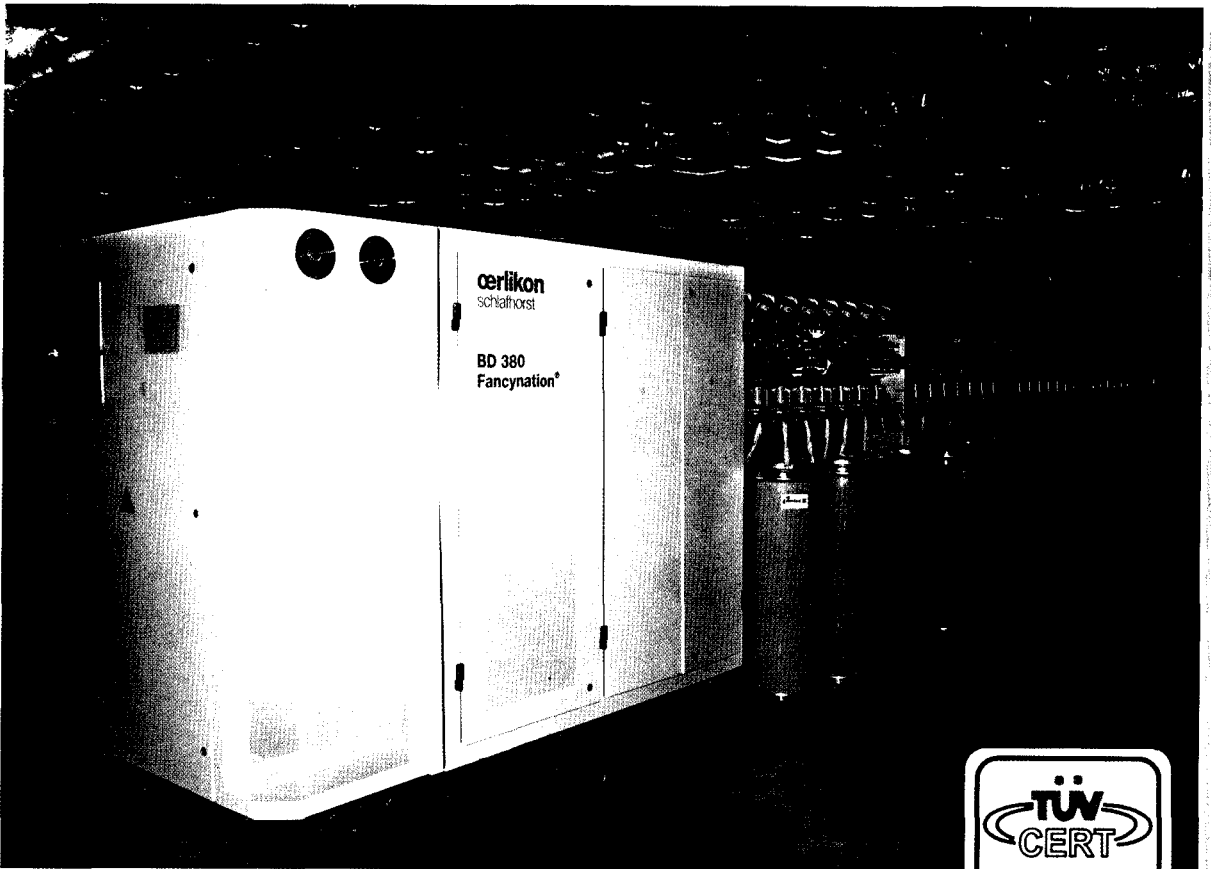


# ANNUAL REPORT

## 2008 - 2009

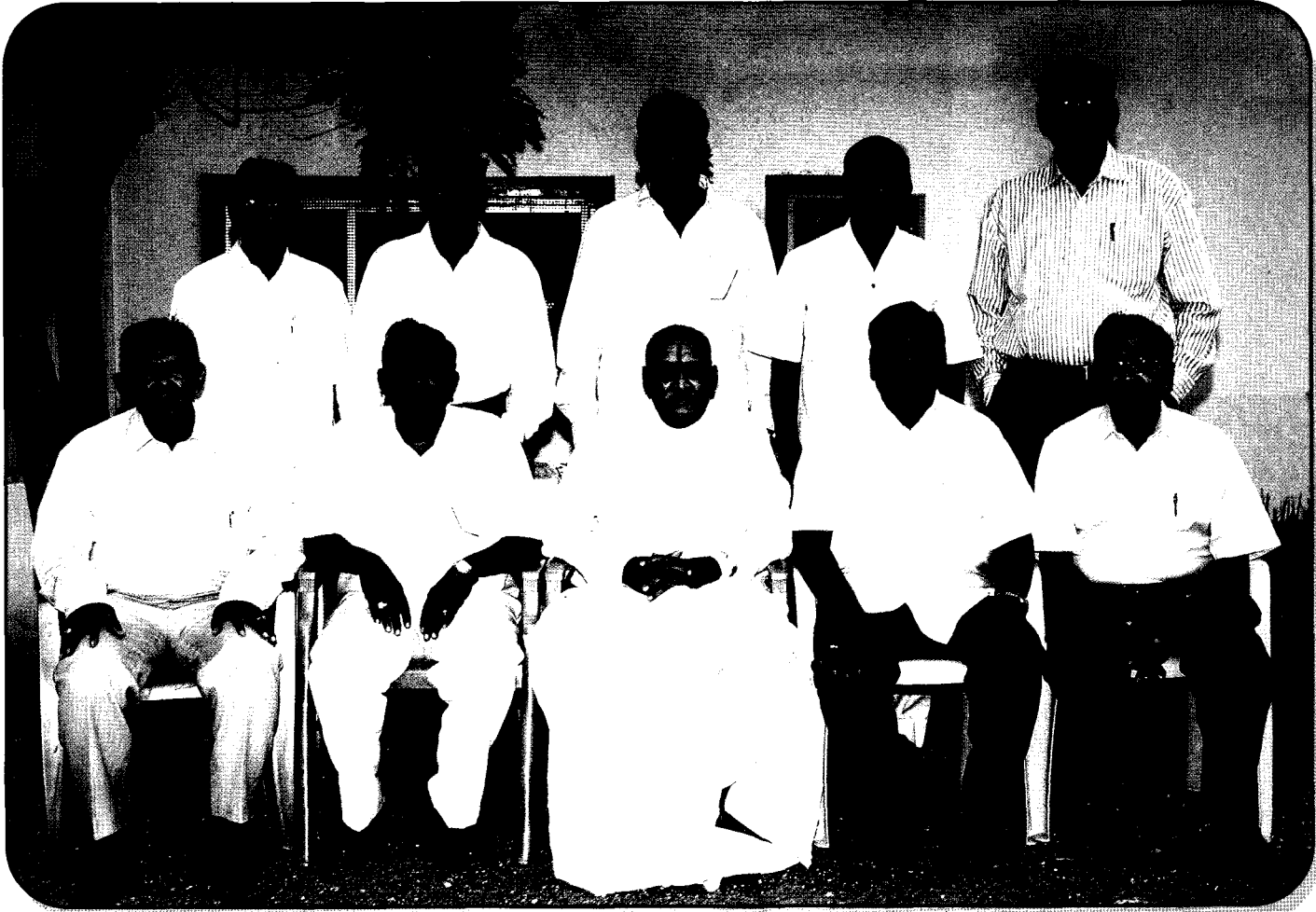


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# KALLAM SPINNING MILLS LIMITED

NH5, CHOWDAVARAM, GUNTUR - 522 019, A.P., INDIA.

# BOARD OF DIRECTORS



Back row : Sri S. Pulla Rao  
*Independent Director*

Sri G.V. Krishna Reddy  
*Joint Managing Director*

Sri M.V. Subba Reddy  
*Whole Time Director*

Sri A.Krishna Murthy  
*Independent Director*

Sri A.Rajendra Prasad  
*Independent Director*

Front row : Sri M. R. Naik  
*Independent Director*

Sri P. Venkateswara Reddy  
*Managing Director*

Sri K. Haranadha Reddy  
*Chairman*

Sri N. Prabhakara Rao  
*Independent Director*

Sri V.S.N. Murthy  
*Nominee Director of IREDA*

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**COMPANY INFORMATION**

**BOARD OF DIRECTORS**

Sri K. Haranadha Reddy, Chairman  
Sri P. Venkateswara Reddy, Managing Director  
Sri G.V. Krishna Reddy, Joint Managing Director  
Sri M. V. Subba Reddy, Whole Time Director  
Sri M. R. Naik, Director  
Sri N. Prabhakara Rao, Director  
Sri V. S. N. Murthy, Nominee Director of IREDA  
Sri A. Krishna Murthy, Director  
Sri S. Pulla Rao, Director  
Sri A. Rajendra Prasad, Director.

**LISTED WITH**

Bombay Stock Exchange Limited  
The Hyderabad Stock Exchange Ltd.

**BANKERS**

Andhra Bank, Main Branch  
Kothapet, Guntur -522001.

Indian Bank, Main Branch,  
Naaz Centre, Guntur-522001.

Axix Bank, Guntur Branch,  
Naaz Centre, Guntur - 522 001.

**AUDITORS**

M/S BRAHMAYYA & CO  
Chartered Accountants,  
10-3-21, Sambasivapet, Guntur - 522 001.

**COST AUDITORS**

P.Srinivas, Cost Accountant,  
97/2rt, Vijaya Nagar Colony,  
Besides Masab Tank, Hyderabad - 500 057.

**REGISTERED OFFICE & FACTORY**

N.H.5, Chowdavaram, Guntur - 522 019  
Phones: 2512004, 2512005, 2512006  
Fax: 0863 - 2512001,  
E -mail: [kallamsp@sancharnet.in](mailto:kallamsp@sancharnet.in)

**REGISTRARS &  
SHARE TRANSFER AGENTS**

Bigshare services pvt Ltd  
G -10, Left wing, Amrutha Ville,  
Opp .Yasodha Hospital,  
Raj Bhavan Road, Somajiguda,  
Hyderabad -500082.  
Ph No, 040-23374967  
Fax No 040-23370295

**NOTICE TO SHAREHOLDERS**

NOTICE is hereby given that the Seventeenth Annual General Meeting of the Members of **KALLAM SPINNING MILLS LIMITED** will be held on Saturday the 19<sup>th</sup> day of September, 2009 at 3.00 P.M. at the Registered Office of the Company at NH-5, Chowdavaram, Guntur 522 019 to transact the following business.

**Ordinary Business**

1. To receive, consider and adopt the Profit and Loss Account for the financial year ended March, 31<sup>st</sup> 2009 and the Balance Sheet as at that date together with the reports of the Board of Directors and Auditors.
2. To declare dividend on equity shares
3. To appoint a Director in place of Sri K. Haranadha Reddy, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Sri A. Krishna Murthy, who retires by rotation and being eligible, offers himself for re-appointment.
5. To re-appoint M/s. Brahmayya & Co., a firm of Chartered Accountants, as Statutory Auditors of the Company, for the period commencing from conclusion of this meeting till the conclusion of the next Annual General Meeting on such remuneration as may be fixed by the Board of Directors.

By order of the Board of Directors

**P. Venkateswara Reddy**  
Managing Director

Place: Chowdavaram

Date: 27.06.2009

**NOTES:**

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend, and vote on a poll, instead of himself / herself and such proxy need not be Member. The proxy form is enclosed which should be deposited at the Registered Office of the Company duly completed and signed, not later than 48 hours before the commencement of the Meeting.
2. The Register of Members and Share Transfer Books of the Company will remain closed from 14<sup>th</sup> September 2009 to 19<sup>th</sup> September 2009 (both days inclusive).
3. The accounts, the reports and all other documents required under the law to be annexed thereto will be available for inspection during working hours at the Registered Office of the Company on any working day prior to the date of the Annual General Meeting.
4. Dividend recommended by Directors, if approved by the Members at the Annual General Meeting, will be paid on or after 24<sup>th</sup> September 2009 to those members whose names appear on the Register of Members as on 19<sup>th</sup> September 2009. In respect of shares held in electronic form, the dividend will be payable on the basis of beneficial ownership as at the close of 12<sup>th</sup> September 2009 as per the details furnished by National Securities Depository Limited/Central Depository Service (India) Limited for the purpose as on that date.
5. Members desiring to seek any information on the Annual Accounts to be explained at the meeting are requested to send their queries in writing to the Company at the Registered Office so as to reach at least 7 days before the date of the meeting to make the required information.
6. Members holding shares in physical form are requested to notify/send the following to the Company's Registrar and Transfer Agent at: **Bigshare Services Private Limited, G-10, Left-Wing, Amrutha Ville, Opp: Yashoda Hospital, Rajbhavan Road, Somajiguda, Hyderabad – 500 082** at the earliest not later than 12<sup>th</sup> September 2009.
  - any change in their address/mandate/Bank details; and
  - Particular of their Bank Account, in case the same has not been sent earlier.
7. Members holding shares in the electronic form are advised to inform change in address/bank mandate directly to their respective Depository Participants. The address/bank mandate as fur-

## KALLAM SPINNING MILLS LTD.

nished to the Company by the receptive Depositories viz. NSDL and CDSL will be printed on the dividend warrant.

### EXPLANATORY STATEMENT U/S 173(2) OF THE COMPANIES ACT 1956 & INFORMATION UNDER CLAUSE 49 OF THE LISTING AGREEMENT REGARDING RE-APPOINTMENT OF DIRECTORS

(Pursuant to Clause 49VI (A) of the Listing Agreement with the Stock Exchanges)

#### Item No.3 :

Mr. K.Haranadha Reddy, aged about 73, is an industrialist and holds a Masters Degree in Arts and graduate in Law. Mr. K.Haranadha Reddy is a founder and promoter of the company. He has about 42 years of rich experience in cotton and spinning business. He has associated with the company since its inception.

Sri.K.Haranadha Reddy is a director on the Board of M/s Kallam Housing and Real Estates (P) Ltd. He is not a member of any committee within the meaning of clause 49 of the listing agreement with the stock exchanges.

#### Item No. 4 :

Mr. A. Krishna Murthy aged about 68 years, is a post graduate in law .He was selected as Asst.Labour Officer through Group II-A, conducted by Andhra Pradesh Public Service Commission in 1966. He has retired as Dy.Commissioner of Labour, in Labour, Employment & Training in 1999,after rendering 33 years of service in various capacities. He is practicing as Labour Law consultant and Advocate at Guntur for last 8 years. He has rich experience in the fields of Labour Law, Industrial Law Human Resources and personal Administration.

