>
Basic & diluted earning per Equity Share of Rs.10/- each			1.66		1.48
<b>NOTES ON ACCOUNTS</b>	19				

As per our report annexed of even date

For **JAIN & BAGARIA**  
Chartered Accountants

On behalf of the Board

**J.K.Jain**  
Partner

**R.P.SEHGAL**  
(Managing Director)

27/8A, Waterloo Street  
Kolkata - 700 069  
Dated : 6th August, 2010

**Sanjay Agarwal**  
(CFO & Company Secretary)

**Suvobrata Saha**  
(Jt. Managing Director)

**SCHEDULES FORMING PART OF THE ACCOUNTS**

	<b>As at 31. 03. 2010</b>	<b>(Rs. in Lacs) As at 31. 03. 2009</b>
<b>1. SHARE CAPITAL</b>		
<b>Authorised</b>		
7000000 Equity shares of Rs.10/- each	<u>700.00</u>	<u>700.00</u>
<b>Issued, Subscribed and Paid-Up</b>		
3457160 Equity Shares of Rs. 10/ each fully paid up	345.72	345.72
(Of the above shares 945900 shares were allotted as fully paid up by way of bonus shares by capitalisation of General Reserves created out of Profit.)	<u>345.72</u>	<u>345.72</u>
<b>2. RESERVES &amp; SURPLUS</b>		
<b>Share Premium A/c</b>		
As per last Balance Sheet	306.30	306.30
<b>General Reserve</b>		
As per last Balance Sheet	493.24	493.24
<b>Capital Reserve</b>		
As per Last Balance Sheet	48.84	48.84
<b>Export Business Reserve</b>		
As per Last Balance Sheet	26.89	26.89
<b>Profit &amp; Loss Account</b>		
Balance (Cr.) as per Profit & Loss A/c	<u>211.49</u>	<u>178.19</u>
	<u>1086.76</u>	<u>1053.46</u>
<b>3. SECURED LOANS</b>		
<b>From Scheduled Banks</b>		
(Secured against purchase of bills, hypothecation of stock in trade, Book Debts, and receivables, Term Deposits, Equitable Mortgage of Land / Buildings owned by the Company as well as by some Directors, charge on the existing and future plant & machinery owned by the Company and personal guarantee of some Directors and guarantee by ECGC on pari-passu basis amongst the Bankers)		
Packing Credit	962.07	1108.24
Bills Purchase Account	1159.20	762.79
Standby Line of Credit	275.00	355.00
Term Loan	131.06	180.32
Interest Accrued but not due on above	<u>2.16</u>	<u>2.02</u>
	<u>2529.49</u>	<u>2408.37</u>
<b>From ICICI Bank Ltd</b>		
Car Loan	<u>0.23</u>	<u>2.24</u>
	<u>2529.72</u>	<u>2410.61</u>

4. FIXED ASSETS (AT COST)

(Rs. in lacs)

DESCRIPTION	GROSS BLOCK			DEPRECIATION / AMORTISATION			NET BLOCK			
	ASAT 01.04.2009	ADDITIONS DURING THE YEAR	SALES/ ADJUST- MENTS	ASAT 31.03.2010	UPTO 31.03.2009	PROVIDED DURING THE YEAR	SALES/ ADJUST- MENTS	UPTO 31.03.2010	ASAT 31.03.2009	ASAT 31.03.2010
1) LAND	140.31	20.14	—	160.45	—	—	—	—	160.45	140.31
2) OFFICE PREMISES	22.15	9.94	—	32.09	8.03	0.76	—	8.79	23.30	14.12
3) TYPE WRITERS	0.48	—	—	0.48	0.42	0.01	—	0.43	0.05	0.06
4) FURNITURE & FIXTURES	28.64	1.20	—	29.84	18.25	1.77	—	20.02	9.82	10.39
5) AIR CONDITIONERS	5.67	2.43	—	8.10	2.93	0.48	—	3.41	4.69	2.74
6) OFFICE EQUIPMENTS	10.66	2.66	—	13.32	5.69	0.75	—	6.44	6.88	4.97
7) MOTOR CAR	28.03	—	—	28.03	18.46	1.95	—	20.41	7.62	9.57
8) MOTOR CYCLE	1.64	0.51	—	2.15	1.18	0.08	—	1.26	0.89	0.46
9) COMPUTERS P.C	37.08	18.83	—	55.91	20.24	10.60	—	30.84	25.07	16.84
10) FACTORY SHEDS	435.71	144.47	—	580.18	172.83	25.89	—	198.72	381.46	262.88
11) PLANT & MACHINERIES	762.30	58.55	—	820.85	369.43	55.73	—	425.16	395.69	392.87
12) PATTERN & DICES **	239.37	41.35	—	280.72	143.03	24.86	—	167.89	112.83	96.34
13) TOOLS & IMPLEMENTS	15.50	1.92	—	17.42	4.86	0.76	—	5.62	11.80	10.64
14) ELECTRIC INSTALLATION	68.99	5.42	—	74.41	35.81	3.41	—	39.22	35.19	33.18
15) TELEX (ELECTRONICS)	0.23	—	—	0.23	0.23	—	—	0.23	—	—
16) TUBEWELL	6.97	—	—	6.97	2.81	0.27	—	3.08	—	4.16
17) POLLUTION CONTROL EQUIPMENT	—	11.07	—	11.07	—	0.48	—	0.48	10.59	—
18) INTANGIBLE ASSETS										
a) ERP SOFTWARE	10.50	18.46	—	28.96	10.50	6.15	—	16.65	12.31	—
b) LICENCE	13.50	—	—	13.50	1.13	4.50	—	5.63	7.87	12.37
19) CAPITAL WORK IN PROGRESS	144.84	130.65	261.56	13.93	—	—	—	—	13.93	144.84
TOTAL	1972.57	467.60	261.56	2178.61	815.83	138.45	—	954.28	1224.33	1156.74
PREVIOUS YEAR	1833.31	474.18	334.92	1972.57	690.38	125.45	—	815.83	1156.74	—

