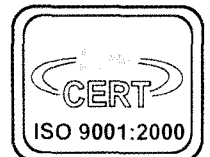


20th ANNUAL REPORT

2011 -2012



KALLAM SPINNING MILLS LIMITED

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

Company Information:

Board of Directors : Sri K Haranadha Reddy, Non Executive 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 V.S.N Murthy, Nominee Director of IREDA
Sri A.Krishna Murthy, Director
Sri S. Pulla Rao, Director

Listed With : Bombay Stock Exchange Limited

Bankers : Andhra Bank, Main Branch
Kothapet, Guntur-522001.

Indian Bank, Main Branch
Naaz Centre, Guntur-522001

Axis Bank, Guntur Branch
Naaz Centre, Guntur-522001

Bank of Baroda, Guntur Branch
Near Hindu College, Guntur-522001.

Auditors : M/S Brahmayya&Co.,
Chartered Accountants,
10-3-21, Sambasivapet, Guntur-522001

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

Registered office & Factory : N.H.5, Chowdavaram,Guntur-522019
Phones:2344010, 2344017
Fax: 0863-2344000
E-mails:kallamp@gmail.com.

Registrars & Share Transfer Agents : Big share Services Pvt. Ltd.,
306, 3rd Floor, Ring Wing, Amrutha Ville,
Opp. Yashodha Hospital,
Raj Bhavan Road, Somajiguda,
Hyderabad 500082.
Ph No.040-23374967
Fax No.040-23370295.

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KALLAM SPINNING MILLS LTD.

NOTICE TO SHAREHOLDERS

NOTICE is hereby given that the 20th Annual General Meeting of the Members of **KALLAM SPINNING MILLS LTD** will be held on Saturday 22-09-2012 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 Statement of Profit and Loss for the financial year ended March, 31 2012 and the Balance Sheet as at that date together with the reports of the Board of Directors and Auditors.
2. To appoint a Director in place of Sri MR Naik, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Sri A Krishna Murthy who retires by rotation and being eligible, offers himself for re-appointment.
4. 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.

Special Business:

5. To consider and, if thought fit, to pass with or without modifications, the following resolution as an Ordinary Resolution
"RESOLVED THAT pursuant to the provisions of Section 198,269,309,310,Schedule XIII and other applicable provisions, if any, of the Companies Act,1956, Mr. P. Venkateswara Reddy, be and is hereby re-appointed as Managing Director of the Company for a period of 3 years with effect from and including 29th June, 2012 upon the terms and conditions set out in the agreement entered into with him, which agreement is hereby specifically approved with liberty to the Board of Directors to alter and vary the terms and conditions of the said appointment and / or Agreement in such manner as may be agreed to between the Board of Directors and Mr. P. Venkateswara Reddy".
6. To consider and, if thought fit, to pass with or without modifications, the following resolution as an Ordinary Resolution.
"RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309, 310 Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, Mr. G.V.Krishna Reddy, be and is hereby re-appointed as Joint Managing Director of the Company for a period of 3 years with effect from and including 29th June, 2012 upon the terms and conditions set out in the agreement entered into with him, which agreement is hereby specifically approved with liberty to the Board of Directors to alter and vary the terms and conditions of the said appointment and/or Agreement a in such manner as may be agreed to between the Board of Directors and Mr. G. V. Krishna Reddy.
7. To consider and, if thought fit, to pass with or without modifications, the following resolution as an Special Resolution.
"RESOLVED THAT pursuant to the provisions of Sections 314(1), and other applicable provisions, if any, of the Companies Act, 1956, the consent of the Company be and is hereby accorded to Mr. P.Govardhan Reddy, a relative of Mr. P.Venkateswara Reddy, Managing Director of the Company, to hold an office or place of profit as Unit Head for Weaving Division of the Company, for a period of five years commencing from October 01, 2012 on the following terms and conditions:
 - 1) Salary : Rs. 24000/- p.m with a yearly increment of Rs. 3000/- p.m
 - 2) Perquisites and Allowances :
 - a) House rent Allowance of Rs. 5000/- p.m
 - b) Telephone Expenses of Rs. 1000/- p.m
 - c) Vehicle : When self Vehicle is used, Fuel expenses will be reimbursed by the Company
 - d) Medical Insurance : The Company agree to bear Mediclaim Health Insurance Premium for self and depended Family Members of Rs. 3 Lakhs per each Person.