By order of the Board of Directors

**P. Venkateswara Reddy**

Managing Director

Place: Chowdavaram

Date: 27.06.2009

#### DIRECTOR'S REPORT

#### TO THE MEMBERS OF THE KALLAM SPINNING MILLS LIMITED,

Your directors have pleasure in presenting the Seventeenth Annual Report of the Company together with the Audited Statements of Accounts for the year ended 31<sup>st</sup> March 2009.

#### I. FINANCIAL RESULTS:

The financial results for the year ended 31<sup>st</sup> March 2009 are summarized below:

S.No.	Particulars	2008-2009 (Rs. in lacs)	2007-2008 (Rs. in lacs)
01	Sales	6723.58	6036.98
02	Other income	113.04	135.78
03	Increase in stock	-0.08	60.38
04	Expenditure	5445.02	4877.30
05	Prodit before Interest, Depreciation & Tax	1391.68	1355.83
06	Depreciation	400.63	365.08
07	Interest	538.11	477.34
08	Profit before tax	452.95	513.41
09	Provision for income tax		
	i) Current Year Tax	56.00	62.00
	ii) Fringe Benefit Tax	1.05	1.10
	iii) Deferred Tax	109.93	139.31
10	Profit after tax	285.97	311.00
11	Earning per share	5.05	5.39

## KALLAM SPINNING MILLS LTD.

Transfers & appropriations from the profit are as detailed below :

12	Net Profit after tax	285.97	369.64
13	Excess / Short provision made for Income tax in earlier years	0.37	0.64
14	Tax credited under MAT	56.00	58.00
15	Balance brought forward from previous year	1183.95	920.49
16	Profit for appropriations	1529.62	1290.13

### APPROPRIATIONS

17	Transfer to General Reserve	0.00	10.00
18	Proposed Equity Dividend	61.66	82.21
19	Tax on Proposed Equity Dividend	10.48	13.97
20	Balance carried forward	1457.47	1183.95

The Sales of the company for the period under review increase to Rs.6723.58 Lakhs as compared to Rs.6036.98 registering a growth of Rs 11 percent on annualized basis .The profit before interest and taxes of the company has grown by 0.03 percent on annualized basis from Rs 991.06 lakhs in previous year to Rs. 990.76 lakhs in the period under review.

### II. DIVIDEND:

In view of the company's profitable performance, your Directors are pleased to recommend for approval of shareholders a Final Dividend of 9%(Rs 0.90 paise per share) on 68, 51,100 Equity shares of the company in respect of the financial year 2008-2009. The final Dividend if declared as above, would involve an outflow of Rs. 61.66 Lakhs towards Dividend and Rs. 10.48 lakhs towards Dividend Tax resulting outflow of Rs. 72.14 Lakhs.

The paid up capital of your company remained unchanged at Rs. 685.11 lakhs. Earning per share was Rs. 5.05 and cash per earning share was Rs. 10.89.

### III. EXPANSION & MODERNISATION:

Your company continue to expand and modernize the facility as on going process .The Company has added 5760 spindles during the financial year under review there by bring the total spindles to 50256. The company is in process of commencing O.E.Plant with 1248 rotors. All machineries are state of art technology . The company imported the O.E.machinery from Oerlikon.The addition of rotors will increase the turnover of the company. Your company also in the process of installing modern Automatic ginning plant. The ginning plant will have 24 gins with automatic kappas section and Pneumatic cotton lint suction system and automatic baling press. The ginning plant is expected to commence commercial operations by Nov - 2009.

The company is installing dedicated feeder 33 K V line from 132/33 K V vengalayapalem sub-station. This facility will bring down the power interruptions.

### IV.FINANCE:

Your company is planning to set up 3<sup>rd</sup> Hydro electrical project at Nelakondapalli village, Kamam district at a cost of Rs11.16/-crores.Your Company is in the process of financial closure.

### V.FIXED DEPOSITS:

Your company has not accepted any public deposits from the public, except some of the unsecured loans brought by promoters directors and their relatives and as such no amount on account of principal or interest on public deposits was outstanding on the date of the Balance Sheet.

### VI.FUTURE OUTLOOK:

The company is projecting to Rs 100 cores turnover during the current financial year. Even though the textiles scenario is tuff your Company with cost control and effective utilization of machinery will be able to keep better performance of the company.

## **KALLAM SPINNING MILLS LTD.**

### **VIII. DIRECTORS:**

In accordance with the provisions of the Companies Act, 1956 and Articles of Association of the Company Sri.K.Haranadha Reddy and Mr. A. Krishna Murthy will retire by rotation at the ensuing Annual General Meeting and being eligible offers themselves for re-appointment. None of the Directors of the Company are disqualified for being appointed as Directors as specified in Section 274 of the Companies Act, 1956.

### **IX. ENERGY, TECHNOLOGY AND FOREIGN EXCHANGE:**

Additional information on conservation of energy, technology absorption, foreign exchange earnings and outgoings as required to be disclosed in terms of Section 217(1) (e) of the Companies act, 1956 read together with the companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988 is annexed herewith and forms part of this report.

### **X. PARTICULARS OF EMPLOYEES:**

There were no employees coming under the purview of Section 217 (2A) of the companies Act, 1956.

### **XI. AUDITORS:**

The Statutory Auditors M/s. Brahmayya & Co., Chartered Accountants, Guntur, retire at the ensuring Annual General Meeting and have confirmed their eligibility and willingness to accept office, if re-appointment. Your Directors propose the reappointment of M/s Brahmayya & Co., as Statutory Auditors to hold office until the conclusion of the next Annual General Meeting of the Company.

### **XII. COST AUDITORS:**

Pursuant to the provisions of the Section 233B of the Companies Act, 1956, the Board of Directors of your Company have re-appointed, subject to the approval of the Central Government Mr.P.Srinivas Cost Accountant, to carry out an audit of Cost accounts of the Company in respect of textiles for accounting year ending 31<sup>ST</sup> March 2009.

### **XIII. CORPORATE GOVERNANCE:**

Your Directors are pleased to inform that your Company has implemented all the stipulations prescribed under clause 49 of listing agreement with the stock exchange(s). A Certificate from the Statutory Auditors of the Company in line with Clause 49 is annexed to and forms part of the Directors Report.

### **XIII REGISTRAR'S AND SHARE TRANSFER AGENTS:**

Your Registrar and Share Transfer Agents of the Company M/s Big share Services Private Limited, G-10, Left-wing Amrutha Ville, Opp, Yashoda Hospital, Raja Bhavan Road Somagiguda Hyderabad 500082.

### **XIV. CASH FLOW ANALYSIS:**

In conformity with the provisions of Clause 32 of the Listing agreement the Cash Flow Statement for the year ended 31.03.2009 is annexed hereto.

### **XV. DIRECTORS RESPONSIBILITY STATEMENT:**

Pursuant to Section 217(2AA) of the Companies Act, 1956 your Directors state that:

- (a) in the preparation of the annual accounts, the applicable Accounting standards have been followed, in the opinion of the Board of Directors, along with proper explanations for material departures if any;
- (b) the directors have selected such accounting policies and applied 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 at the end of the financial year and the profit or loss of the Company for that period.
- (c) the directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the companies Act, 1956 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- (d) The directors have prepared the annual accounts on a 'going concern' basis.



**XVII. ACKNOWLEDGEMENTS:**

Your Directors would like to express their grateful appreciation for the assistance and co-operation received from Andhra Bank, IREDA and various other Departments of both State and Central Governments. Your directors wish to place on record their appreciation of the devoted and dedicated services rendered by all employees of the company from time to time. Shareholders appreciation of the managements efforts at the General Meeting of the Company and otherwise is also a great fillip to strive for better performance year after year.

PLACE: GUNTUR

DATE: 27<sup>th</sup> June 2009.

For and on behalf of the Board of Directors

**P. Venkateswara Reddy**

Managing Director

**ANNEXURE - I TO DIRECTORS REPORT:**

Disclosure of particulars with respect to conservation of Energy, Technology absorption and foreign exchange earnings and outgo as required under the companies (Disclosure of particulars in the Board of Director's Report) Rules, 1988.

**A. CONSERVATION OF ENERGY:**

Conservation of energy continues to be accorded high priority. Our R&D team continuously reviews ongoing processes.

Form A : (Form for disclosure of particulars with respect to conservation of energy)

**a) POWER AND FUEL CONSUMPTION**

S.No	Particulars	Current Year	Previous Year
1.	Electricity		
	a) Purchased units (KWH)	2,17,34,324	1,26,90,495
	Total amount in Rs.	7,37,62,936	4,22,37,075
	Rate per unit Rs.	3.39	3.33
	b) Own Generation		
	i) Through Diesel Generator		
	Units Generated (KWH)	13,500	5,776
	Total amount Rs.	1, 73,610	74,262
	Cost per unit Rs.	12.86	12.86
	ii) Through Steam Generation	--	--
	iii) Through Hydel Generation		
	Units generated – KWH	1,13,68,300	1,01, 98,800
	Units consumed – KWH	77,98,655	75,40,111
	Total Cost Rs.	28,85,50,24	2,78,98,412
	Cost per KWH Rs.	3.70	3.70
2.	Coal	--	--
3.	Furnace Oil	--	--
4.	Other Internal Generation		
	b) CONSUMPTION PER UNIT OF PRODUCTION (NO. OF UNITS/KG.)		
1.	Electricity	5.16	5.15
2.	Coal	--	--
3.	Furnace Oil	--	--
4.	Hydel	--	--

## **KALLAM SPINNING MILLS LTD.**

### **B. TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION:**

1. Efforts, in brief made towards technology absorption, adaptation and innovation :  
Continuous efforts are being made towards technology absorption, adaptation and innovation. Quality being the thrust area, the company has taken effective steps to continue to improve quality to compete with international quality standards.
2. Benefits derived as a result of the above efforts:  
Improved capability and productivity to meet the customer requirements.
3. Imported Technology:  
— Nil —

### **C. FOREIGN EXCHANGE EARNINGS AND OUTGOINGS:**

Foreign exchange earnings during the year under review amounted to Rs.1770.48 lakhs. The foreign exchange utilized during the year amounted to Rs 27.53 lakhs

### **MANAGEMENT DISCUSSION AND ANALYSIS:**

#### **1. INDUSTRY STRUCTURE & DEVELOPMENT:**

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

##### **(a) Industry structure**

Textile industry continues to be a key segment in the Indian Industrial scenario and is poised to post a major growth in the post quota regime under the WTO agreement. The industry has weathered the legacies of the past and is coping up with the situation. The Industry is also in the process of modernization and technological upgradation to remain competitive in the World market. To this end, it presents a major profitable business opportunity for yarn manufacturers who are able to tune their manufacturing systems to deliver World class products.

##### **(b) Industry performance**

The modernisation of textile industry continued during the year 2008-09 thanks to the Technology Upgradation Fund (TUF) Scheme evolved by Government of India which facilitates modernisation programme in textile industry aimed at higher productivity, quality improvement and waste reduction. This was also supplemented by cost reduction efforts through continuous improvement in processes and research and development efforts. These efforts promise to create additional employment and in Tamil Nadu alone the workforce is expected to double during the next decade.

##### **(c) Company's performance**

The net sales of the Company for the year under review increased to Rs 6723.58 lakhs as compared to Rs. 6036.98 lakhs in the previous financial year, registering a growth of 11.38 percent. The profit before tax of the company has decline by 11.78 percent on annualized basis from Rs 513.42 lakhs in previous year to Rs. 452.95 lakhs in the current financial year.

The net profit for the year under report was affected and registered a drop to Rs. 345.67 lakhs from Rs.369.64 lakhs. In view of the rupee appreciation and unprecedented increase in raw material cost, your company found it difficult to market its yarn in both international and domestic markets. Further the merchandise export market did not promise anticipated price realisation for the finer counts and hence your company was thus forced to concentrate more on domestic market, which helped your company to avoid further lowering of profits during the year under review.

Your company's Hydel power project generated power of the value of Rs.331.18 lakhs as against Rs. 367.01 lakhs in the previous year resulting a marginal fall of 10%.

##### **(d) Strategies and Future plans**

Keeping in view the trends in India and the world in the textile field, the Company is expanding its operations by increasing the spindleage capacity to the maximum level and construction of new Open Ended Unit which will utilize the cotton waste to another high marketable product. During the year your company has increase spindleage capacity from 44712 spindles to 50256 spindles by adding 5544

spindles. The OE Plant is expected to commence its operations in the month of August 2009. The company is also in the process of set up new Automatic Ginning and Pressing Unit with a capital outlay of Rs. 12.44 Crores and it is expected to commence its operations before the cotton season of 2009-10. The benefit of the project will be realised in next year.

## **2. OPPORTUNITIES AND THREATS:**

A SWOT Analysis.

### **Strengths**

1. The management team is well experienced with hands on experience in all areas of operations and key members of the team are able to access to trend forecasts and strategic planning at macro and micro levels.
2. Since cotton sourcing is the single most important element in the spinning industry, our focus has been to develop competencies in this area. We source directly from the market and have created long-standing relationship with our suppliers. Our international relationships give us the leeway to source instantly from global markets if so desirable.
3. We use the latest machines and equipment, scientifically monitor our labour productivity and have adopted a policy of constant improvement. In addition, we also use MIS tools for operating at optimal efficiency. We have provided adequate attention to many other related areas, like shipping and logistics, spare parts sourcing and financial planning to increase our overall efficiency.
4. Most of our customers are repeat customers. This is testimony to our product quality and standardization. Our aim has been to always lead in the area of product development.
5. Our fair policies and consistent quality have earned us significant goodwill in the markets we operate in, giving us an advantage against competition.
6. By following a proactive labour policy, we have been able to develop a workforce that identifies themselves as a part of a family rather than as mere employees. Our units have enjoyed the distinction of never having suffered any labour unrest from inception.

### **Weaknesses**

1. The demand pattern in the state is observed to be most seasonal.
2. There is also a disadvantage in the form of increased power tariff, fuel cost etc.
3. The product diversification in the sector is insignificant

### **Opportunities and Threats**

Though the quota liberalization has opened up bigger markets for Indian Spinning Industries, the competition from China, Thailand and other countries is increasing. Any fluctuation in the cotton prices due to the vagaries of monsoon etc. and the fluctuating foreign currencies against Rupee could become a real threat to the industry at large. The rising interest cost in the country also could create pressure on the margins during the current year.