\*\* Pattern & Dice includes Rs 6.62 lacs lying with Supplier abroad

	<u>As at</u> <u>31. 03. 2010</u>	<u>As at</u> <u>31. 03. 2009</u>
(Rs. in Lacs)		
<b>5. INVESTMENTS (AT COST)</b>		
<b>Quoted (Long Term)</b>		
700 Fully paid Equity Shares of Rs.10/- each, at a premium of Rs.21/- each in Punjab National Bank.	0.22	0.22
Market Value Rs 709100/- (Previous year Rs. 287630/-)		
<b>6. INVENTORIES</b> (As taken, valued and certified by the management)		
Finished Goods	532.73	978.90
Raw Materials	250.72	323.83
Consumable Stores, Spares and Power & Fuels	61.70	25.48
Packing Materials	21.68	11.79
	<u>866.83</u>	<u>1340.00</u>
<b>7. SUNDRY DEBTORS</b>		
Unsecured Considered Good :		
More than Six months	101.97	20.88
Other Debts	1589.11	961.81
	<u>1691.08</u>	<u>982.69</u>
<b>8. CASH &amp; BANK BALANCES</b>		
Cash In hand (As certified by Management)	7.88	7.20
Balances with Scheduled Banks		
On Current Accounts	29.00	82.61
Fixed Deposits (lying with Bank)	102.99	84.21
Interest accrued but not due on above	8.27	17.36
Margin Money	—	0.03
	<u>148.14</u>	<u>191.41</u>
<b>9. OTHER CURRENT ASSETS</b>		
<b>UNSECURED CONSIDERED GOOD</b>		
Export Incentive Receivable	140.18	54.62
Cenvat & Service Tax Receivable	178.14	311.89
Input Tax Credit Receivable (VAT)	663.48	547.05
Other Receivable	—	13.60
	<u>981.80</u>	<u>927.16</u>

(Rs. in Lacs)

As at  
31. 03. 2010

As at  
31. 03. 2009

**10. LOANS & ADVANCES**

**UNSECURED CONSIDERED GOOD**

Advances recoverable in cash or in kind or for the value to be received	110.99	165.68
Advance & Self Assessment Income Tax	304.46	332.41
Advance Fringe Benefit Tax	9.93	9.84
Tax Deducted at Source	9.76	11.17
Income Tax Refund Receivable	6.97	—
Security Deposit	35.74	33.43
Prepaid Expenses	0.46	0.16
Advances to Staff	5.92	2.65
Earnest Money	—	0.14
	<u>484.23</u>	<u>555.48</u>

**11. CURRENT LIABILITIES AND PROVISIONS**

**A. CURRENT LIABILITIES**

Sundry Creditors :		
For Goods Supplied	612.54	517.00
For Expenses	213.65	151.06
Bank Overdrafts	48.14	67.84
Creditors for Capital Goods	33.92	16.16
Unclaimed Dividend	13.04	10.42
Advance from Customer	5.00	9.86
	<u>926.29</u>	<u>772.34</u>

**B. PROVISIONS**

Provision for Contingencies [See Note (xiii) of Sch-19]	50.00	50.00
For Income Tax	305.42	379.52
" Fringe Benefit Tax	9.93	9.93
" Gratuity	24.53	26.33
" Leave Encashment	2.19	1.98
" Proposed Dividend	20.74	20.74
" Dividend Distribution Tax	3.44	3.53
	<u>416.25</u>	<u>492.03</u>