Place : Guntur
Date : 25-05-2012.

By order of the Board of Directors
P. Venkateswara Reddy
Managing Director

NOTES:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend, and vote on a poll, instead of himself / 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 17-09-2012 to 22-09-2012 (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. In view of the company's low profitable performance, The Board of Directors has not recommended dividend in respect of the financial year 2011-2012.
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., 306, 3rd Floor, Ring Wing, Amrutha Ville, Opp. Yashodha Hospital, Raj Bhavan Road, Somajiguda, Hyderabad 500082** at the earliest not later than 17-09-2012.
 - 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 furnished 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.2

M.R.Naik is a Non-Executive Independent Director of Kallam Spinning Mills Limited. He is aged about 74 years retired as IAS Officer, he served the community in various capacities in central and state Government Organization and also served as a member in the consumer forums constituted by the state government and rendered valuable Judgments in favour of Consumers on several compliments came before for hearing. His knowledge and experience will be of great help to the company complying with various government and other institutional rules, regulations, and procedures.

Item No. 3

Mr.A.Krishna Murthy is a Non-Executive Independent Director of Kallam Spinning Mills Limited. He is aged about 71 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 Joint 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 12 years. He has rich experience in the fields of Labour Law, Industrial Law Human Resources and personal Administration.

Item No. 5

Mr.P.Venkateswara Reddy was re-appointed as the Managing Director of the company for a period of Three years with effect from 29th June 2012 by the Board of Directors at their meeting held on 25th May 2012 on the terms and conditions and remuneration as mentioned in the agreement entered into by the Board of Directors and the said Mr.P.Venkateswara Reddy. The remuneration of Mr. P. Venkateswara Reddy has been approved by the remuneration committee at their meeting held on 25th May 2012. The abstract of the terms and conditions and remuneration of the agreement are as detailed below.

KALLAM SPINNING MILLS LTD.

i) Remuneration:

- a) Salary : 1,00,000/- p.m
- b) Commission : Commission is payable @1% on profits computed under section 349 of the Companies Act, 1956.
- c) Perquisites :
 - i) Un furnished accommodation facility at Guntur city.
 - ii) Reimbursement of medical expenses for self and family, one month salary in a year or three months salary over a period of three years.
- d) Car : The company shall provide a car
- e) Telephone : The company shall provide a telephone at residence and further agrees to provide one mobile phone.
- f) Accidental Insurance Premium: The company agrees to bear Health insurance premium for self and Family subject to maximum Rs. 5000/- p.m
- g) The Company also agrees to reimburse the additional Medical expenditure, if any, incurred in excess of the Insurance claim with approval of Board
- h) Club fees: Fees of one club in Guntur city. No admission and membership fees will be paid.
- i) Payment of Gratuity at the end of the tenure shall not exceed 15 days salary for each completed year of service or at the rate as may be notified by the government from time to time.
- j) Reimbursement of leave travel concession for self and family once in a year subject to a maximum of one month salary.

ii. Minimum Remuneration:

Notwithstanding anything to the contrary herein contained where in any financial year during the currency of the tenure of Mr. P. Venkateswara Reddy, the company has no profits or its profits are inadequate the company will pay remuneration by way of salary, incentive, remuneration benefits perquisites and allowances as specified above.

The aggregate of the remuneration as aforesaid shall be within the maximum limits as laid down under section 198, 309, 310 and all other applicable provisions, if any, of the Act read with Schedule XIII of the Act, as amended and as in force from time to time.