## **3. SEGMENTAL REVIEW AND ANALYSIS:**

Your company is one of the leading quality makers of 100% cotton combed yarn. The company depended mostly on exports for its business. The power generated by its Hydro Power Plants is used for captive consumption of spinning division.

### **SPINNING DIVISION:**

During the year your company has increased the spindleage from 44712 spindles to 50265 spindles. Your company has also constructed new OE Plant with capital outlay of Rs. 24.75 crores and it is expected to commence its operations in the month of August 2009. The company has also established a new Automatic Ginning and Pressing Unit with a capital outlay of Rs. 12.44 Crores and it is expected to commence its operations before the cotton season of 2009-10.

Your Company has partially shifted thrust from the export market, which have now become unremunerative over the years to the domestic market so that we can sustain the sale of value added products.

## **KALLAM SPINNING MILLS LTD.**

### **HYDEL POWER DIVISION:**

Keeping in view the outstanding performance of the Hydel project for the past four years, the Management has decided to construct the 3<sup>rd</sup> power plant at the same place i.e. Nelakondapalli (V), Khammam (Dist) for which the Company is having all necessary permissions and approvals.

During the year under review, fortunately with the flow of water Krishna Basin the Hydel power generation had gone up from 1, 01,98,800. Units to 1,13,68,300 units. Most of the power generation was for the captive consumption of the spinning division.

### **4. RISKS AND CONCERNS:**

#### **(1) Industry risk**

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

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

#### **(2) Currency risk**

Derivative instruments associated with import of cotton and machinery equipments and export of yarn can cause significant adverse results if not properly hedged. Your company is taking the requisite ongoing steps to closely monitor the exchange rate movements.

#### **(3) Leverage risk**

A company poised on expansion mode runs the risk of adverse debt leveraging which may affect its financials significantly. Realising this, a close watch is being kept on optimum utilisation of the funds raised and consequently your company does not envisage the said risk to adversely affect the company.

#### **(4) Quality risk**

Quality of yarn manufactured is the single most important factor that will take a company forward in its success story. Your company has been aware of the said importance from its inception and the progress that it has made through the years was mainly because of the strict adherence to the quality of its yarn which has resulted in the company reaping the best possible price for its yarn, both in the internal and international markets.

### **5. INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY:**

The company has in place well established internal control procedures covering various areas such as procurement of raw materials, production planning, quality control, maintenance, planning, marketing, cost control and debt servicing and steps are taken without loss of time, whenever any weakness is observed, to correct the same.

Regular internal audits and checks are carried out to ensure that the responsibilities at various levels are executed effectively and adequate systems are in place. The Management continuously reviews the internal control systems and procedures to ensure orderly and efficient conduct of business. The review includes adherence to the management policies, safeguarding the assets of the company and ensuring the timely and accurate financial information.

### **6. HUMAN RESOURCE DEVELOPMENT:**

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

**7. CAUTIONARY STATEMENT:**

Statements in the Management Discussion and Analysis describing the Companies objectives, projections, estimates, expectations may be "forward looking statements" within the meaning of applicable security laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make difference to the company's operations include, among others, economic conditions effecting demand / supply and price conditions in the domestic and overseas markets in which the Company operates, changes in the Government regulations, tax laws and other statutes and incidental factors

**ANNEXURE TO THE DIRECTOR'S REPORT**

**REPORT ON CORPORATE GOVERNANCE FOR THE PERIOD APRIL 1, 2008 TO MARCH 31, 2009.**

The detailed report on Corporate Governance as per the format prescribed by SEBI and incorporated in Clause 49 of the Listing Agreement is set out below.

**1. Company's philosophy on Corporate Governance**

The underlying principles of Corporate Governance are the values, ethics and commitment to follow best business practices. Thus, it rests upon the foundations of transparency, disclosures and fairness in dealing with its stakeholders

Kallam's corporate Governance philosophy stems from our belief that the business strategy and plans should be consistent with the welfare of all stakeholders .We are commit to ensure that all functions of the company are discharged in a professionally sound and competent manner, which leads to increasing employee and customer satisfaction and shareholder value.

**2. Board of Directors**

The strength of the Board of Directors as on 31/03/2009 is 10. The Board comprises of Executive and Non-Executive Directors. The Non-Executive Directors bring external and wider perspective in the Board's deliberations and decisions. There are three Executive Directors. There are Seven Non-Executive directors, including Nominee Director and all of them are Independent Directors.

Independent Directors are Directors, who apart from receiving Directors' remuneration do not have any other material pecuniary relationship or transactions with the Company, its promoters, its management or its subsidiaries, which in judgment of the Board may affect independence of judgment of the Directors.

**No. of Board Meetings held during the year along with the dates of the Meetings**

During the financial year ended March 31, 2009 Five Board Meetings were held on 28<sup>th</sup> June 2008, 28<sup>th</sup> July 2008, 25<sup>th</sup> October 2008, 29<sup>th</sup> November 2008 and 28<sup>th</sup> January 2009.

**Attendance of each Director at the Board Meetings, last Annual General Meeting (AGM) and the number of Companies and Committees where he is Director / Member (as on the date of Directors' Report)**

Name of the Director	Category of Directorship	No. of Board Mtgs. Attended	Attendance at Last AGM	No. of Other Directorships	No. of committees in position held in other Ltd., Com.	
					Chairman	Member
Shri K. Haranadha Reddy	Chairman	NINE	3	Yes	Nil	Nil
Shri P. Venkateswara Reddy	MD	NIE	5	Yes	Nil	Nil
Shri G.V. Krishna Reddy	Jt. MD	NIE	5	Yes	Nil	Nil
Shri M.V. Subba Reddy	W.T.D.	NIE	5	Yes	Nil	Nil
Shri M.R. Naik	Director	I&N.E.D	5	Yes	Nil	Nil
Shri N. Prabhakara Rao	Director	I&N.E.D	5	Yes	1	Nil
Shri V.S.N. Murthy	Director	I&N.E.D	3	No	5	1
Shri A. Krishna Murthy	Director	I&N.E.D	3	No	Nil	Nil
Shri S. Pulla Rao	Director	I&N.E.D	4	No	Nil	Nil
Shri A. Rajendra Prasad	Director	I&N.E.D	3	No	Nil	Nil

## **KALLAM SPINNING MILLS LTD.**

NINE- Non-Independent and Non Executive Director, NIE- Non-Independent and Executive Director, I & N.E.D – Independent and Non-Executive Director.

### **Directors retiring by rotation and seeking reappointment**

The information is provided in the Notes appended to the Explanatory Statement under the heading “Additional information on Directors recommended for appointment / seeking re-election at the ensuing Annual General Meeting”.

### **Disclosure of transactions where Non Executive Directors have pecuniary interest.**

None of the Non-executive Directors have any pecuniary relationship or transactions vis-a-vis the Company. The directors periodically disclose their interest in different companies and transactions/ contracts of the Company with such companies are taken on record in the Board Meetings.

## **3. Audit Committee**

### **(a) Brief description of terms of reference**

The Terms of Reference of this committee cover the matters specified for Audit Committees under Clause 49 of the Listing Agreement as well as in Section 292A of the Companies Act, 1956, and are as follows:

- a. Oversight of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
- b. Recommending the appointment and removal of external auditor, fixation of audit fee and also approval for payment for any other services.
- c. Reviewing with management the annual financial statements before submission to the Board, focussing primarily on:
  - Any changes in accounting policies and practices
  - Major accounting entries based on exercise of judgment by management
  - Qualifications in draft Auditors' Report
  - Significant adjustments arising out of audit
  - The going concern assumption
  - Compliance with stock exchange and legal requirements concerning financial statements
  - Any related party transactions i.e. transactions of the company of material nature, with promoters or the management, their subsidiaries or relatives etc., that may have potential conflict with the interests of the Company at large.
- d. Reviewing with the management, external and internal auditors, and the adequacy of internal control systems.
- e. 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.
- f. Discussion with internal auditors of any significant findings and follow up there on.
- g. Reviewing the findings of any internal investigations by the internal auditors into 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.
- h. Discussion with external auditors, before the audit commences, the nature and scope of audit as well as have post audit discussion to ascertain any area of concern.
- i. Reviewing the Company's financial and risk management policies.
- j. Other matters as assigned/specified by the Board from time to time.

### **(b) Composition, Meetings and Attendance during the year**

The Audit Committee comprises of three Independent Non-Executive Directors. During the financial year ended March 31, 2009 the committee met Four times on 28<sup>th</sup> June 2008, 28<sup>th</sup> July 2008, 25<sup>th</sup> October 2008 and 28<sup>th</sup> January 2009. The attendance of the each member of the committee is given below:

Directors	Chairman / Member	Category	No.of meeting attended
Shri V.S.N. Murthy	Chairman	Nominee Director	3
Shri N. Prabhakara Rao	Member (upto 28.6.08)	I & N.E.D	1
Shri M.R. Naik	Member (upto 28.6.08)	I & N.E.D	1
Shri S. Pulla Rao	Member (from 28.6.08)	I & N.E.D	3
Shri A. Rajendra Prasad	Member (from 28.6.08)	I & N.E.D	2

**4. Remuneration Committee**

**(a) Terms of Reference**

The Company had constituted the Remuneration Committee on 26<sup>th</sup> June 2004. The broad terms of reference are to determine and recommend to Board, Compensation payable to Executive Directors, appraisal of the performance of the Managing Directors / Wholetime Directors and to determine and advise the Board for the payment of annual commission/compensation to the Non-Executive Director.

**(b) Composition, Meetings and Attendance during the year**

The Remuneration Committee comprises of total three Independent Non-Executive Directors. During the financial year ended March 31, 2009, the committee met on 28.6.08 fix the remuneration of Managing Director, Joint Managing Director and Whole Time Director of the Company. The committee comprises as follows:

Directors	Chairman / Member	Category
Shri N. Prabhakara Rao	Chairman	I & N.E.D.
Shri M.R. Naik	Member	I & N.E.D.
Shri V.S.N. Murthy	Member	Nominee Director

**(c) Remuneration of Directors**

The Company pays remuneration to its Managing Directors / Whole time Directors by way of salary, perquisites and allowances (a fixed component) and commission (a variable component). Salary is paid within the range approved by the shareholders. Commission is calculated with the reference to the net profits of the Company in a particular financial year and is determined by the Board of Directors at the end of the financial year based on the recommendations of the Remuneration Committee, subject to the overall ceiling as stipulated in Section 198 and 309 of the Companies Act. The Company pays sitting fees to all the Non-Executive Directors at the rate of Rs. 3000/- for attending each meeting of the Board, and Rs.2000/- for attending each Audit committee meeting thereof.

Directors	Salary	Benefits	Commission	Sitting fees	Total
Shri K. Haranadha Reddy	---	---	---	---	---
Shri P. Venkateswara Reddy	6,00,000	19,061	4,79,998	---	10,99,059
Shri G.V. Krishana Reddy	6,00,000	1,22,418	4,79,998	---	12,02,416
Shri M.V. Subba Reddy	2,52,000	62,173	---	---	3,14,173
Shri M.R. Naik	---	---	---	17,000	17,000
Shri N. Prabhakara Rao	---	---	---	17,000	17,000
Shri V.S.N. Murthy	---	---	---	15,000	15,000
Shri A. Krishna Murthy	---	---	---	9,000	9,000
Shri S. Pulla Rao	---	---	---	18,000	18,000
Shri A. Rajendra Prasad	---	---	---	13,000	13,000

All the Whole Time Directors have been appointed for a period of 5 years.

## **KALLAM SPINNING MILLS LTD.**

### **5. Shareholders/Investor Grievance Committee**

The terms of reference shall be as per Clause 49 of the Listing Agreement.

- I) A Shareholders/Investor Grievance Committee" to specifically look into the redressal of Shareholders' / Investors' complaints and of investors such as transfer or credit of shares to demat accounts, on receipt of dividend /notices /annual returns etc.
- !!) The Committee functions under the Chairmanship of Mr. A. Krishna Murthy, a Non-executive and independent Director. The other members of the Committee are Mr. G.V.Krishna Reddy and Mr.N.Prabhakara Rao.
- !!!) The Company received a total of One complaints from its shareholders for the period 01.04.2008 to 31.03.2009, all of which were resolved within 30 days to the satisfaction of the shareholders.
- !V) Name ,designation and address of the compliance officer Mr.K.Kumara Swamy,Asst Company Secretary ,Kallam Spinning Mills Ltd ,NH-5 ,Chowdavaram,GUNTUR,A.P-522019.

### **6. Share Transfer Committee**

During the year the Share Transfer Committee has been Re- Constituted with Mr. G.V. Krishna Reddy as Chairman, and Mr.P.Venkateswara Reddy and Mr. M.V. Subba Reddy, as other Members. The Committee meets frequently to approve the Memorandum of share transfers, sub-division / consolidation of share certificates, transmission of shares and issue of duplicate share certificates, which are submitted by the Share Transfer Agents after completing their formalities. The committee met 11 times during the year 2008-09. Share Transfers approved by the Committee are placed at the Board Meeting from time to time. During the period under review, 53,000 Equity shares were transferred.

There are no pending Share Transfers as on date of this Report.

### **7. Annual General Meetings**

Details of location of the last three Annual General Meetings of the Company are given below:

<b>Date of AGM</b>	<b>Time</b>	<b>Place</b>
25 <sup>th</sup> September, 2006	3.00P.M	Regd. Office at NH-5, Chowdavaram, GUNTUR - 522 019
10 <sup>th</sup> September, 2007	3.00P.M	Regd. Office at NH-5, Chowdavaram, GUNTUR - 522 019
20 <sup>th</sup> September, 2008	3.00P.M	Regd. Office at NH-5, Chowdavaram, GUNTUR - 522 019

### **Disclosures**

There are no materially significant related party transactions i.e. transactions of the Company of material nature, with its Promoters, the Directors or the Management, their subsidiaries or relatives etc. that may have potential conflict with the interests of Company at large.

Details of non-compliance by the Company, penalties, and strictures imposed on the Company by Stock Exchange or SEBI or any statutory authority, on any matter related to capital markets, during the last three years: Nil

### **8. Means of Communication**

Quarterly results were taken on record by the Board of Directors and submitted to the Stock Exchanges in terms of the requirement of Clause 41 of the Listing Agreement.