		(Rs. in Lacs)		
		As at	As at	
		<u>31. 03. 2010</u>	<u>31. 03. 2009</u>	
<b>12. MISCELLANEOUS EXPENDITURE</b>				
(To the extent not written off or adjusted)				
Deferred Revenue Expenditure		0.96	2.12	
		<u>0.96</u>	<u>2.12</u>	
		<b>For</b>	<b>For</b>	
		<b><u>2009-2010</u></b>	<b><u>2008-2009</u></b>	
<b>13. SALES</b>				
Export	5347.63		6011.09	
Less : Freight	<u>86.83</u>	5260.80	<u>175.16</u>	5835.93
Local		<u>107.32</u>		<u>—</u>
		5368.12		5835.93
<b>14 OTHER INCOME</b>				
Export Incentives	334.27		305.08	
Liability No Longer Required Written Back	24.14		—	
Interest [Gross (TDS Rs. 0.12 lacs)]	1.86		2.60	
Interest Subsidy	—		6.41	
Dividend	0.21		0.09	
Others	<u>26.14</u>	<u>386.62</u>	<u>17.04</u>	<u>331.22</u>
<b>15 MANUFACTURING EXPENSES</b>				
Raw Materials Consumed :				
Opening Stock	323.83		477.10	
Add : Purchases (Net)	<u>2707.67</u>		<u>3354.86</u>	
	3031.50		<u>3831.96</u>	
Less : Closing Stock	<u>250.72</u>	2780.78	<u>323.83</u>	3508.13
Consumable Stores & Spares Consumed		342.49		359.24
Power & Fuel		461.49		467.89
Other Manufacturing Expenses		93.14		114.44
Clearing & Forwarding Import		1.93		32.53
Customs Duty		2.54		4.12
Conversion Charge		32.59		16.49
Factory Rent		4.32		4.32
Carriage Inwards		57.99		75.93
Pollution Control Expenses		0.30		3.55
Purchase Tax		1.42		1.60
Repairs & Maintenance :				
To Machinery & Others	40.22		30.08	
To Shed & Godown	<u>16.09</u>	56.31	<u>6.16</u>	36.24
Patterns & Dices Written Off		<u>19.92</u>		<u>8.01</u>
		<u>3855.22</u>		<u>4632.49</u>

(Rs. in Lacs)

	<u>2009 - 2010</u>	<u>2008 - 2009</u>
<b>16 ADMINISTRATIVE, SELLING &amp; OTHER EXPENSES</b>		
Clearing & Forwarding Expenses (Export) (Including Carriage Out)	73.19	80.82
Repairs & Maintenance To Other Assets	23.08	11.86
Rates & Taxes	6.93	17.65
Commission	46.06	53.66
Insurance	1.69	2.23
Packing Charge	79.15	85.32
Directors Remuneration	12.32	12.04
Auditors Remuneration	2.55	1.75
Exchange Rate Difference	6.44	33.53
Director's Meeting Fees	2.45	2.36
Inspection Service Charges	39.63	43.20
Fines & Penalties	—	0.48
Office Rent	9.00	9.00
Bad Debt Written Off	—	45.51
Less - Provision	—	<u>20.00</u>
Sundry Debit Balance Written Off	14.21	23.10
Miscellaneous Expenses	<u>155.79</u>	<u>166.62</u>
	<u>472.49</u>	<u>569.13</u>
<b>17 SALARIES, WAGES &amp; OTHER EMPLOYEES BENEFITS</b>		
Salaries	120.91	82.93
Wages	232.41	205.86
Bonus to Staff & Contractors	14.81	13.14
ESI Contribution	8.22	7.85
Workmen & Staff Welfare Expenses	6.36	4.67
Contribution to PF and other Funds	19.07	18.23
Gratuity	4.46	3.41
	<u>406.24</u>	<u>336.09</u>
<b>18 INTEREST, FINANCE CHARGES ETC.</b>		
Interest :		
To Bank (Net)	154.88	220.61
To Bank on Term Loan	19.23	29.55
To Others	0.18	1.26
Bank Charges	40.69	44.52
Export Guarantee Fees	18.23	14.10
Finance Charges	12.92	26.54
	<u>246.13</u>	<u>336.58</u>

**19 NOTES ON ACCOUNTS**

- i) Estimated amount of contracts remaining to be executed on Capital Account is Rs. 53.33 Lacs (Net of advance of Rs. 14.67 lacs) (Previous year Rs.555.74 lacs, net of advance Rs. 12.90 lacs.)
- ii) Contingent liability not provided for in respect of :

	<b>(Rs. in lacs)</b>	
	<b>2010</b>	<b>2009</b>
a. Outstanding Bank Guarantee	20.02	28.82
b. Differential Customs Duty Liability	—	29.80
c. Disputed Income Tax Penalty for the assessment year 2003-04	12.75	12.75
d. Disputed Duty & Penalty under Central Excise Law	86.56	86.56
e. Disputed Vat Demand for the Financial Year 2005-06	13.16	13.16