In compliance with the provisions of section 309 and 310 read with schedule XIII of the Act, the re-appointment of Mr. P. Venkateswara Reddy are now being placed before the members in general meeting for their approval. The Board commends the resolution for acceptance by the members.

The above details may please be treated as an abstract of terms of re-appointment of Mr. P. Venkateswara Reddy as Managing Director under section 302 of the companies Act, 1956.

None of the Directors, except Mr.P.Venkateswara Reddy is concerned or interested in the resolution. Your Directors recommend resolution for your approval.

Item No. 6

Mr.G.V.Krishna Reddy was re-appointed as the Joint Managing Director of the company for a period of Three years with effect from 29th June 2012 by the Board of Directors at their meeting held on 25th May 2012 on the terms and conditions and remuneration as mentioned in the agreement entered into by the Board of Directors and the said Mr.G.V.Krishna Reddy. The remuneration of Mr.G.V.Krishna Reddy has been approved by the remuneration committee at their meeting held on 25th May 2012. The abstract of the terms and conditions and remuneration of the agreement are as detailed below.

i). Remuneration:

- a) Salary : 1,00,000/- p.m
- b) Commission : Commission is payable @1% on profits computed under section 349 of the Companies Act, 1956.
- c) Perquisites :
 - i) Unfurnished accommodation facility at Guntur city.

KALLAM SPINNING MILLS LTD.

- ii) Reimbursement of medical expenses for self and family, one month salary in a year or three months salary over a period of three years.
- d) Car : The company shall provide a car
- e) Telephone : The company shall provide a telephone at residence and further agrees to provide one mobile phone.
- f) Accidental Insurance Premium: The company agrees to bear Health insurance premium for self and Family subject to maximum Rs.5000/-p.m
- g) The Company also agrees to reimburse the additional Medical expenditure, if any, incurred in excess of the Insurance claim with approval of Board.
- h) Club fees : Fees of one club in Guntur city. No admission and membership fees will be paid.
- i) Payment of Gratuity at the end of the tenure shall not exceed 15 days salary for each completed year of service or at the rate as may be notified by the government from time to time.
- j) Reimbursement of leave travel concession for self and family once in a year subject to a maximum of one month salary.

ii. Minimum Remuneration:

Not with standing anything to the contrary herein contained where in any financial year during the currency of the tenure of Mr. G.V.KrishanReddy, the company has no profits or its profits are inadequate the company will pay remuneration by way of salary, incentive, remuneration benefits perquisites and allowances as specified above.

The aggregate of the remuneration as aforesaid shall be within the maximum limits as laid down under section 198,309, and 310 all other applicable provisions, if any, of the Act read with Schedule XIII of the Act, as amended and as in force from time to time.

In compliance with the provisions of section 309 and 310 read with schedule XIII of the Act, the re-appointment of Mr. G.V.Krishna Reddy are now being placed before the members in general meeting for their approval. The Board commends the resolution for acceptance by the members.

The above details may please be treated as an abstract of terms of re-appointment of Mr. G.V.Krishna Reddy as Joint Managing Director under section 302 of the companies Act, 1956.

None of the Directors, except Mr. G.V.Krishna Reddy is concerned or interested in the resolution.

Your Directors recommend resolution for your approval.

Item No. 7

Mr. P. Govardhan Reddy did his Diploma in Textile Technology from PSG Institute of Technology Coimbatore, Tamilnadu. With his experience has developed, understanding of the business of the Company. The remuneration proposed to be paid to Mr. P. Govardhan Reddy is in commensurate with his experience.

In view of the applicability of the provisions of Section 314 of the Companies Act, 1956, the resolution is required to be passed as a Special Resolution and Mr. P. Govardhan Reddy's appointment shall be subject to approval of the Company which shall take effect from such date as may be approved by the company in this regard.

The resolution is required to be passed as a Special Resolution and none of the Directors except Mr. P. Venkateswara Reddy, Managing Director who is a relative of Mr. P.Govardhan Reddy, is interested in this resolution.