The quarterly audited / unaudited financial results of the Company were published in Deccan Chronicle (English newspaper) Andhra Bhoomi (vernacular newspaper). Half-yearly results were not sent to each of the shareholders.

The Management Discussion and Analysis Report is included in the Directors Report and forms part of the Annual Report.



## KALLAM SPINNING MILLS LTD.

The information required under the Companies Act and the Listing Agreement, is sent to Stock Exchanges, where Company's equity shares are listed, through facsimile and courier / post and by publication in national newspaper and vernacular newspaper, wherever required.

### 9. General Shareholder Information

Ensuring Annual General Meeting :	19 <sup>th</sup> September, 2009 at 3.00 P.M at the Registered Office of the Company
Financial Year :	01.4.2008 to 31.03.2009
Financial Calender:	a) First Quarter Results – Normally, last week of July b) Half yearly Results – Normally, last week of October c) Third Quarter Results – Normally, last week of January d) Annual Audited Financial Results- Normally last week of June
Dates of Book Closure :	14 <sup>th</sup> September, 2009 to 19 <sup>th</sup> September, 2009 (both days Inclusive)
Dividend payment date :	24 <sup>th</sup> September 2009
<b>Listing on Stock Exchanges</b> :	The Company's shares are listed on the following stock exchanges i) The Hyderabad Stock Exchange Ltd 6-3-654, Adjacent to Erramanjali Bus Stop, Somajiguda HYDERABAD-500 082 PH: 040-23371701, 23435455 Fax No.040-23371696 ii) Bombay Stock Exchange Limited (Code 530201) Phiroze Jeejeeboy Towers, Dalal Street, MUMBAI – 400 001. Ph: 022 – 22721233/34 Listing fees for the year 2008-2009 have been paid.
<b>Stock Code</b> :	<b>530201(BSE)</b>
<b>Depository Participation:</b>	i) National Securities Depository Ltd,(NSDL) Trade World, 4 <sup>th</sup> Floor, Kamala Mills Compound, Senapati Bapat Marg, Lower Parel, Mumbai – 400 013. Ph. No: 022 - 2497 2964 ii) Central Depository Services (India) Ltd, (CDSL) P.J. Towers, 28 <sup>th</sup> Floor, Dalal Street, Mumbai – 400 023. Ph. No: 022 - 2497 2964
ISIN Number for NSDL & CDSL :	INE629F01017

**KALLAM SPINNING MILLS LTD.****Market Price Data****Bombay Stock Exchange Limited**

Month	Share Price (Rs.)		No. of Shares Traded	Sensex	
	High	Low		High	Low
April - 2008	22.00	15.30	53571	17480.74	15297.96
May - 2008	23.75	17.65	56637	17735.70	16196.02
June - 2008	20.50	15.35	36599	16632.72	13405.54
July - 2008	21.00	16.00	24104	15130.09	12514.02
Aug - 2008	21.50	17.50	61118	15579.78	14002.43
Sept - 2008	20.00	15.20	50449	15107.01	12153.55
Oct - 2008	18.00	11.25	27752	13203.86	7697.39
Nov - 2008	17.60	11.71	97472	10945.41	8316.39
Dec - 2008	14.55	10.55	69665	10188.54	8467.43
Jan - 2009	13.50	10.02	28562	10469.72	8631.60
Feb - 2009	13.19	10.00	64434	9724.87	8619.22
Mar - 2009	12.90	9.06	14645	10127.09	8047.17

Registrars & Share Transfer Agents : Bigshare Services Pvt Ltd. G-10, Left Wing, Amrutha Ville, Opp. Yashoda Hospital, Raj Bhavan Road, Somajiguda, Hyderabad - 500 082

**Share Transfer System:**

SEBI has notified the compulsory trading of equity shares of the Company in dematerialisation form. However, the equity shares of the Company are traded in demat as well as in non-demat form. The Company has appointed M/s. Bigshare Services Private Limited as Registrars & Share Transfer Agents for both electronic and physical transfers.

For demat shares, the Company is registered with NSDL and CDSL. The ISIN allotted to Equity Shares is INE629F01017.

For non-demat shares, the transfers are processed and registered at M/S. Bigshare Services Private Limited. Shares lodged for transfer are normally processed within 15 days from the date of lodgment, if the documents are clear in all respects. As per guidelines of SEBI, Option Letters for transfer-cum-demat are sent to the transferees giving them 30 days period to inform their option. Physical Share Certificates are dispatched to the transferees after 30 days, who do not opt for the demat.

**Distribution of Shareholding as on 31<sup>st</sup> March 2009**

Range (No. of Shares)	No. of Shareholder	No. of Shares	% to Total
1- 500	2801	539165	7.87
501- 1000	297	244563	3.57
1001- 2000	161	238213	3.48
2001- 3000	80	202583	2.96
3001- 4000	21	74441	1.09
4001- 5000	28	134735	1.97
5001- 10000	38	292663	4.27
10000 and above	54	5124737	74.80
	3480	6851100	100.00

**KALLAM SPINNING MILLS LTD.****Categories of Share Holders as on 31<sup>st</sup> March 2009**

Category	No. of Shares held	% of share holding
1. Promoters		
--- Inian	3587153	52.36
--- Foreign	---	---
2. Persons acting in concert	---	---
3. Institutional Investors		
a. Mutual Funds & UTI	10000	0.15
b. Banks, Financial Institutions Insurance companies, (Central & State Govt. Inst. / Non. Govt. Institutions)	0.00	0.00
c. FIs	---	---
4. Others		
--- Private Corporate Bodies	633203	9.24
--- Indian Public	2525713	36.87
--- NRI / OCBs	92876	1.36
--- Others (Cleating Members)	2155	0.03
	6851100	100.00

**Dividend History**

Financial Year	% of Dividend
2004-05	7
2005-06	10
2006-07	12
2007-08	12
2008-09	9

**Factory**

- a) Spinning Unit : NH-5, Chowdavaram, Guntur, Andhra Pradesh  
b) Power Plant : Kotha Kothur Village, Nelakondapalli Mandal,  
Khammam Dt. Andhra Pradesh.

No. of Employees as on 31<sup>st</sup> March 2009 : 152

Address for Correspondence

A) Company :

Kallam Spinning Mills Limited  
NH-5, Chowdavaram,  
GUNTUR, A P – 522 019.

B) Registrars & Share Transfer Agents :

Bigshare Services Pvt Ltd.  
G-10, Left Wing, Amrutha Ville,  
Opp.Yashodha Hospital  
Raj Bhavan Road, Somajiguda,  
Hyderabad -500082

Tel : ( 040)-23374967, Tel Fax: 23370295

## **KALLAM SPINNING MILLS LTD.**

### **DECLARATION BY MANAGING DIRECTOR /CEO**

I, P.Venkateswara Reddy, Managing Director of Kallam Spinning Mills Limited hereby confirm that all the board members and senior managerial personnel have affirmed for the year ended 31<sup>st</sup> March, 2009 the compliance with the code of conduct of the Company laid down for them.

Place : Guntur  
Date: 27.06.2009

**P.Venkateswara Reddy**  
Managing Director

### **CERTIFICATION BY CHIEF EXECUTIVE OFFICER**

To the best of our knowledge and belief:

- i. we have received the balance sheet and profit and loss and all its schedules and notes an account as well as the cash Flow statements and the Directors Report:
- ii. These statements do not contain any materially untrue statement or omit any material fact nor do they contain statements that might be misleading:
- iii. These statements together present a true and fair view of the company, and are in compliance with the existing accounting standards and /or applicable laws and regulations:
- iv We are responsible for establishing and maintaining internal controls and have evaluated the effectiveness of Internal control systems of the company, and they have also disclosed to the auditors and the audit committee,

Deficiencies in the design or operation of internal controls, if any and what they have done or proposed to do rectify these;

- v. We have also disclosed to the auditors as well as Audit Committee, instances of significant fraud, if any, that involves management or employees having a significant role in the company's internal control systems: and

We have indicated to the auditors, the Audit Committee and in the notes on accounts, Whether or not there were significant changes in internal control and /or of accounting polices during the year.

Place: Chowdavaram  
Date: 27.06.2009

For and on behalf of the Board  
**P.VENKATESWARA REDDY**  
Managing Director

**AUDITORS' CERTIFICATE ON CORPORATE GOVERNANCE**

To  
The Members of  
**Kallam Spinning Mills Limited**

We have examined the compliance of conditions of corporate governance by **Kallam Spinning Mills Limited** for the year ended 31<sup>st</sup> March, 2009, as stipulated in Clause 49 of the Listing Agreement of the said Company with Stock Exchanges where its shares are listed.

The compliance of conditions 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 the 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 explanations given to us, and based on the representations made by the directors and the management, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We state that as per the records maintained, and certified by the Registrars of the Company, there were no investors' grievances remaining unattended as at 31<sup>st</sup> March, 2009.

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

For **BRAHMAYYA & CO.**,  
Chartered Accountants,

(P.LAKSHMANA RAO)  
Partner

ICAI Membership No.13254

Place : Guntur  
Date : 27.06.2009

**AUDITORS' REPORT**

To  
The Shareholders  
Kallam Spinning Mills Limited  
Guntur

We have audited the attached Balance Sheet of **KALLAM SPINNING MILLS LIMITED** as at 31 March 2009, its Profit and Loss Account for the year ended on that date annexed thereto, and its Cash-flow Statement for the year ended on that date. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India, which require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by 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 issued by the Government of India in terms of sub-Section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

Further to our comments in the Annexure referred to above, we report that:

- a. 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;
- b. In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of such books;
- c. The Balance Sheet and Profit and Loss Account and Cash-flow Statement dealt with by this report are in agreement with the books of account;
- d. In our opinion, the Balance Sheet, Profit and Loss account and Cash-flow Statement dealt with by this report comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;
- e. On the basis of written representations received from the directors, as on March 31, 2009, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2009 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956;
- f. In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the significant accounting policies and notes thereon give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India;
  - i. in the case of the Balance Sheet, of the state of affairs of the Company as at 31<sup>st</sup> March, 2009;
  - ii. in the case of the Profit and Loss Account, of the Profit for the year ended on that date,  
and
  - iii. in the case of the Cash-flow Statement of the cash-flows of the company for the year ended on that date.

For **BRAHMAYYA & CO**  
Chartered Accountants

**P. LAKSHMANA RAO**  
ICAI Membership No.13254  
Partner

Place : Guntur  
Date : 27.03.2009

**Annexure referred to in paragraph 3 of our report of even date.**

- 1.1 According to the information and explanations furnished to us, the company has maintained proper records showing full particulars including quantitative details and situation of its fixed assets.
- 1.2 According to the information and explanations furnished to us, the company has physically verified its fixed assets during the year and no material discrepancies were noticed on such verification.
- 1.3 According to the information and explanations furnished to us, the company has not disposed of a substantial part of its fixed assets during the year as to affect the going concern assumption in preparing the financial statements under report.
- 2.1 According to the information and explanations furnished to us, the company has physically verified its inventories during the year. In our opinion, the frequency of such verification to the extent carried out is reasonable.
- 2.2 In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the company and the nature of its business.
- 2.3 According to the information furnished to us, the company is maintaining proper records of its inventory. The discrepancies if any noticed on verification of inventories between the physical stocks to the extent verified during the year and the book records were not material, and have been properly dealt with in the books of account.
- 3.1 According to the information and explanations furnished to us, the company has not granted any loans secured or unsecured to companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act 1956, at the beginning of the year or during the year, and consequently reporting under sub-clauses b, c and d of clause 4(iii) of the Order does not arise during the year under report.
- 3.2 According to the information and explanations furnished to us, the company has taken loans aggregating at the date of the Balance Sheet to Rs.26.30 lakhs from 3 directors, Rs.20.60 lakhs from 7 parties covered in the register maintained under Section 301 of the Companies Act 1956.
- 3.3 According to the information and explanations furnished to us, the above loans obtained are interest free. The other terms and conditions on which loans have been taken by the company from the parties covered in the register maintained under section 301 of the Companies Act, 1956 are not, *prima facie*, prejudicial to the interest of the company.
- 3.4 According to the information and explanations furnished to us, the above loans are repayable on demand and hence the question of regularity in repayment of principal amounts does not arise.
4. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the company and the nature of its business with regard to purchase of inventory, fixed assets and with regard to the sale of goods and services. Further, during the course of our audit, we have not come across any instances of major weaknesses in internal control system that in our opinion, require correction but have so continued without correction.
- 5.1 Based on the information and explanations given to us, we are of the opinion that the particulars of contracts or arrangements referred to in Section 301 of Act have been entered in the register required to be maintained under that section.
- 5.2 In opinion and according to the information and explanations given to us, the transactions made in pursuance of such contracts or arrangements that have been entered in the register maintained under Section 301 of the Companies Act, 1956 have been made at prices which are reasonable having regard to prevailing market prices and other terms of business with such parties, at the relevant time.
6. In our opinion and according to the information and explanations given to us, the company has complied with the provisions of section 58A, 58AA and any other relevant provisions of the Act and Companies (Acceptance of Deposits) Rules, 1975 with regard to the deposits accepted from the public. According to the information furnished to us, no Order has been passed on the company by the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal for non-compliance with the provisions of Sections 58A, 58AA of the Companies Act 1956.