- iii) Charge of hypothecation over Current Assets & Raw Materials procured under letter of credit in favour of bankers has been created for letter of credit issued. Aggregate value of such letter of credit outstanding as on 31st March, 2010 is Rs. 107.77 lacs. (Previous Year 200.43 lacs.)
- iv) The Sales Tax Department has rejected the claim for refund of Input Tax Credit amounting to Rs. 106.03 lacs for the financial year 2005-06 vide their Order dated 25.11.2008 . However the Company has filed an appeal before the Joint Commissioner of Sales Tax, Kolkata (South). Circle for the same, which is still pending. Claims for the refund of Input Tax Credit in respect of other financial years are at various stages of adjudication with the Sales Tax Department. The Company is hopeful about their early recovery since it has been advised by its lawyer that the said claims are worked out and made in conformity and compliance with the stipulated rules and procedures.
- v) The Additional Commissioner of Central Excise, Kol-II and Haldia Commissionerate have raised two separate demands with penalty aggregating to Rs. 136.56 lacs out of which Rs. 50.00 lacs was paid in the financial year 2007-08. The Company has filed Appeals against the above demands before the Commissionerate (Appeal - I & II) of Central Excise, Kolkata which are still pending.

**vi) Gratuity and Other Post-Employment Benefit Plans:**

The Company has a defined benefit gratuity plan. Every employee who has completed five years or more of service gets a gratuity on departure at 15 days salary (last drawn salary) for each completed year of service.

The Company also provides Leave Encashment Benefit to employees, whereby unutilised leave is carried forward and eligible for encashment upon retirement / termination.

The following tables summarise the components of net benefit expense recognised in the Profit and Loss Account and amounts recognised in the Balance Sheet for the respective plans.

**Profit and Loss Account**

Net employee benefit expense (recognised in Employee Cost)

	2009-10		2008-09	
	Gratuity	Leave	Gratuity	Leave
	Encashment		Encashment	
Current Service Cost	3.99	0.62	4.25	0.46
Interest Cost	1.91	0.16	2.19	0.18
Expected return on plan assets	—	—	—	—
Curtailment Cost / (Credit)	—	—	—	—
Settlement Cost / (Credit)	—	—	—	—
Amortization of Past Service Cost	—	—	—	—
Actuarial Losses / (Gains)	(1.43)	0.98	(3.03)	(0.15)
<b>Total Expenses recognised in the statement of Profit &amp; Loss</b>	<b>4.47</b>	<b>1.76</b>	<b>3.41</b>	<b>0.49</b>

	2009-10		2008-09	
	Gratuity	Leave	Gratuity	Leave
	Encashment		Encashment	
<b>Balance Sheet</b>				
Present Value of Defined Benefit Obligation	24.53	2.19	26.33	1.98
Fair Value of Plan Assets	—	—	—	—
Funded Status [Surplus/(Deficit)]	(24.53)	(2.19)	(26.33)	(1.98)
Effect of Balance Sheet Asset Limit	—	—	—	—
Unrecognised Past Service Costs	—	—	—	—
<b>Net Asset/(Liability) recognised in Balance Sheet</b>	<b>(24.53)</b>	<b>(2.19)</b>	<b>(26.33)</b>	<b>(1.98)</b>

Changes in the present value of defined benefit obligation are as follows:

	2009-10		2008-09	
	Gratuity	Leave	Gratuity	Leave
	Encashment		Encashment	
Opening defined benefit obligation	26.33	1.98	32.16	2.72
Current Service Cost	3.99	0.62	4.25	0.46
Interest Cost	1.91	0.16	2.19	0.18
Curtailment Cost / (Credit)	—	—	—	—
Settlement Cost / (Credit)	—	—	—	—
Employee Contribution	—	—	—	—
Plan Amendments	—	—	—	—
Acquisitions	—	—	—	—
Actuarial (gains)/Losses	(1.43)	0.98	(3.03)	(0.15)
Benefits Paid	(6.27)	(1.55)	(9.24)	(1.23)
<b>Closing defined benefit obligation</b>	<b>24.53</b>	<b>2.19</b>	<b>26.33</b>	<b>1.98</b>

Change in the fair value of Plan Assets are as follows:

	(Rs. in Lacs)			
	2009-10		2008-09	
	Gratuity	Leave Encashment	Gratuity	Leave Encashment
Opening fair value of plan assets	—	—	—	—
Actual return on plan assets	—	—	—	—
Actual Company Contributions	6.27	1.55	9.24	1.22
Employee Contributions	—	—	—	—
Benefits paid	(6.27)	(1.55)	(9.24)	(1.22)
<b>Closing fair value of plan assets</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

The principal assumptions are the (1) Discount rate & (2) Salary increase.

The discount rate should be based upon the market yields available on Government bonds at the accounting date with a term that matches that of the liabilities and the salary increase should take account of inflation, seniority, promotion and other relevant factors.