Place : Guntur
Date : 25-05-2012.

By order of the Board of Directors
P. Venkateswara Reddy
Managing Director

KALLAM SPINNING MILLS LTD.

Director's Report

TO THE MEMBERS OF THE KALLAM SPINNING MILLS LIMITED,

Your Directors have pleasure in presenting the 20th Annual Report of the Company together with the Audited Statements of Accounts for the year ended 31st March 2012.

I. FINANCIAL RESULTS:

The financial results for the year ended 31st March 2012 are summarized below:

| S.No. | Particulars | 2011-2012 (Rs. in lacs) | 2010-2011 (Rs. in lacs) |
|-------|--|----------------------------|----------------------------|
| 01 | Sales | 15197.10 | 13574.70 |
| 02 | Other income | 395.02 | 168.53 |
| 03 | Increase/ (Decrease) in stock | 710.46 | 442.75 |
| 04 | Expenditure | 14361.01 | 10872.95 |
| 05 | Profit before Interest, Depreciation & Tax | 1941.57 | 3313.03 |
| 06 | Depreciation | 692.40 | 566.90 |
| 07 | Interest | 1238.01 | 748.23 |
| 08 | Profit before tax | 11.16 | 1997.90 |
| 09 | Provision for income tax | | |
| | i) Current Year Tax | 2.15 | 402.36 |
| | ii) Deferred Tax | -51.29 | 197.56 |
| 10 | Profit after tax | 60.30 | 1397.98 |
| 11 | Earning per share | 0.88 | 20.41 |

Transfers & appropriations from the profit are as detailed below:

| | | | |
|----|--|---------|---------|
| 12 | Net Profit after tax | 60.30 | 1397.98 |
| 13 | Balance brought forward from previous year | 3070.71 | 1921.08 |
| 14 | Profit for appropriations | 3131.01 | 3319.07 |

APPROPRIATIONS

| | | | |
|----|---------------------------------|---------|---------|
| 15 | Transfer to General Reserve | -- | 1050.00 |
| 16 | Proposed Equity Dividend | -- | 123.32 |
| 17 | Tax on Proposed Equity Dividend | -- | 20.01 |
| 18 | Balance carried forward | 3131.01 | 3070.71 |

The Sales of the company for the period under review increase to Rs.15197.10 Lakhs as compared to Rs.13574.70 Lakhs registering a growth of Rs 11.95 percent on annualizes basis. The profit before interest and taxes of the company has reduced by 54.51% on annualized basis from Rs2746.13 lakhs in previous year to Rs.1249.17 lakhs in the period under review.

II. DIVIDEND:

In view of the company's low profitable performance and the projects in hand, the Board of Directors has not recommended dividend in respect of the financial year 2011-2012

The paid up capital of the company remained unchanged at Rs 685.11 lakhs .Earning per share was Rs 0.88 and cash per earning share was Rs 10.98

III. EXPANSION & MODERNISATION:

During the financial year under review the following expansion cum modernization had taken place in various divisions.

A) KSML RING SPINNING DIVISION:

Kallam Spinning Mills Limited started its production on 22 March 1995 with 12096 spindles. KSML is an ISO 9001-2000 Certified Company by TUV since 2000. The unit is located on Golden Quadrilateral NH-5 connecting Chennai and Calcutta. KSML today operates 56400 spindles of Ring Spinning out of which 31488 spindles are compact.

The premium quality yarn is exported to number of customers across the world. The company relies on consistent supply of international standard quality yarn. Having clear vision, well placed systems, guided by a team of professionals & steered by an enterprising management, KSML continuous to diversify its products and extend its customers reach.

Product Range:

Ring Spinning Yarn : Ne.30s to Ne.80s combed warp / compact.
TFO Yarn : Ne.30/2 to Ne.80/2 combed warp / compact.
Production per Month : Ring Spinning Yarn, 420 tons.