## **KALLAM SPINNING MILLS LTD.**

7. In our opinion, the company has an internal audit system commensurate with the size and nature of its business.
8. We have broadly reviewed the books of account and records maintained by the company pursuant to the Rules made by the Central Government for the maintenance of Cost Records under section 209 (1) (d) of the Companies Act, 1956, wherever prescribed, and we are of the opinion that *prima facie* the prescribed accounts and records have been made and maintained. However, we are not required to and have not carried out a detailed audit of the same.
- 9.1 According to the information furnished to us, the company has been regular in depositing with the appropriate authorities, the undisputed statutory dues including Provident Fund, Investor Education Protection Fund, Employees' State Insurance, Income Tax, Sales Tax, Wealth Tax, Service Tax, Custom Duty, Excise Duty, Cess and other material statutory dues applicable to it and there were no outstanding amounts as at the date of the Balance Sheet under report, for a period of more than six months from the date they became payable.
- 9.2 According to the information furnished to us, and records of the company examined by us, at the date of the Balance Sheet, there were no amounts of Sales Tax, Customs Duty, Excise Duty, Cess, Income Tax, Wealth Tax and Service Tax that were disputed by the company and hence were not remitted to the concerned authorities.
10. The company had no accumulated losses at the end of the year under report and it did not incur cash losses during the said year or in the immediately preceding financial year.
11. In our opinion and according to the information and explanations furnished to us by the company, there were no defaults in repayment of its dues to financial institutions, banks or debenture holders at the date of the Balance Sheet.
12. According to the information furnished to us, the company has not granted any loans or 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 furnished to us, the company is not a chit fund or a *nidhi* / mutual benefit fund/ society and hence, the requirements of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 are not applicable to the company during the year under report.
14. According to the information furnished to us, the company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the requirements of clause 4(xiv) of the Companies (Auditor's Report) Order, 2003 are not applicable to the company.
15. According to the information furnished to us, the company has not given any guarantees for loans taken by others from any banks or financial institutions during the year and also there are no such outstanding guarantees as on date of balance sheet.
16. In our opinion and according to the information and explanations furnished to us, the term loans taken by the company have been applied for the purpose for which they were raised.
17. According to the information and explanations given to us and on an overall examination of the Balance Sheet of the company, we are of the opinion that considering the internal accruals of the company during the year under report, funds raised by the company on short term basis have *prima facie* not been used for long term investment.
18. According to the information and explanations furnished to us, the company has not made any preferential allotment of shares during the year to parties and companies covered in the register maintained under section 301 of the Companies Act, 1956.
19. According to the information and explanations given to us, the company has not issued any debentures during the year under report.
20. The company has not raised any moneys through public issue of its securities during the year, and the question of end use of such moneys did not arise during the year.
21. During the course of our examination of the accounts of the company in accordance with generally accepted auditing practices, we have not come across any instances of fraud on or by the company, nor have we been informed by the management, of any such instance being noticed or reported during the year

Place : Guntur  
Date : 27.06.2009

For **BRAHMAYYA & CO**  
Chartered Accountants  
**P. LAKSHMANA RAO**  
ICAI Membership No.13254  
Partner



**KALLAM SPINNING MILLS LTD.**

<b>BALANCE SHEET AS AT 31ST MARCH, 2009</b>			
Particulars	Schedule No.	As at 31.03.2009 Rs.	As at 31.03.2008 Rs.
<b>I. SOURCES OF FUNDS :</b>			
<b>1. Shareholders' Funds</b>			
(a) Capital	1	6,85,11,000	6,85,11,000
(b) Reserves & Surplus	2	14,88,47,249	12,14,94,385
<b>2. Deferred Govt. Grants</b>	3	2,33,158	2,63,706
<b>3. Loan Funds</b>			
(a) Secured Loans	4	76,69,00,250	64,86,43,326
(b) Unsecured Loans	5	2,42,05,253	3,06,41,505
<b>4. Deferred Tax Liability</b>		7,58,04,862	6,48,11,378
<b>TOTAL</b>		<b>1,08,45,01,772</b>	<b>93,43,65,300</b>
<b>II. APPLICATION OF FUNDS</b>			
<b>1. Fixed Assets</b>			
(a) Gross Block		89,90,41,514	81,84,46,306
(b) Less : Depreciation		21,56,34,330	17,57,83,363
(c) Net Block	6	68,34,07,184	64,26,62,943
(d) Capital work-in-progress		12,02,25,461	1,24,60,377
		<b>80,36,32,645</b>	<b>65,51,23,320</b>
<b>2. Investments</b>	7	3,200	3,200
<b>3. Current Assets, Loans and Advances</b>			
(a) Inventories	8	17,08,86,914	23,31,00,505
(b) Sundry Debtors	9	2,62,41,168	3,93,52,101
(c) Cash and Bank balances	10	2,11,39,763	1,35,62,131
(d) Other Current Assets	11	7,80,190	11,02,601
(e) Loans and Advances	12	10,60,59,032	6,97,03,760
		<b>32,51,07,067</b>	<b>35,68,21,098</b>
<b>Less: Current Liabilities &amp; Provisions</b>			
(a) Current Liabilities	13	1,85,26,330	5,02,84,405
(b) Provisions	14	2,57,14,810	2,72,97,913
		<b>4,42,41,140</b>	<b>7,75,82,318</b>
<b>Net Current Assets</b>		<b>28,08,65,927</b>	<b>27,92,38,780</b>
<b>TOTAL</b>		<b>1,08,45,01,772</b>	<b>93,43,65,300</b>

Note : The Schedules, Notes and statement on Accounting policies form an integral part of the Balance Sheet

As per our report of even date  
For **BRAHMAYYA & CO.,**  
Chartered Accountants

**P. LAKSHMANA RAO**  
Partner  
ICAI Membership No. 13254

Place : Guntur  
Date : 27.06.2009

For and on behalf of the Board  
**P. VENKATESWARA REDDY**  
Managing Director

**G.V. KRISHNA REDDY**  
JOINT MANAGING DIRECTOR

Place : GUNTUR  
Date : 27.06.2009

**KALLAM SPINNING MILLS LTD.**

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2009			
Particulars Schedule	Schedule No.	Year ended 31.03.2009 Rs.	Year ended 31.03.2008 Rs.
<b>INCOME</b>			
Sales		69,58,16,391	
Less : Inter Divisional Sales		<u>2,34,58,227</u>	
(Excise Duty Rs. NIL, Pr. Year Rs. NIL)			
Other Income	15	1,13,04,119	1,35,77,701
Increase in Stocks	16	8,123	60,37,939
<b>Total : A</b>		<b>68,36,70,406</b>	<b>62,33,13,218</b>
<b>EXPENDITURE</b>			
Raw Materials consumed	17	37,86,05,498	31,65,19,653
Purchase of Finished goods	18	1,86,75,314	3,03,16,282
Payments and Benefits to Employee	19	1,30,83,433	1,07,31,498
Manufacturing, Selling, Administrative and other expenses	20	12,51,92,781	11,66,44,787
Rates & Taxes	21	89,44,828	1,35,17,470
Interest	22	5,38,11,015	4,77,34,084
Depreciation		4,00,62,351	3,65,07,888
<b>Total : B</b>		<b>63,83,75,220</b>	<b>57,19,71,662</b>
<b>Profit before Tax (A-B)</b>		<b>4,52,95,186</b>	<b>5,13,41,556</b>
<b>Less : Provision for</b>			
i) Current Tax		56,00,000	62,00,000
ii) Fringe Benefit Tax		1,05,000	1,10,000
iii) Deferred Tax		1,09,93,484	1,39,31,417
		<b>2,85,96,702</b>	<b>3,11,00,139</b>
<b>Add :</b>			
(i) Tax Credit under MAT		56,00,000	58,00,000
(ii) Excess Provision for Income Tax		3,70,062	64,137
<b>Profit after Tax</b>		<b>3,45,66,764</b>	<b>3,69,64,276</b>
<b>Add :</b>			
Profit brought forward from previous year		11,83,94,385	9,20,48,642
<b>Profit available for appropriations</b>		<b>15,29,61,149</b>	<b>12,90,12,918</b>
<b>Appropriations:</b>			
Transfer to General Reserve		---	10,00,000
Proposed Dividends		61,65,990	82,21,320
Tax on Distributed Profits		10,47,910	13,97,213
Surplus carried forward to Balance Sheet		14,57,47,249	11,83,94,385
No. of Equity Sharees of Rs. 10/- each		68,51,100	68,51,100
Earning per Share : Profit After Tax/No. of Shares		5.05	5.40

Note : The Schedules, Notes and statement on Accounting policies form an integral part of the Profit and Loss Account.

As per our report of even date  
For **BRAHMAYYA & CO.,**  
Chartered Accountants

**P. LAKSHMANA RAO**  
Partner  
ICAI Membership No. 13254

Place : Guntur  
Date : 27.06.2009

For and on behalf of the Board  
**P. VENKATESWARA REDDY**  
Managing Director

**G.V. KRISHNA REDDY**  
JOINT MANAGING DIRECTOR

Place : GUNTUR  
Date : 27.06.2009

SCHEDULES FORMING PART OF BALANCE SHEET			
		As at 31.03.2009 Rs.	As at 31.03.2008 Rs.
1.	<b>SHARE CAPITAL</b>		
	Authorised 1,00,00,000 Equity Shares of Rs. 10/- each	<b>10,00,00,000</b>	10,00,00,000
	<b>Issued, Subscribed and Paid - up</b> 68,51,100 Equity shares of Rs. 10/- each	<b>6,85,11,000</b>	6,85,11,000
	<b>Total taken to Balance Sheet</b>	<b>6,85,11,000</b>	6,85,11,000
2.	<b>RESERVES &amp; SURPLUS</b>		
	a) Capital Reserve - Investment Subsidy	<b>15,00,000</b>	15,00,000
	b) General Reserve -	<b>16,00,000</b>	16,00,000
	c) Surplus in Profit and Loss account	<b>14,57,47,249</b>	11,83,94,385
	<b>Total taken to Balance Sheet</b>	<b>14,88,47,249</b>	12,14,94,385
3.	<b>DEFERRED GOVT. GRANTS</b>		
	Subsidy received from Andhra Pradesh State Government	<b>2,63,706</b>	2,94,254
	<b>Less : Amount Credited to Profit and Loss Account</b>	<b>30,548</b>	30,548
	<b>Total taken to Balance Sheet</b>	<b>2,33,158</b>	2,63,706
4.	<b>SECURED LOANS</b>		
	<b>I. Long Term Loans :</b>		
	<b>(i) From Financial Institutions :</b>		
	(a) Rupee Loan	<b>3,06,74,230</b>	3,38,20,184
	<b>(ii) From Banks :</b>		
	a) Rupee Loan	<b>60,08,57,459</b>	46,27,49,578
	Interest accrued and due on above	<b>67,36,385</b>	45,07,590
	<b>II. Short Term Loans :</b>		
	a) Working Capital Loan from banks	<b>12,86,32,176</b>	14,75,65,974
	<b>Total taken to Balance Sheet</b>	<b>76,69,00,250</b>	64,86,43,326
5.	<b>UNSECURED LOANS</b>		
	<b>Long Term Loans :</b>		
	a) Sales Tax Deferment under Sales Tax Deferral Scheme from Andhra Pradesh State Government	<b>1,94,92,303</b>	2,26,65,730
	b) Teak Plantation Deposits	<b>22,950</b>	26,775
	c) Loans from Promoters and their relatives (interest free)	<b>20,60,000</b>	35,59,000
	d) Fixed Deposits from Directors (Interest free)	<b>26,30,000</b>	43,90,000
	<b>Total taken to Balance Sheet</b>	<b>2,42,05,253</b>	3,06,41,505

6 FIXED ASSETS		GROSS BLOCK				DEPRECIATION	NET BLOCK	
S.NO.	NAME OF THE ASSET	COST UP TO 31.03.2008	ADDITIONS ADJUST- MENTS DURING THE YEAR	DEDUC- TIONS/ ADJUST- MENTS DURING THE YEAR	TOTAL COST UP TO 31.03.2009	TOTAL UP TO 31.03.2009	AS AT 31.03.2009	AS AT 31.03.2008
1.	LAND	96,83,983	1,28,235	0	98,12,218	0	98,12,218	96,83,983
2.	FACTORY BUILDINGS	17,85,85,691	0	0	17,85,85,691	3,15,93,544	14,69,92,148	15,29,56,910
3.	NON - FACTORY BUILDINGS	1,50,13,015	0	0	1,50,13,015	27,04,057	1,23,08,958	1,25,51,444
4.	PLANT AND MACHINERY	57,26,42,325	8,06,16,886	20,62,477	65,11,96,734	16,51,48,447	48,60,48,287	43,90,29,606
5.	ELECTRICAL & ELECTRONIC EQUIPMENTS	2,67,37,243	8,80,554	0	2,76,17,797	1,02,19,555	1,73,98,242	1,78,18,709
6.	BOREWELLES & WATER PUMPS	3,95,705	0	0	3,95,705	1,14,976	2,80,729	2,96,431
7.	OFFICE & OTHER EQUIPMENT	62,81,574	6,05,336	0	68,86,910	40,38,520	28,48,390	28,14,783
8.	FURNITURE & FITTINGS	21,04,956	5,200	0	21,10,156	6,67,861	14,42,296	15,69,628
9.	VEHICLES	34,95,737	9,31,876	6,04,439	38,23,174	11,47,370	26,75,802	24,35,372
10.	PLANTATIONS	21,80,161	0	0	21,80,161	0	21,80,161	21,80,161
11.	TEAK PLANTS WORK IN PROGRESS	13,25,916	94,037	0	14,19,953	0	14,19,953	13,25,916
	<b>Grand Total</b>	<b>81,84,46,306</b>	<b>8,32,62,124</b>	<b>26,66,916</b>	<b>89,90,41,514</b>	<b>21,56,34,330</b>	<b>68,34,07,184</b>	<b>64,26,62,943</b>
	<b>PREVIOUS YEAR</b>	<b>71,61,04,156</b>	<b>10,89,89,601</b>	<b>66,47,452</b>	<b>81,84,46,306</b>	<b>17,57,83,363</b>	<b>64,26,62,943</b>	<b>57,50,04,510</b>