The financial assumptions employed for the calculations are as follows:

	(Rs. in Lacs)			
	2009-10		2008-09	
	Gratuity	Leave Encashment	Gratuity	Leave Encashment
Discount Rate per annum compounded	7.50%	7.50%	7.50%	7.50%
Rate of increase in salaries	5.00%	5.00%	5.00%	5.00%
Expected Average remaining working lives of employees (years)	21.86	20.43	21.89	19.87

Scheme is not funded through any trust fund and therefore no assumption regarding expected rate of return on assets is applicable.

Amount for the current period are as follows:

	(Rs. in Lacs)			
	2009-10		2008-09	
	Gratuity	Leave Encashment	Gratuity	Leave Encashment
Defined benefit obligation	24.53	2.19	26.33	1.98
Plan Assets	—	—	—	—
<b>Surplus / (Deficit)</b>	<b>(24.53)</b>	<b>(2.19)</b>	<b>(26.33)</b>	<b>(1.98)</b>

The above informations and data are certified by the actuary.

- vii) In view of insufficient information from the suppliers regarding their status as Micro, Small and Medium Enterprises, the amount remaining unpaid to such undertakings could not be ascertained for separate disclosure in our accounts.

- viii) In the opinion of the board, all Current Assets, Loans and Advances have a value on realisation in the ordinary course of business at least equal to the amount at which they are stated in the accounts.
- ix) Since the matter relating to the resignation of Mr. Sanatan Kundu & Mr. Madan Mohan Kundu as Directors is pending in court, provision for their remuneration and other disclosure requirements will be dealt with accordingly.
- x) Advance includes Rs. 14.86 lacs and Rs. 0.91 lacs due from M/s. The Salkia Industrial Works and M/s. India Casting Corporation respectively. Legal suits have been filed by the Company for the recovery of these dues which are still pending .
- xi) Exchange rate difference includes exchange loss of Rs. 0.12 lacs (P.Y.- Rs. 32.00 lacs) arising out of cancellation of forward contract.
- xii) In the opinoin of the Board there is no loss on account of impairment of any asset during the year.

<b>xiii) Provision for contingencies</b>	<b>(Rs. In lacs)</b>
	<b>Excise</b>
Opening Balance as at 01.04.2009	50.00
Amount provided during the year	—
Amount utilised against provision	—
Unused amount released during the year	—
Closing Balance as at 31.03.2010	50.00

- xiv) Borrowing cost capitalised during the year Rs. NIL (Previous Year Rs. 9.27 lacs).
- xv) The following table shows the distribution of the Company's consolidated sales by geographical market, regardless of where the goods were produced.

**Sales Revenue By Geographical Market**

	<b>(Rs. in lacs)</b>	
	<b>2009-10</b>	<b>2008-09</b>
<b>Export Sales (Net of Freight)</b>		
USA	1783.85	2001.18
Middle East Asia	2653.81	3063.95
Europe	823.14	770.80
<b>Domestic Sale</b>	<b>107.32</b>	<b>—</b>

The Company has common cost, fixed assets and liabilities for all geographical segments, hence separate figures for segment results, fixed assets/addition to fixed assets and liabilities have not been furnished.

- xvi) Provision for current income tax has been made on the Book Profit of the Company U/s 115JB of the Income Tax Act, 1961 at the current tax rate .

xvii) The major components of the Deferred tax assets/liabilities based on the tax effect on the timing difference as at 31st March, 2010 are as under:

**Deferred Tax Liability/(Assets)**

	(Rs.in lacs)	
	2010	2009
Depreciation	100.81	89.75
Deferred Revenue Expenditure	0.30	0.66
Provision for Leave Encashment	(0.68)	(0.61)
Provision for Gratuity	(7.58)	(8.14)
<b>Net Deferred Tax Liability/(Assets)</b>	<b>92.85</b>	<b>81.66</b>

xviii) Related party disclosures and transactions:

Sl. No.	Name	Relationship	Nature of Transaction	(Rs. in lacs)	
				Amount (Rs.)	Out-standing (Rs.)
1.	Mr. R.P.Sehgal	Managing Director	Remuneration	5.37	0.07
2.	Mr. Suvobrata Saha	Jt. Managing Director	Remuneration	4.98	0.02
3.	NACIP INC.	Enterprises over which key Management personnel are able to exercise significant influence.	Export Sale	669.51	268.99
				<b>31st March 2010</b>	<b>(Rs. in lacs) 31st March 2009</b>

xix) Computation of Net Profit u/s 349 of the Companies Act, 1956

Profit before tax as per P & L a/c	23.15	70.12
Add - Directors Remuneration	12.32	12.04
” Directors’ Meeting Fees	2.45	2.36
	<u>37.92</u>	<u>84.52</u>
Commission to Managing Director @ 3.50% p.a (Restricted to 5% of Net Profit as computed u/s 349 of the Companies Act, 1956)	—	—
Managerial Remuneration u/s 198 of the Companies Act, 1956		
Salaries & Allowances	10.68	10.53
Perquisites & Benefits	1.64	1.51
	<u>12.32</u>	<u>12.04</u>