Maintenance of Machines:

The company strictly follows all scheduled activities which are routine and preventive activities are followed as per its documented plans in quality manual. On regular basis internal system audits as well as machine audits are carried out to ensure the effectiveness of the preventive maintenance. The mill follows machines maintenance as per SITRA recommendation and as per its own experience. The maintenance activity is given at most priority. All the spares are replaced as per machine manufacturer's suggestion and are purchased directly from the Machine manufacturers to get quality parts. The mill replaces capital machines on regular basis with the latest technology.

Quality Control Measures:

Raw material inspection will be carried out on Uster HVI Sepctrum and Uster Afis Pro -2 for 2.5% SL, uniformity, MIC, Strength, Short fiber content % and neps / gm. Bale management system is followed for consistent superior yarn quality, and for this, cotton stock required for minimum 5 6 months is maintained. Carding and combing process optimized for NRE of 75% to 85% and 65% to 70% respectively. RIETER D35 /D40 draw frames are maintained for a% less than 0.50. In ring frame breakages are maintained below 5 to 6 breaks per 100 spindle hour. In autoconer utmost care is taken for achieving 85% splice strength with defect-free packages. Apart from in process inspection system mill has adopted very stringent final inspection procedure before dispatching yarn to its customers.

We maintain regional quality test center, do extensive testing of cotton yarn for mills in and around Guntur. The quality testing dept is a profit center on its own.

B) KSML Open End Spinning Division:

KSML established its Open End unit in the year 2009-10 with an initial capacity of 1248 Rotors. The total Rotors capacity of Open End Unit was increased to 2912.

KSML have proved its OE yarn quality in the international market and have continuous demand in the market. Repeated orders are getting continuously. The premium quality yarn is exported to number of customers across the world. The company relies on consistent supply of international standard quality. Having clear vision, well place systems, guided by a team of professionals and steered by an enterprising management. KSML continuous to diversify its products and extend its customer reach.

Product Range:

OE Yarn : Ne10s to Ne20s

KALLAM SPINNING MILLS LTD.

TFO Yarn : Ne OE 20s/2
Production Capacity : 18000 kg / day.

Consistent commitment to high quality standards and innovations has been the secret of success. Superior open end unit ensure the supply of consistent quality yarn to manufacture the cloth.

C) KSML Ginning Division:

KSML started its Ginning Division in March 2011 with 24 ginning machines. It has most modernized Automatic bale pressing unit and auto seed booster compressor to seed storage tank, This is one of the best and most modern TMC units in entire Guntur district.

Machinery Infrastructure:

Roller Ginning : Nipha
Auto Seed Boosting & Collection : Auditya Quality
Automatic Bale Press : Karunanand

The Ginning Division has capacity to press 200 bales / day and 50,000 bales in a year.

D) HYDRO ELECTRIC DIVISION:

Our company has three hydro electric plants with 4.0 MW capacity at Nelakondapally Mandalam, Khammam District of Andhra Pradesh. These plants are on 16th & 17th branch canal of Nagarjuna Sagar project left main canal. Fortunately there had been good rain fall in the encatchment areas of Nagarjuna Sagar dam during the last five years. The canal flows for 7 to 8 months in a year. Typically the canal is opened in Aug/Sep and closed by end April.

The first two projects of 0.8 MW and 1.6 MW were commissioned in Jan 2002. We have successfully commissioned the third hydro electric plant of 1.6 MW capacity on 27th March 2011. All the generators produce electricity at 6.6 KV voltage level. The generated voltage is enhanced to 33 KV by a power transformer and fed to the state electricity grid. The hydel power generation solely dependent on the canal water flow. The 0.8 MW hydro electric project is financed by IREDA, New Delhi and remaining two Nos. of 1.6 MW hydro electric projects are financed by Andhra Bank. We have good electrical and mechanical engineering team at the hydro electric plants. They ensure the availability of plant by more than 98% when water is flowing in the canal. During the financial year 2011-12 we have generated 1,32,96,945 Units. Out of the generation 70% of the units are wheeled and consumed in spinning mill and 30% of the units are sold to AP Transco..