**KALLAM SPINNING MILLS LTD.**

		As at 31.03.2009 Rs.	As at 31.03.2008 Rs.
7.	<b>INVESTMENTS : (Long Term)</b>		
	Non-trade and Unquoted :		
	i) In Government Securities :		
	a) National Saving Certificates (Lodged with Government departments towards security)	3,200	3,200
	Total taken to Balance Sheet	3,200	3,200
8.	<b>INVENTORIES</b>		
	(As Certified By the Managing Director)		
	a) Stores & Spares (including Packing Material)	1,03,71,646	1,26,61,066
	b) Tools and Implements	0	7,925
	c) Raw Materials	12,56,40,400	18,55,64,769
	d) Work-in-process	1,94,75,171	1,62,58,436
	e) Finished Goods -Yam and waste At Cost 56,49,355	1,44,54,237	1,83,20,858
	At realisable value <u>88,04,882</u>		
	Banked Energy	9,45,460	2,87,451
	Total taken to Balance Sheet	17,08,86,914	23,31,00,505
9.	<b>SUNDRY DEBTORS</b>		
	(Unsecured and considered good)		
	a) Outstanding for a period exceeding 6 months	59,60,059	37,75,797
	b) Other Debts	2,02,81,109	3,55,76,304
	Total taken to Balance Sheet	2,62,41,168	3,93,52,101
10.	<b>CASH AND BANK BALANCES</b>		
	(a) Cash on hand	12,57,491	3,47,354
	(b) Cash at Scheduled Banks:		
	i) In Current accounts	1,11,18,162	50,35,977
	ii) In Dividend accounts	12,27,169	9,00,718
	iii) In Fixed deposits	75,36,941	72,78,082
	Total taken to Balance Sheet	2,11,39,763	1,35,62,131
11.	<b>OTHER CURRENT ASSETS</b>		
	Accrued Interest on deposits	7,80,190	11,02,601
	Total Taken on Balance Sheet	7,80,190	11,02,601
12	<b>LOANS AND ADVANCES</b>		
	a) Advances ( Recoverable in cash or in kind or for value to be received, unsecured, considered good)	4,25,92,591	1,42,20,730
	b) Deposits recoverable	1,06,32,508	72,33,379
	c) EPCG Terminal Excise Duty Refund receivable	43,24,460	18,76,506
	d) Prepaid Expenses	4,99,665	2,68,219
	e) Insurance claim receivable	0	33,199
	f) Excise Duty Deposit	6	6
	g) Input Tax Credit under VAT	2,29,340	46,04,697
	h) Advance Income Tax/Fringe Benefit Tax/TDS	1,16,74,587	1,16,65,741
	i) MAT Credit entitlement	1,67,00,000	1,11,00,000
	j) Interest Rebate receivable under TUF	1,94,05,875	1,87,01,283
	Total taken to Balance Sheet	10,60,59,032	6,97,03,760

**KALLAM SPINNING MILLS LTD.**

<b>13</b>	<b>CURRENT LIABILITIES</b>		
	a) Sundry Creditors		
	-Due to Micro and Small Enterprises	<b>2,45,118</b>	5,12,076
	-Due to Others	<b>1,67,69,311</b>	4,55,71,459
	(including Rs.9,59,996/- P.Y. Rs. 11,41, 268/- due to Managerial Personal)		
	b) Unclaimed Dividends	<b>12,24,183</b>	9,27,827
	c) Advances received against Sales	<b>2,87,718</b>	32,73,043
	Total taken to Balance Sheet	<b>1,85,26,330</b>	<b>5,02,84,405</b>
<b>14</b>	<b>PROVISIONS</b>		
	a) Provision for Income - Tax	<b>1,73,00,000</b>	1,70,00,000
	b) Provision for Fringe Benefit Tax	<b>2,15,000</b>	3,05,000
	c) Provision for Gratuity	<b>9,85,910</b>	3,74,380
	d) Provision for Dividend	<b>61,65,990</b>	82,21,320
	e) Provision for Tax on Distributable Profits	<b>10,47,910</b>	13,97,213
	Total taken to Balance Sheet	<b>2,57,14,810</b>	<b>2,72,97,913</b>
<b>Schedules forming part of Profit and Loss Account for the Year ended 31.03.2009</b>			
<b>15</b>	<b>OTHER INCOME</b>		
	a) Interest received from Banks and Others	<b>11,08,657</b>	31,69,583
	(TDS Rs.2,09,480/- P.Y. Year Rs.3,10,369/-)		
	b) Deferred Government Grants Credited back	<b>30,548</b>	30,548
	c) Export Incentives - Duty Draw Back	<b>90,71,152</b>	94,67,875
	d) Credit Balances Written back	<b>11,089</b>	22,553
	e) Claims Received	<b>3,11,449</b>	33,199
	f) Profit on Sale of Assets	<b>1,363</b>	0
	g) Miscellaneous receipts	<b>7,69,861</b>	6,62,959
	h) Prior Period Income	<b>0</b>	1,90,984
	Total taken to Profit and Loss Account	<b>1,13,04,119</b>	1,35,77,701
<b>16</b>	<b>Increase in Stocks</b>		
	A. Opening Stock		
	Work-in-process	<b>1,62,58,436</b>	1,50,51,717
	Finished Goods - Yarn & Waste	<b>1,83,20,858</b>	1,31,75,680
	- Banked Energy	<b>2,87,451</b>	6,01,409
	Total (A)	<b>3,48,66,745</b>	2,88,28,806
	B. Closing Stock		
	Work-in-process	<b>1,94,75,171</b>	1,62,58,436
	Finished Goods - Yarn & Waste	<b>1,44,54,237</b>	1,83,20,858
	- Banked Energy	<b>9,45,460</b>	2,87,451
	Total (B)	<b>3,48,74,868</b>	3,48,66,745
	Total taken to Profit and Loss Account (B-A)	<b>8,123</b>	60,37,939
<b>17</b>	<b>RAW MATERIALS CONSUMED</b>		
	Opening Stock	<b>18,55,64,769</b>	9,97,99,680
	Add: Purchases of Cotton Lint	<b>31,86,81,129</b>	40,22,84,742
		<b>50,42,45,898</b>	50,20,84,422
	Less : Closing Stock	<b>12,56,40,400</b>	18,55,64,769
	Total taken to Profit and Loss Account	<b>37,86,05,498</b>	31,65,19,653

18	<b>PURCHASE OF FINISHED GOODS</b>		
	Cotton Yarn and Waste Cotton	<b>1,86,75,314</b>	3,03,16,282
	Total taken to Profit and Loss Account	<b>1,86,75,314</b>	3,03,16,282
19.	<b>PAYMENTS AND BENEFITS TO EMPLOYEES</b>		
	a) Salaries, Wages & Bonus	<b>1,09,18,433</b>	94,20,526
	b) Workmen & Staff Welfare Expenses	<b>9,32,719</b>	6,37,770
	c) Contribution to Provident Fund	<b>5,49,184</b>	4,89,964
	e) Incremental Liability for Gratuity	<b>6,83,097</b>	1,83,238
	Total taken to Profit and Loss Account	<b>1,30,83,433</b>	1,07,31,498
20	<b>MANUFACTURING, SELLING, ADMINISTRATIVE AND OTHER EXPENSES :</b>		
	<b>A) Manufacturing Expenses:</b>		
	a) Stores & Spares Consumed (including packing materials)	<b>2,90,88,354</b>	2,44,48,553
	b) Tools & Implements Written Off	<b>7,925</b>	9,595
	c) Power & Fuel	<b>7,37,68,227</b>	
	Less: Inter Divisional Sales	<b>2,34,58,227</b>	
	d) Insurance	<b>13,58,571</b>	16,03,457
	e) Repairs to - Plant & Machinery	<b>1,61,26,444</b>	1,09,40,957
	- Buildings	<b>99,535</b>	2,81,508
	- Other Assets	<b>19,092</b>	1,45,012
	<b>TOTAL (A)</b>	<b>9,70,09,921</b>	<b>7,96,74,657</b>
	<b>B) Selling Expenses :</b>		
	a) Loading, Unloading, Transport etc.,	<b>92,44,471</b>	1,27,06,852
	b) Commission on Sales	<b>63,90,639</b>	51,72,603
	<b>TOTAL (B)</b>	<b>1,56,35,110</b>	<b>1,78,79,455</b>
	<b>C) Administrative Expenses :</b>		
	a) Rents	<b>0</b>	5,450
	b) Directors Sitting Fee and Travelling Expenses	<b>2,06,591</b>	4,16,229
	c) Remuneration to Directors (Refer Note No. 11)	<b>26,15,648</b>	26,74,822
	d) Donations	<b>6,000</b>	9,832
	e) Payment to Auditors (Refer Note No. 10)	<b>78,180</b>	94,416
	f) Miscellaneous Expenses	<b>77,16,828</b>	79,89,355
	g) Insurance Claim written off	<b>0</b>	45,81,503
	h) Loss on Sale of Assets	<b>1,09,918</b>	9,88,656
	<b>TOTAL (C)</b>	<b>1,07,33,165</b>	<b>1,67,60,263</b>
	<b>D) Other Items</b>		
	a) Bad Debts Written Off	<b>1,18,515</b>	6,305
	b) Exchange Fluctuations (net)	<b>16,96,070</b>	23,24,107
	<b>TOTAL(D)</b>	<b>18,14,585</b>	<b>23,30,412</b>
	Total taken to Profit and Loss Account (A+B+C+D)	<b>12,51,92,781</b>	11,66,44,787
21	<b>RATES AND TAXES :</b>		
	Rates and taxes	<b>89,44,828</b>	1,35,17,470
	Total taken to Profit and Loss Account	<b>89,44,828</b>	1,35,17,470
22	<b>INTEREST PAID</b>		
	a) on Fixed Period Loans	<b>3,84,30,280</b>	3,61,17,442
	b) To banks and Others	<b>1,53,80,735</b>	1,16,16,642
	Total taken to Profit and Loss Account	<b>5,38,11,015</b>	4,77,34,084

## KALLAM SPINNING MILLS LTD.

### NOTES FORMING PART OF THE ACCOUNTS

#### 1. SECURED LOANS : SPINNING DIVISION

- A. Term Loans from banks are secured on parri passu basis by way of charge on all the immovable and movable assets of the Spinning division of the company. Further guaranteed by the Chairman, Managing Director and Joint Managing Director individually in their personal capacity.
- B. Short Term Loan from banks are secured by hypothecation of stocks of raw-materials, work-in progress, finished goods, stores & spares, book debts, etc, Also secured by second charge on all the fixed assets of the company excluding assets financed by IREDA for power division. Further guaranteed by the Chairman, the Managing Director and the Joint Managing Director of the company in their personal capacity.

#### POWER DIVISION:

- C. Term Loan from Indian Renewable Energy Development Agency Limited (IREDA) is secured by first charge on all the immovable and movable assets of Company's Power Division of 0.80 MW Small Hydro Project at Nandigama branch canal at mile # 3, Kotha Kothuru of Nelakonda Palli Village, Khammam (Dist) in the State of Andhra Pradesh under Project Financing Scheme (Project NO.1349). Further guaranteed by K.Haranadha Reddy, G.V.Krishna Reddy, M.V.Subba Reddy, K.Nägi Reddy, N.Prabhakara Rao and M.R.Naik in their personal capacity. The said loan is further guaranteed by two companies Kallam Agro Products & Oil Products Limited and Janapadu Hydro Power Limited.
- D. Term Loan from Andhra Bank is secured by first charge on all movable and immovable properties both present and future pertaining to 1.60MW capacity of Hydro Project at Nandigama Branch Canal at drop No.5-5-600 at Kotha Kothuru of Nelankondapalli Village in Khammam district Andhra Pradesh and further secured by second charge on fixed assets of Spinning Division. Further guaranteed by the Chairman, the Managing Director and the Joint Managing Director individually in their personal capacity.

2. SALES	Year ended 31-03-2009		Year ended 31-3-2008	
	Quantity (Kgs)	Value (Rs.)	Quantity (Kgs)	Value (Rs.)
Yarn	43,98,272	60,50,79,068	40,12,037	53,51,23,524
Waste	13,91,024	5,76,19,193	18,22,547	5,97,71,414
Power (KWH)	97,50,551	3,31,18,130	1,05,99,751	3,67,01,052
		<u>69,58,16,391</u>		<u>63,15,95,990</u>
Less: Inter divisional sales	63,40,061	2,34,58,227	75,40,111	2,78,98,412
<b>Total:</b>		<u>67,23,58,164</u>		<u>60,36,97,578</u>
3 RAW MATERIALS CONSUMED				
Cotton Lint	57,16,729	37,86,05,498	55,81,641	31,65,19,653
4 PURCHASE OF FINISHED GOODS				
YARN	1,31,152	1,86,75,314	1,37,050	21147028
WASTE	-	-	2,62,239	91,69,254
<b>Total:</b>		<u>1,86,75,314</u>		<u>3,03,16,282</u>
5 OPENING STOCK OF FINISHED GOODS				
YARN	1,45,568	1,63,60,331	93,832	1,00,00,041
WASTE	1,32,206	19,60,527	1,30,526	31,75,639
STOCK OF POWER (KWH) (Banked with APTRANSCO)	3,90,559	2,87,451	9,39,702	6,01,409
<b>Total:</b>		<u>1,86,08,309</u>		<u>1,37,77,089</u>
6. CLOSING STOCK OF FINISHED GOODS				
Yarn	89,850	1,29,06,227	1,45,568	1,63,60,331
Waste	1,71,261	15,48,010	1,32,206	19,60,527
Stock of Power (KWH) (Banked with APTRANSCO)	18,18,193	9,45,460	3,90,559	2,87,451
<b>Total:</b>		<u>1,53,99,697</u>		<u>1,86,08,309</u>



**7. PARTICULARS REGARDING LICENCED, INSTALLED CAPACITY AND PRODUCTION**

	As at 31-03-2009	As at 31-03-2008
a) Licenced Capacity :		
(i) Spindles (Nos.)	52,000	44,712
(ii) Power	4MW	4MW
b) Installed Capacity		
(i) Spindles (Nos.)	50,256	44,712
(ii) Power	2.40 MW	2.40MW
c) Production :		
(i) Yarn (kgs.)	42,11,856	39,26,723
(ii) Power Generation (KWH)	1,13,68,300	1,01,98,800

Note : 1. Power Generation includes captive use of 63,40,061 KWH (P.Y : 7540111KWH) and 1,59,155 KWH (P.Yr. 142784 KWH) surrendered to APTRANSCO towards Wheeling charges and 30,960 KWH (P.Y.5408 KWH) surrendered to APTRANSCO towards Banking charges.

2. The installed capacities are as per certificate given by the managing Director on which the Auditors have relied.

8. CIF VALUE OF IMPORTS MADE DURING THE YEAR :	Year ended 31-03-2009	Year ended 31-03-2008
	Rs.	Rs.
i) Stores & Spares	4,69,592	2,72,646
ii) Capital goods	8,61,13,923	5,32,65,621
iii) Raw Material	12,21,01,552	...