		(Rs. in lacs)	
		31st March	31st March
		2010	2009
		<u>          </u>	<u>          </u>
xx)	Auditor's Remuneration Includes		
	Audit Fees	2.22	1.53
	Tax Audit Fees	0.33	0.22
		<u>2.55</u>	<u>1.75</u>
xxi)	Additional information pursuant to the provisions of paragraphs 3, 4c, 4d of Part-II of schedule VI of the Companies Act, 1956	<b>Unit</b>	
	A. Class of goods, capacity, production & purchases		
	1. Class of Goods Manufactured		
	a) Castings		
	b) M.S.Product		
	2. Capacity		
	a) Licenced	N.A	N.A
	i) Castings		
	ii) M.S.Product		
	b) Installed (As certified by the Management)		
	a) Castings	M.T. 17500	17500
	b) M.S.Product	M.T. N.A	N.A
	3. Actual Production		
	a) Castings (including process from outside NIL) (Previous Year - 7 MT)	M.T. 11225	11973
	b) M.S.Product (Process from outside)	M.T. 209	135
	4. Purchases		
	a) Castings	M.T. 363	209
	b) M.S.Product	M.T. 14	1

	<u>Unit</u>	<u>Qty</u>	<u>31st March 2010 FOB Value (Rs.)</u>	<u>Qty</u>	<u>(Rs. in lacs) 31st March 2009 FOB Value (Rs.)</u>
<b>B. Turnover</b>					
a) Castings	MT	12663	5153.28	13026	5749.10
b) M.S.Product	MT	252	214.84	97	86.83

**C. Raw Material Consumed**  
(Including Wastage)

	<u>2010</u>				<u>2009</u>		
	<u>Unit</u>	<u>Qty</u>	<u>%</u>	<u>Value</u>	<u>Qty</u>	<u>%</u>	<u>Value</u>
<u>Indigenous</u>							
Pig Iron	M.T	5883	46.11	1114.92	7082	51.37	1837.48
Scrap & Skull	M.T	5437	42.62	1221.38	3077	22.32	731.30
M.S.Materials	M.T	232	1.82	71.97	138	1.00	48.98
Others				134.17			51.78
<u>Imported</u>							
Scrap	M.T	1206	9.45	238.34	3490	25.31	838.59
		12757	100.00	2780.78	13787	100.00	3508.13

Note : Others items are numerous and none of these individually exceeds 10% of the total consumption.

**D. STOCK**

	<u>Opening Stock</u>			<u>Closing Stock</u>	
	<u>Unit</u>	<u>Qty</u>	<u>Value</u>	<u>Qty</u>	<u>Value</u>
Castings	M.T	2513	902.86	1438	482.67
		(3358)	(891.77)	(2513)	(902.86)
M.S.Product	M.T	125	76.04	96	51.62
		(86)	(41.83)	(125)	(76.04)
Pig Iron & Scrap	M.T	1565	305.55	973	223.98
		(2105)	(446.45)	(1565)	(305.55)
M.S.Materials	M.T	40	12.79	14	4.81
		(91)	(30.65)	(40)	(12.79)
Others		—	5.49	—	21.92

Note : 1) Out of above closing stock 13.888 MT (P.Y.- 39.630 MT) of M.S.Materials lying with processors.  
 2) Stocks are Net off shortage / excess which are not material.  
 3) Out of above closing Stock 69.083 MT (P.Y. - 449.204 MT) of Castings and NIL (P.Y.- 1.286 MT) of M.S.Products are in transit.

- 4) Out of above closing stock 0.578 MT (P.Y.- 11.652 MT) of C.I.Castings lying with processors.
- 5) Others items are numerous and none of these individually exceeds 10% of the total consumption.

	<b>31st March 2010</b>	<b>(Rs. in lacs) 31st March 2009</b>
<b>E. <u>Earning in Foreign Exchange during the year</u></b>		
Exports of goods (F.O.B)	5142.79	5687.84
Overseas Trading	118.01	148.09
<b>F. <u>Expenditure in Foreign Currency</u></b>		
a. Travelling & Conveyance	15.39	24.86
b. Certification Charge	1.65	1.80
c. Commission	46.06	53.66
d. Foreign Bank Charge	12.78	13.01
e. Law Charge	-	0.67
f. Grinding, Painting & Finishing	11.91	17.50
<b>G. <u>CIF Value of Import</u></b>		
Raw Material	25.42	982.19
Overseas Trading	104.70	134.65

xxii) **Significant accounting policies**

**A. Accounting Convention**

The accounts are prepared on accrual basis under the historical cost convention in accordance with the provisions of the Companies Act, 1956 and mandatory accounting standards issued by the Companies Accounting Standards Rules, 2006 except otherwise stated.