E) WEAVING UNIT:

The company had commenced the civil work for the 250 Looms Project at Kunkupadu village , Addanki mandalam, Prakasam district, Andhra Pradesh. The Project cost is 146 cores and Indian Bank had Sanctioned a term loan of Rs. 106.92 cores.

IV. FIXED DEPOSITS:

Your company has not accepted any public deposits from the public, except some of the unsecured loans brought by promoter 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.

V. FUTURE OUTLOOK:

The company is projecting Rs 200 crores Turnover during the current financial Year. The O. E. & Ginning Unit is expected to add bottom line to the company.

VI. DIRECTORS

In accordance with the provisions of the Companies Act, 1956 and Articles of Association of the Company Sri.MR Naik, 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.

VII. 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 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.

VIII. PARTICULARS OF EMPLOYEES:

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

IX. AUDITORS:

The Statutory Auditors M/s. Brahmayya & Co., (Regd.No.000153S) Chartered Accountants, Guntur, retire at the ensuing Annual General Meeting and have confirmed their eligibility and willingness to accept office if reappointment. 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.

X. 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, Hyderabad. to carry out an audit of Cost accounts of the Company in respect of Textiles for accounting year ending 31st March 2012.

XI. 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.

XII REGISTRAR'S AND SHARE TRANSFER AGENTS:

Your Registrar and Share Transfer Agents of the Company M/s Big share Services Private Limited, 306, 3rd Floor, Ring Wing, Amrutha Ville, Opp. Yashodha Hospital, Raj Bhavan Road, Somajiguda, Hyderabad 500082.

XIII. CASH FLOW ANALYSIS:

In conformity with the provisions of Clause 32 of the Listing agreement the Cash Flow Statement for the year ended 31.03.2012 is annexed hereto.

XIV. 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 2011-2012 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.

KALLAM SPINNING MILLS LTD.

XV. TRANSFER OF UNPAID AND UNCLAIMED AMOUNT TO IEPF:

Pursuant to the provisions of section 205A(5) of the companies Act 1956, the declared dividends which remained un paid or unclaimed for a period of seven years, have been transferred by the company to the Investor Education and Protection Fund (IEPF) established by the Central Government pursuant to section 205C of the Said Act

The following are the details of dividends paid by the Company and respective due dates for transfer of unclaimed dividend to IEPF.

| Dividend Year | Date of Declaration of Dividend | Due date for transfer to IEPF |
|---------------|---------------------------------|-------------------------------|
| 2004-05 | 28-09-2005 | 27-10-2012 |
| 2005-06 | 25-09-2006 | 24-10-2013 |
| 2006-07 | 10-09-2007 | 09-10-2014 |
| 2007-08 | 20-09-2008 | 19-10-2015 |
| 2008-09 | 19-09-2009 | 18-10-2016 |
| 2009-10 | 18-09-2010 | 17-10-2017 |
| 2010-11 | 27-08-2011 | 26-09-2018 |

XVI. ACKNOWLEDGEMENTS:

Your Directors wish to express their grateful appreciation for the assistance, co-operation and support received from Andhra bank, Indian bank, Axisbank, IREDA, Bank of Baroda and various other Departments of both State and Central Governments. Your directors also wish to convey their appreciation for the personal as well as collective contribution and the hard work of employees across all levels without their commitments dreams and hard work. 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 : 25-05-2012.

By order of the Board of Directors
P. Venkateswara Reddy
Managing Director

ANNEXURE - I TO THE DIRECTORS' REPORT:

Information as per Section 217(1) (e) read with the Companies (Disclosure of Particulars in the report of the Board of Directors) Rules, 1988, and forming part of the Directors' Report for the year ended March 31, 2012.