**9. COMPARISON BETWEEN CONSUMPTION OF IMPORTED AND INDIGENOUS RAW MATERIALS, SPARES AND COMPONENTS DURING THE YEAR**

	Year ended 31-03-2009		Year ended 31-03-2008	
	Value Rs.	Percentage	Value Rs.	Percentage
a) Raw Materials :				
Imported	9,18,70,415	24.27	4,92,949	0.16
Indigenous	28,67,35,083	75.73	31,60,26,704	99.84
<b>Total</b>	<u>37,86,05,498</u>	<u>100.00</u>	<u>31,65,19,653</u>	<u>100.00</u>
b) Spares & Components :				
Imported	3,79,571	1.30	2,72,646	1.12
Indigenous	2,87,08,783	98.70	2,41,75,907	98.88
<b>Total:</b>	<u>2,90,88,354</u>	<u>100.00</u>	<u>2,44,48,553</u>	<u>100.00</u>

**10. PAYMENTS MADE TO AUDITORS**

	Year ended 31-03-2009	Year ended 30-03-2008
	Rs.	Rs.
Towards Statutory audit	49,635	50,562
Towards tax audit and taxation matters	16,545	31,854
	<u>66,180</u>	<u>82,416</u>
Towards Cost audit	12,000	12,000
<b>Total</b>	<u>78,180</u>	<u>94,416</u>

**KALLAM SPINNING MILLS LTD.**

11	<b>a) Computation of Profit in accordance with Sec. 3 49:</b>		
	Net profit as per Profit & Loss account	---	4,52,95,186
	Remuneration paid to Directors	26,15,648	---
	Sitting fees paid to Directors	89,000	27,04,648
	<b>Net profit in accordance with Sec.349</b>		<u>4,79,99,834</u>
	<b>b) Details of Remuneration paid to Directors :</b>	Managing Director	Joint Managing Director
			WholeTime Director
	Salary	6,00,000	6,00,000
	Perquisites	19,061	1,22,418
	Commission	4,79,998	4,79,998
	<b>Total:</b>	<u>10,99,059</u>	<u>12,02,416</u>
	<b>GRAND TOTAL</b>		<u>26,15,648</u>
	Notes:Commission payable to Managing Director and Joint Managing Director is at 1% each on Profits computed u/s 349 of the Companies Act, 1956		
12	<b>EXPENDITURE IN FOREIGN CURRENCY DURING THE YEAR</b>	<b>Year ending</b>	<b>Year ending</b>
		<b>31.03.2009</b>	<b>31.03.2008</b>
		<b>Rs.</b>	<b>Rs.</b>
	(i) Commission on Yarn Sales	27,14,302	22,32,782
	(ii) Foreign Travel	38,437	---
13	<b>EARNINGS IN FOREIGN CURRENCY</b>		
	Sales (FOB Value )	17,70,47,908	16,20,52,029
14	<b>CONTINGENT LIABILITIES NOT PROVIDED FOR</b>		
	i) Counter guarantees given to bank in respect of Bank guarantees and letter of credit issued in favour of various constituents.	1,64,98,026	4,43,72,513
	ii) Minimum guarantee repurchase amount promised to teak plantation Unit holders.	17,550	20,475
	iii) Estimated amounts of contracts remaining to be executed on Capital accounts, and not provided for.	2,56,95,913	1,21,92,510
	iv) State levies on Electricity	37,33,908	37,33,908
15.	Balances with Scheduled Banks in Fixed Deposits represents Rs. 75,36,941/- held as Margin Money Deposit against Bank Guarantee and letter of credits issued by them. (Previous year 72,78,082/-).		
16.	Balances in personal accounts of various parties are subject to confirmation by and reconciliation with the said parties.		
17.	In the opinion of the management, all the amounts stated under Current Assets, Loans and Advances are recoverable at the values at which they are stated.		
18.	a) Revenue expenditure capitalized to fixed assets/ Capital works under progress during the year including		
	Borrowing costs as per AS-16-	<b>2008-09</b>	<b>2007-08</b>
	Interest paid on term loans and processing charges	31,54,293	4,99,434
	(Net after interest subsidy received under TUF scheme)		
	b) Revenue expenditure capitalized to Capital work-in-progress during the year includes :		
	Salaries and other expenses	59,537	41,262
	Lease Rent	34,500	34,500
	Professional Charges	6,81,557	---
19.	Interest paid is net after crediting subsidy received under TUF scheme	2,29,27,600	1,87,94,055

20. Sales includes an amount of Rs.20,60,570/- being gain on exchange fluctuation.
21. The Andhra Pradesh Electricity regulatory Commission issued orders refixing the purchase price of Power purchased from the company at Rs.2.52 per Unit w.e.f 01.04.2004. The company contested the said order in High Court of Andhra Pradesh along with the other members of Small Hydro Power Developers Association. The High Court issued an interim order directing AP Transco to pay 50% of the differential between the revised rate and the previous rate in force upto 31.03.2004. Subsequently the High Court transferred the case to the Appellate Tribunal for Electricity, New Delhi. The Appellate Tribunal for Electricity decided the matter in favour of the company vide its order dated 02.06.06 and ordered the AP TRANSCO to pay the difference amount between the revised rate and the previous rate in force up to 31.03.2004. However the APTRANSCO preferred an appeal before the Supreme Court against the order of the Appellate Tribunal for Electricity and pending the orders of the Supreme Court, the Company billed the APTRANSCO at the rate of Rs.2.80 per Unit being the revised rate plus 50% of the aforesaid rate difference.

22. The Andhra Pradesh Electricity Regulatory Commission vide its order dated 23.02.2004 has increased the wheeling charges from 2% to 12.6 % on the Electricity wheeled from the Power Plants of the Company by the AP TRANSCO. The Company has filed writ petition in the Hon'ble High Court of Andhra Pradesh and the said Court has transferred the case to the Appellate Tribunal for Electricity, New Delhi. The Appellate Tribunal for Electricity passed the final order on 08.09.2005 directing the AP TRANSCO to continue to collect the wheeling charges only at 2%. However the APTRANSCO preferred an appeal before the Supreme Court against the orders of the Appellate Tribunal for Electricity, New Delhi. In view of the order passed by the Appellate Tribunal for Electricity, the company has accounted for wheeling charges only at 2% pending final orders in the matter.

23. **MAJOR COMPONENTS OF DEFERRED TAX ASSETS AND LIABILITIES ARISING ON ACCOUNT OF TIMING DIFFERENCES ARE: -**

Particulars	(Rs.) As at 31-03-2009		(Rs.) As at 31-03-2008	
	Deferred Tax Asset	Deferred Tax Liabilities	Deferred Tax Asset	Deferred Tax Liabilities
Depreciation	--	7,72,16,501	--	6,69,84,763
Unpaid liabilities disallowed U/s 43B of IT Act, 1961	10,76,528	--	20,46,133	--
Gratuity liability disallowed u/s 40A(7)	3,35,111	--	1,27,252	--
<b>Total</b>	<b>14,11,639</b>	<b>7,72,16,501</b>	<b>21,73,385</b>	<b>6,69,84,763</b>
Net deferred Tax liability		7,58,04,862		6,48,11,378
Net Incremental Liability Charged to Profit & Loss Account		1,09,93,484		1,39,31,417

24. In compliance with the treatment prescribed in Accounting Standard -11 "The Effects of Changes in Foreign Exchange Rates" notified in Companies (Accounting Standards) Rules, 2006, the company has recognized the foreign currency exchange differences, in respect of restatement of its liability incurred towards Fixed Assets acquired from a Country outside India, as an expense amounting to Rs18,08,573/- in Profit and Loss account. (Previous year Rs.24,84,331/-)

25. **Disclosures required under the Micro, small & Medium Enterprises Development Act, 2006**

Details	Amount
i. Principal and interest over due as on 31.03.2009	Nil
ii. Interest paid on delayed payments during 2008-09	Nil
iii. Interest due on principal amounts paid beyond due date During 2008-09	Nil
iv. Interest accrued but not due	Nil
v. Total Interest due but not paid	Nil

The above details were prepared based on information furnished by the respective suppliers and available with the company regarding their status under Micro, Small & Medium Enterprises Development Act, 2006. The said information to the extent furnished by the suppliers has been relied upon by the Company and its auditors for the said purpose.

**26. GROUP GRATUITY:**

The Company has a defined benefit gratuity plan. Every employee who has completed 5 years or more of service gets gratuity on departure at 15 days salary (Last drawn) for each completed year of service subject to limits as per Payment of Gratuity Act, 1972. The company has not contributed to any fund of its gratuity Liability.

The Liability towards gratuity has been made based on actuarial valuation, the particulars of which are given below:

<u>Profit and Loss Account</u>	<u>2008-09</u>
Current Service Cost	2,35,319
Interest Cost	32,813
Actuarial loss	<u>4,14,965</u>
	<u>6,83,097</u>
<u>Present value of obligation</u>	<u>As on 31.03.2009</u>
Present value of obligation as on 01.04.08	3,74,380
Interest Cost	32,813
Current Service Cost	2,35,315
Benefits paid	71,567
Actuarial Loss	4,14,965
Present Value of obligation as on 31.03.09	9,85,910

The Principal assumptions in determining gratuity liability are as follows.

Discount Rate	8%
Salary Escalation	8%
Mortality	LIC (94-96) Ultimate morality table

**27. DISCLOSURE REQUIREMENTS PURSUANT TO "ACCOUNTING STANDARD - 18 RELATED PARTY DISCLOSURES".**

**A) List of Related Parties :-**

**(1) Key Management Personnel:**

1. K. Haranadha Reddy , Chairman
2. P. Venkateswara Reddy, Managing Director
3. G.V. Krishna Reddy, Joint Managing Director
4. M.V.Subba Reddy, Whole Time Director

**(2) Relatives of Key management Personnel:**

- |                                   |                               |
|-----------------------------------|-------------------------------|
| 1. Kallam Venkata Subbayamma      | Wife of K. Haranadha Reddy    |
| 2. Poluri Siva Nagendramma        | Wife of P.Venkateswara Reddy  |
| 3. Movva Uma Sankara Reddy        | Brother of M.V.Subba Reddy    |
| 4. Poluri Govardhana Reddy        | Son of P.Venkateswara Reddy   |
| 5. Poluri Venugopal Reddy         | Son of P.Venkateswara Reddy   |
| 6. Gurram Nitin                   | Son of G.V.Krishna Reddy      |
| 7. Gurram Namratha                | Daughter of G.V.Krishna Reddy |
| 8. Movva Kavitha                  | Wife of M.V.Subba Reddy       |
| 9. Kallam Mohan Reddy             | Son of K.Haranadha Reddy      |
| 10. M.Srinivasa Nagarjuna Reddy   | Son of M.V.Subba Reddy        |
| 11. M.Murali Sairam Krishna Reddy | Son of M.V.Subba Reddy        |
| 12. G. Vijayalakshmi              | Wife of G.V. Krishna Reddy    |
| 13. G. Appi Reddy                 | Father of G.V. Krishna Reddy  |

**(3) Companies Controlled by Key Management Personnel/Relatives of Key Management Personnel**

1. Kallam Agro Products & Oils Private Limited
2. Kallam Brothers Cottons Pvt Ltd.,

B) Transactions with the related Parties :			
Particulars	(Amount in Rs.)		
	Key Management Personnel	Relatives of Key Management Personnel	Companies controlled by Key Management Personnel / Relatives of Key Management personnel
Remuneration paid	<b>26,15,648</b>	--	--
	(26,74,822)	(--)	(--)
Salary paid	--	<b>1,31,200</b>	(--)
	(--)	(97,832)	(--)
Interest Received	--	--	--
	(--)	(--)	(7,26,199)
Purchase of Cotton Lint	--	--	--
	(--)	(--)	(1,07,66,297)
Pressing Charges paid	--	--	<b>3,33,450</b>
	(--)	(--)	(5,46,550)
Purchase of Cotton Waste	--	--	--
	(--)	(--)	(25,15,389)
Sale of goods and Services	--	--	<b>3,75,093</b>
	(--)	(--)	(--)
<b>Balance as at 31.03.2009</b>			
a. Share Capital of the Company held by	<b>1,31,48,920</b>	<b>91,03,030</b>	<b>84,36,880</b>
	(1,29,95,760)	(86,17,750)	(71,51,420)
b. Loans/Inter Corporate Deposits received from (Unsecured)	<b>22,30,000</b>	<b>11,55,000</b>	--
	(26,40,000)	(4,19,000)	(--)
c. Amount due to	<b>9,59,996</b>	--	--
	(11,41,268)	(--)	(1,00,828)
d. Interest Receivable from	--	--	--
	(--)	(--)	(5,67,152)
e. Trade dues from	---	---	<b>44,165</b>
	(--)	(--)	(--)
<b>28</b>	<b>SBGMENTAL RESULTS AS PER ACCOUNTING STANDARD -17 ON "SEGMENT REPORTING".</b>		
Segment wise Revenue Results and Capital employed under clause 41 of listing agreement:			
Particulars	Year 2008-2009		Year 2007-2008
	Amount Rs lacs		Amount Rs lacs
<b>Segment Revenue :</b>			
(i) Spinning	<b>6626.98</b>		5948.95
(ii) Power	<b>331.18</b>		367.01
	<b>6958.16</b>		6315.96
Less : Inter segment Revenue	<b>234.58</b>		278.98
Net Revenue from operations	<b>6723.58</b>		6036.98
Segment Results (Profit before Tax and interest)			
(i) Spinning	<b>712.13</b>		704.29
(ii) Power	<b>278.93</b>		286.47
	<b>991.06</b>		990.76
Less: Interest (Net)	<b>538.11</b>		477.34
Net Profit before Tax	<b>452.95</b>		513.42

**KALLAM SPINNING MILLS LTD.**

Particulars	Year 2008-2009 Amount Rs lacs	Year 2007-2008 Amount Rs lacs
<b>Capital Employed</b> (Segment Assets - Segment Liabilities)		
(i) Spinning	9443.56	8024.36
(ii) Power	1401.46	1319.29
Total	<u>10845.02</u>	<u>9343.65</u>
<b>Capital Expenditure</b>		
i) Spinning	1909.98	1214.50
ii) Power	0.29	—
<b>Depreciation</b>		
i) Spinning	360.83	317.57
ii) Power	39.80	47.51

**29 General**

(a) Paise have been rounded off to nearest Rupee

(b) Figures for the previous year have been regrouped wherever necessary.

Note : Signatures to Schedule 1 to 22 and the Notes forming part of the Accounts.

As per our report of even date  
For **BRAHMAYYA & CO.,**  
Chartered Accountants

**P. LAKSHMANA RAO**  
Partner  
Membership No: 13254.

Place : Guntur  
Date : 27.06.2009

For and on behalf of the Board  
**P.VENKATESWARA REDDY**  
Managing Director

**G.V. KRISHNA REDDY**  
Joint Managing Director

Place : Guntur  
Date : 27.06.2009

**STATEMENT ON ACCOUNTING POLICIES****1. GENERAL**

The accounts are prepared under the historical cost convention and in accordance with generally accepted accounting practices.