**B. Fixed Assets**

Fixed assets are stated at cost less accumulated depreciation. The cost represents the cost of acquisition inclusive of duties, taxes, incidental expenses, erection / commissioning expenses and interest etc. upto the date the assets is put to use.

The Assets are assessed for possible impairment at Balance Sheet dates based on external and internal sources of information. Impairment of losses if any are recognised as an expense in the Profit & Loss Account.

The useful life of pollution control equipment is considered less than 12 months, therefore cost of pollution control equipments is fully charged to revenue.

Software expected to provide future enduring economic benefits is stated at cost less amortization.

All upgradation / enhancements are charged off as revenue expenditure unless they bring significant additional benefits.

### C. **Depreciation/Amortisation**

i) Depreciation is provided at the rates specified in the schedule XIV to the Companies Act, 1956, in respect of the fixed assets at the factory in Uluberia on Straight Line Method and on remaining assets on Written Down Value method. However, Depreciation on Factory Shed & Tubewell located at the Factory at Liluah has been provided @ 13.91% (WDV) & Depreciation on Factory Shed located at Uluberia has been provided @ 4.75% (SLM) which is not lower than the depreciation stipulated in Schedule XIV.

ii) Depreciation on fixed assets added / disposed off during the year is provided on prorata basis.

iii) Assets costing less than or equal to Rs.5,000/- are fully charged to revenue in the year of purchase.

#### iv) **Intangible Assets**

Computer Software is normally amortised over its useful life of 3 years as estimated by the management.

Computer Software acquired but not found suitable is fully amortised in the year of acquisition.

Licences representing right to use are amortised over a period of 3 years.

### D. **Investments**

Long term investments are carried at cost less provisions for permanent diminution in value of such investments.

### E. **Inventories**

i) Raw material, Consumable stores, Spares, Power & Fuels and Packing Materials are valued at cost on FIFO basis. Inventories of Rejected finished goods are treated as raw materials and valued at current Market Price.

ii) Finished goods are valued at cost or net realisable value whichever is lower. Cost is determined on average cost basis including proportionate fixed manufacturing overheads based on actual capacity.

### F. **Foreign Currency Transaction (other than for Fixed Assets)**

Export Sales in Foreign Currency are accounted at the Exchange rates prevailing on the date of negotiation of export documents by bank or at the exchange rates under the related forward exchange contracts. Receivable & Payables not covered by forward exchange contracts are translated at year end exchange rates and the Profit / Loss so determined and also the realised exchange gains/ losses are recognised in Profit / Loss Account.

G. **Cenvat**

Excise Duty and Service Tax credit on purchase of Raw Materials, Consumables and Capital Goods and on services received are deducted from the cost of such materials, capital goods and services.

H. **Value Added Tax**

Input tax credit on purchase of Raw Materials, Consumables and Capital Goods are deducted from the cost of such materials and capital goods.

I. **Export Benefit**

Export benefit under Duty Entitlement Pass Book scheme are accounted when there is no reasonable doubt of collection.

J. **Gratuity & Encashment of Leave**

The Gratuity and Encashment of Leave are provided on Actuarial Valuation as required under AS-15 (revised).

K. **Bonus**

Bonus is provided for on the basis of liability incurred.

L. **Taxes on Income**

The Company provided for taxes on Income, on "Tax Effect Accounting" Method.

M. **Interest and Finance Charges**

Interest and Finance Charges charged to Profit & Loss Account include interest and bank charges on bank borrowings, short term and long term and discounting of inland, foreign L/Cs including those in favour of bankers. Interest on negotiation of Purchases/Sale documents are charged to revenue account on the basis of recognition of Purchases/Sale. Interest attributable to qualifying assets only in specific borrowing cases are capitalised as cost of assets.

N. **Purchases**

Purchases are inclusive of carriage charged by the suppliers in their invoices.

O. **Segment Reporting Policies**

The Company is engaged in the manufacture of Castings & M.S. products which are subject to the same risk & returns and hence there is one primary segment. The analysis of geographical segments is based on the areas in which the Company operates.

xxiii) Previous year's figures have been regrouped / revised wherever found necessary.

**PART IV**

**BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE**

**I. Registration Details :-**

Registration No. :	35920	State Code :	21
Balance Sheet Date :	31.03.2010		

**II. Capital Raised During the year : NIL**

**III. Position of Mobilisation and Deployment of funds : (Amount Rs.in thousands)**

Total Liabilities	539759	Total Assets	539759
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**Source of Funds**

Paid Up Capital	34572	Reserve & Surplus	108676
Secured Loan	252972	Deferred Tax Liability	9285

**Application of Funds**

Net Fixed Assets	122433	Investments	22
Net Current Assets	282954	Miscellaneous Expenditure	96

**IV. Performance of Company**

Turnover	575474	Total Expenditure	573159
Profit / (Loss) Before Tax	2315	Profit / (Loss) After Tax	5748
Earning Per Share	1.66	Dividend Rate	6%

**V. Generic Name of Products / Services of the Company**

(as per monetary terms)

Item Code No	:	732599
(ITC Code)	:	730890
Product Description	:	Cast Iron Castings. M.S.Product

On behalf of the Board

**R.P.SEHGAL**

(Managing Director)

Place : Kolkata  
Dated : 6th August, 2010

**Sanjay Agarwal**  
(CFO & Company Secretary)

**Suvabrata Saha**  
(Jt. Managing Director)

**CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH 2010**

	(Rs. in lacs)			
	<u>AS ON 31.03.2010</u>		<u>AS ON 31.03.2009</u>	
	Rs.	Rs.	Rs.	Rs.
<b>A. NET PROFIT BEFORE TAXES</b>				
<b>&amp; EXTRA-ORDINARY ITEM</b>	23.15		70.12	
Adjustments for :-				
Depreciation	138.46		125.45	
Interest & Finance Charges	187.21		277.96	
Foreign Exchange (Gain)/Loss	(0.02)		(0.34)	
Deferred Revenue Expenditure Written Off	1.16		1.76	
Dividend	(0.21)		(0.09)	
	<u>349.75</u>		<u>474.86</u>	
Operating Profit before working				
Capital Changes		349.75		474.86
Adjustments for Inventories	473.17		120.06	
Trade & Other Receivable	(714.08)		505.32	
Trade Payable	<u>151.67</u>	(89.24)	<u>(361.19)</u>	264.19
Cash Generated from Operations		260.51		739.05
Direct Taxes Paid		6.28		56.40
Cash Flow From Operating Activities <b>(A)</b>		254.23		682.65
<b>B. CASH FLOW FROM INVESTING ACTIVITIES</b>				
Purchase of Fixed Assets including Capital				
Work in progress	(206.04)		(139.25)	
Secured Loan for Capital Goods	(51.27)		(45.12)	
Creditors for Capital Goods	17.76		(22.82)	
Dividend	<u>0.21</u>		<u>0.09</u>	
Net Cash Flow From Investing Activities <b>(B)</b>		(239.34)		(207.10)

## C. CASH FLOW FROM FINANCING ACTIVITIES

Secured Borrowings (Incl.Interest)	170.24	(136.16)
Interest & Finance Charges	(187.07)	(277.96)
Dividend & Dividend Distribution Tax Paid Thereon	(21.65)	(21.42)
Net Cash Flow From Financing Activities (C)	(38.48)	(435.54)
Net Increase in Cash & Cash Equivalents (A+B+C)	(23.59)	40.01
Cash & Cash Equivalents as at 01.04.2009/01.04.2008	123.57	83.22
Cash & Cash Equivalents as at 31.03.2010/31.03.2009	99.98	123.23

### Notes to the Cash Flow Statement :

Cash & Cash Equivalents included in the Cash Flow Statements comprises the following items

Cash on Hand & Balances with Banks	100.00	123.57
Effect of Exchange Rate Change	(0.02)	(0.34)
	<u>99.98</u>	<u>123.23</u>

On behalf of the Board

**R.P.SEHGAL**

(Managing Director)

Place : Kolkata  
Dated : 6th August, 2010

**Sanjay Agarwal**  
(CFO & Company Secretary)

**Suvabrata Saha**  
(Jt. Managing Director)

**PROXY FORM**



**CARNATION INDUSTRIES LIMITED**

Registered Office : 28/1, Jheel Road, Salkia, Howrah - 711 106

Reg. Folio No. .... No. of Shares held .....

I/We..... of.....  
being a Member/Members of the above named Company, hereby appoint.....  
..... or failing him/her.....  
of .....

as my/our proxy to attend and vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at "Sarat Sadan", 5, Mahatma Gandhi Road, Howrah - 711 101, on Friday, 24th September, 2010 at 10.00 a.m. and at any adjournment thereof.

Affix  
Revenue  
Stamp of  
Re. 1/-

Signed this ..... day of ..... 2010

Signature .....

**Note :** The Proxy must reach the Registered Office of the Company not less than 48 hours before the time for holding the meeting.

-----  
This attendance slip filled in and signed in accordance with the specimen signature registered with the Company, to be handed over before the meeting.

**ATTENDANCE SLIP**



**CARNATION INDUSTRIES LIMITED**

Registered Office : 28/1, Jheel Road, Salkia, Howrah - 711 106

Name of the Member(s).....

Member/s Folio Number ..... Number of Shares held.....

Name of Proxy (in Block Letters) .....

(To be filled in if the Proxy attends instead of the Member/s)

I hereby record my presence at the Annual General Meeting at "Sarat Sadan", 5, Mahatma Gandhi Road, Howrah - 711 101 on Friday, 24th September, 2010 at 10.00 a.m.

To be signed at the time of  
handing over this slip

\_\_\_\_\_  
Member's / Proxy's Signature

As no extra copy of this attendance slip will be available, Members are therefore requested to bring it with them positively.