**2. FIXED ASSETS**

Fixed Assets are stated at cost less accumulated depreciation. Cost of acquisition of fixed assets is inclusive of directly attributable cost of bringing the assets to their working condition for the intended use. CENVAT/VAT/Terminal Excise duty availed, if any, on fixed assets is not included in the cost of such fixed assets capitalized. Interest on borrowings incurred upto the date of commissioning of assets are capitalized.

**3. BORROWING COSTS**

Borrowing costs incurred in connection with the funds borrowed for acquisition of assets that takes necessarily substantial period of time to get ready for intended use are capitalized as part of cost of such assets. All other borrowing costs are charged to revenue.

**4. DEPRECIATION**

Depreciation on Fixed Assets has been provided on Straight Line Method at applicable Rates prescribed in Scheduled XIV of the Companies Act, 1956.

**5. INVESTMENTS**

Long Term Investments are stated at cost and Income thereon is accounted for on accrual. Provision towards decline in the value of long term Investments is made only when such decline is other than temporary.

**6. INVENTORIES**

Inventories are valued as follows :

**I. Spinning Division :**

- a) Finished stock of Yarn is valued at cost or net realizable value which ever is lower.
- b) Cotton Waste is valued at Net realizable Value.
- c) Work-in-progress, Raw materials, stores and spares are valued at cost except where net realizable value of the finished goods they are used in is less than the cost of finished goods and in such an event, if the replacement cost of such materials etc., is less than their book values, they are valued at replacement cost.

**II. Power Division :**

- a) Stock of power (Banked with APTRANSCO) is valued at cost or net realizable value which ever is lower.
- c) Tools & Implements are being valued at cost.

**7. SALES :**

- a) Sales are inclusive of Excise Duty, Packing charges and Sale Tax.
- b) Export incentives such as DEPB benefits are recognized on export of the goods.
- c) Power generated and supplied to spinning division is accounted for at the rate at which company purchases from the APTRANSCO

**8. DEFERRED GOVT. GRANTS**

State subsidy received towards installation of Generator is being recognized to profit and loss account over the expected life of the said asset on which subsidy received.

**9. RETIREMENT BENEFITS**

The company provides retirement benefit in the form of provident fund and group gratuity. Contributions to the Provident Fund, a defined contribution scheme, is made at the prescribed rates to the provident fund commissioner and is charged to the Profit and Loss account. There is no other obligation other than the contribution payable.

The Liability for group gratuity is provided based on actuarial valuation as per the Projected Unit credit method at the end of each year.

## **KALLAM SPINNING MILLS LTD.**

### **10. FOREIGN CURRENCY TRANSACTIONS**

- i) Foreign Currency Liability contracted for acquiring Fixed Assets are restated at the Foreign Exchange rates prevailing at the year end and all exchange differences arising as a result of such restatement are charged to the Profit and loss account.
- ii) Transactions in foreign currency are initially accounted at the exchange rate prevailing on the date of transaction, and adjusted appropriately, with the difference in the rate of exchange arising on actual receipt/payment during the year.
- iii) At each balance sheet date
  - Foreign Currency monetary items are reported using the rate of exchange on that date
  - Foreign Currency non-monetary items are reported using the exchange rate at which they were initially recognized.
- a. In respect of forward exchange contracts in the nature of hedges
  - Premium or discount on the contract is amortized over the term of the contract
  - Exchange differences on the contract are recognized as profit or loss in the period in which they arise.

### **11. PLANTATION DIVISION**

- (i) Expenditure on maintenance of teak plants is accumulated to Teak Plants Work in Progress account till the plants are sold.
- (ii) Purchase of teak plants from its unit- holders:
  - To the extent of original deposit, it is charged to deposit account and balance to plantations account.

### **12. TAXES ON INCOME**

Current tax is determined as per provisions of Income Tax Act, 1961 in respect of Taxable Income for the year.

Deferred tax liability is recognized, subject to the consideration of prudence on timing differences, being the difference between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods.

Deferred tax assets arising on account of brought forward losses and unabsorbed depreciation as per Income-tax laws are recognized only when there is virtual certainty supported by convincing evidence that such assets will be realized. Deferred tax assets arising on other temporary differences are recognized only if there is a reasonable certainty of realization.

### **13. SEGMENT REPORTING**

The accounting polices adopted for segment reporting are in line with the accounting policies of the Company with the following additional policies for segment reporting.

- a) Inter Segmental revenue have been accounted for based on the market related price. (Revenue and expenses have been identified to segments on the basis of their relationship to the operating activities of the segment.)

### **14. CONTINGENT LIABILITIES**

Contingent liabilities are not recognized in the accounts, but are disclosed after a careful evaluation of the concerned facts and legal issues involved.

### **15. DIVIDENDS**

Provision is made in the accounts for the dividends payable by the company as recommended by the board of directors pending approval of the shareholders at the Annual general meeting. Tax on distributable profits is provided for in the year to which such distributable profits relate.

For **BRAHMAYYA & CO**  
Chartered Accountants

**P. LAKSHMANA RAO**  
ICAI Membership No.13254  
Partner

Place : Guntur  
Date : 27.06.2009



**CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH,2009  
(Pursuant to clause 32 of the Listing Agreement )**

	Year 2008-2009 Rs.	Year 2007-2008 Rs.
<b>A CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Net Profit before tax	4,52,95,186	5,13,41,556
<b>Adjustments for:</b>		
Depreciation	4,00,62,351	3,65,07,888
Loss on sale of fixed assets (Net)	1,08,555	9,88,656
Interest paid	5,38,11,015	4,77,34,084
Govt.Grants credited	(30,548)	(30,548)
Interest received	(11,08,657)	(31,69,583)
Operating Profit before working capital changes	13,81,37,902	13,33,72,053
<b>Adjustments for:</b>		
Trade and other receivables	(1,73,13,078)	1,05,47,280
Inventories	6,22,13,591	(9,36,07,371)
Trade payables	(3,11,46,549)	2,82,88,733
<b>Cash Generated from operations</b>	15,18,91,866	7,86,00,695
Less: Income Tax paid	51,33,784	34,31,095
<b>Net Cash from/(Used in) Operating Activities (A)</b>	14,67,58,082	7,51,69,600
<b>B CASH FLOW FROM INVESTING ACTIVITIES:</b>		
Purchase of fixed assets/Capital works under progress	(19,10,27,208)	(11,57,81,187)
Sale of /adjustments to fixed assets	23,46,977	38,34,625
Increase in investments	--	(1,000)
Interest received	11,08,657	31,69,583
<b>Net Cash used in Investing Activities (B)</b>	(18,75,71,574)	(10,87,77,979)
<b>C CASH FLOW FROM FINANCING ACTIVITIES:</b>		
Proceedings from borrowings	11,18,20,672	9,56,68,656
Interest paid	(5,38,11,015)	(4,77,34,084)
Payment of Dividend	(96,18,533)	(96,18,533)
<b>Net Cash from Financing Activities (C)</b>	4,83,91,124	3,83,16,039
<b>Net increase in Cash and Cash Equivalents (A+B+C)</b>	75,77,632	47,07,661
Cash and Cash Equivalents at the beginning of the year	1,35,62,131	88,54,470
Cash and Cash Equivalents at the closing of the year	2,11,39,763	1,35,62,131
	75,77,632	47,07,661

Place: Guntur  
Date : 27.06.2009

For and on Behalf of the Board  
**P.VENKATESWARA REDDY**  
Managing Director

**KALLAM SPINNING MILLS LTD.**

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

	(Rs. in'000s)
<b>1. Registration Details :</b>	
a) Registration No.	13860
b) State Code	01
c) Balance Sheet Date	31.3.2009
<b>2. Capital raised during the year</b>	
a) Public Issue	NIL
b) Rights Issue	NIL
c) Bonus Issue	NIL
d) Private Placement	NIL
<b>3. Position of Mobilization &amp; Deployment of Funds :</b>	
a) Total Assets	11,28,743
b) Total Liabilities	11,28,743
<b>Sources of Funds :</b>	
a) Paid-up Capital	68,511
b) Reserves & Surplus	1,48,847
c) Deferred Government Grants	234
d) Secured Loans	7,66,900
e) Unsecured Loans	24,205
f) Deferred tax liability	75,805
<b>Total</b>	<b>10,84,502</b>
<b>Application of Funds :</b>	
a) Net Fixed Assets	8,03,633
b) Investments	3
c) Net Current Assts	2,80,866
d) Misc. Expenditure	-
<b>Total</b>	<b>10,84,502</b>
<b>4. Performance of Company :</b>	
a) Turnover	6,72,358
b) Other Income	11,304
c) Total Expenditure	6,38,367
d) Profit Before Tax	45,295
e) PfofitAfter Tax	34,567
f) Earning per share in Rs.	5.05
g) Dividend Rate (%)	9%
<b>5. Generic Name of there Principal Products / Services of Company (as per monetary terms)</b>	
(i) Item Code No. (ITC Code)	520511
Product Description	Cotton yarn
(ii) Item Code No. (ITC Code)	NIL
Product Description	Energy

As per our report of even data  
**For BRAHMAYYA & CO.,**  
 Chartered Accounts

**P.LAKSHMANA RAO**  
 Partner  
 Membership No. 13254

Place : Guntur  
 Date : 27.06.2009

For and on behalf of the Borad  
**P.VENKATESWARAREDDY**  
 Managing Director

**G.V.KRISHNAREDDY**  
 Joint Managing Director

Place : Guntur  
 Date : 27.06.2009



**KALLAM SPINNING MILLS LIMITED**

NH5, Chowdavaram , Guntur - 522 019, Andhra Pradesh

PROXY FORM

17th Annual General Meeting - 19th September, 2009

Regd. Folio No. / DP Client ID

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

I/We.....of.....in the district of.....  
being a member / members of the Company hereby appoint .....of.....in the district  
of.....or failing him / her.....of.....in the district of  
.....as my / our proxy to vote for me / us on my / our behalf at the 17th ANNUAL GENERAL  
MEETING of the Company to be held at the NH5, Chowdavaram, Guntur 522 019, Andhra Pradesh, INDIA, on Saturday,  
the 19th September, 2009 at 3.00 p.m. and at any adjournment(s) thereof.

Signed this.....day of.....2009.



.....  
Signature of the member

Note: This form, in order to be effective should be duly stamped, completed, signed and deposited at the Registered Office of the Company, not less than 48 hours before the meeting.



**KALLAM SPINNING MILLS LIMITED**

NH5, Chowdavaram , Guntur - 522 019, Andhra Pradesh

ATTENDANCE SLIP

17th Annual General Meeting - 19th September, 2009

Regd. Folio No. / DP Client ID

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

No. of shares held

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

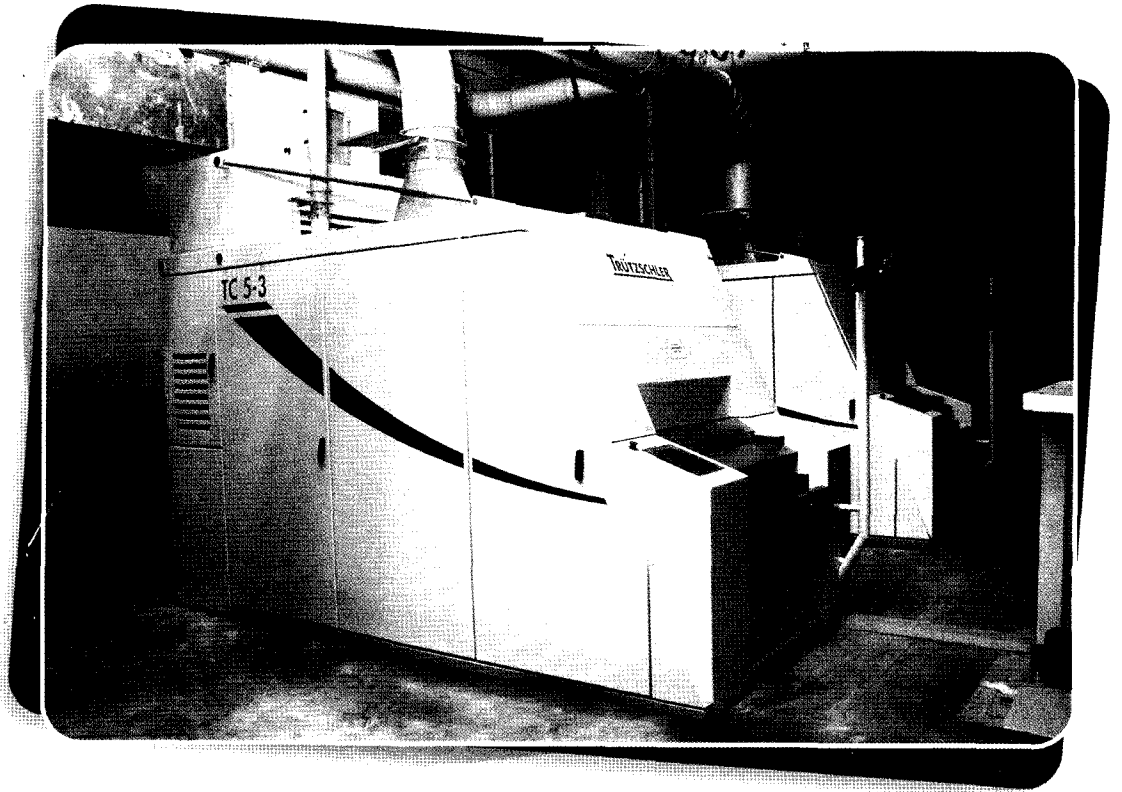
I certify that I am a member / proxy for the member of the Company.  
I hereby record my presence at the 17th ANNUAL GENERAL MEETING of the Company at the NH5, Chowdavaram,  
Guntur 522 019, Andhra Pradesh, INDIA, on Saturday, the 19th September, 2009, at 3.00 p.m.

.....  
Name of the member / Proxy  
(in BLOCK Letters)

.....  
Signature of the member / Proxy

Note : Please fill up this attendance slip and hand it over at the entrance of the meeting hall. Members are requested to bring their copies of the Annual Report to the meeting.

BOOK - POST



If Undelivered Please Return to :

**KALLAM SPINNING MILLS LIMITED**

NH5, CHOWDAVARAM, GUNTUR - 522 019, A.P., INDIA.