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) | 25962152 | 25349017 |
| | Total amount in Rs. | 103329991 | 91471754 |
| | Rate per unit Rs. | 3.98 | 3.61 |
| b) | Own Generation | | |
| i) | Through Diesel Generator | | |
| | Units Generated (KWH) | 1800 | 2400 |
| | Total Amount Rs. | 25800 | 33080 |
| | Cost per unit Rs. | 14.33 | 13.78 |
| ii) | Through Steam Generation | -- | -- |
| iii) | Through Hydel Generation | | |
| | Units generated KWH | 13296945 | 9127959 |
| | Units consumed KWH | 6808259 | 5659226 |
| | Total Cost Rs. | 25190560 | 21337632 |
| | 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 | 3.57 | 4.10 |
| 2. | Coal | -- | -- |
| 3. | Furnace Oil | -- | -- |
| 4. | Hydel | -- | -- |

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 1427.53 lakhs. The foreign exchange utilized during the year amounted to Rs 18.95 lakhs.

KALLAM SPINNING MILLS LTD.

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 has an overwhelming presence in the economic life of the country. Apart from providing one of the basic necessities of life, the textile industry also plays a pivotal role through its contribution to industrial output, employment generation and the export earnings of the country. It contributes about 14% to the industrial production, 4% to the GDP and 17.00% to the country's export earnings. India has a large fiber base, and ranks as the world third-leading producer of cotton, accounting for 15% of the world's cotton crop. The textile sector is the second largest provider of employment after agriculture. Hence, growth and all around development of cotton and cotton industry has a vital bearing on the overall development of the Indian economy.

(b) Industry performance

India's share of the global textile industry is predictable to grow from 4% to 7% by 2011-12 and the share of apparel in the export basket is anticipated to increase from 48% to 60%. A Vision 2010 for textile formulated by the government after exhaustive interaction with the industry and export promotion councils to capitalize on the positive atmosphere aims to increase India's share in the world's textile trade from the current 4% to 8% by 2011 and to achieve export value of US \$50 billion in 2010. Vision 2010 for textile envisages increase in Indian textile Economy from the current US \$ 37 billion to \$85 billion by 2010. Formation of 12 million new jobs in the textile sector: and modernization and consolidation for creating a globally for competitive textile industry.

The Technology Up gradation Fund Scheme (TUFS) by Government of India was commissioned in the year 1999 with a view to facilitate the modernization and up gradation of the textiles industry by providing credit at reduced rates to the entrepreneurs both in the organized and the unorganized sector. The restructured TUF Scheme now been extended up to 31.03.2013, has been fine-tuned to catapult the rapid investments in the targeted segments of the textile industry. TUFS has helped in the transition from a quantitatively restricted textiles trade to market driven global merchandise. The modified techno-financial parameters of the scheme will infuse capital investment into the textiles sector, and help it capitalize on the vibrant and expanding global and domestic markets, through technology up gradation, cost effectiveness, quality production, efficiency and global competitiveness. It is estimated that this will ensure a growth rate of 16% in the sector.

(c) Company's performance

The net sales of the Company for the year under review increased to Rs. 15197.10 lakhs as compared to Rs. 13574.70 lakhs in the previous financial year, registering a growth of 11.95 percent. The profit before interest and tax of the company has reduced by 54.51 percent on annualized basis from Rs.2746.13 lakhs in previous year to Rs. 1249.17 lakhs in the current financial year. The net profit for the year under report was affected and registered a reduced to Rs. 60.30 lakhs from Rs.1397.98 lakhs.

Your company's Hydel power project generated power of the value of Rs 321.82 lakhs as against Rs. 264.81 lakhs in the previous year resulting a marginal fall of 21.53%.

(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 spindle age capacity to the maximum level and construction of new Open Ended Unit which will utilize the cotton waste to another high marketable product. The Company's spindle age capacity was 56400 spindles and the Open End Plant is commenced its operations and added considerable revenue to the Company.

2 OPPORTUNITIES AND THREATS:

ASWOT 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 labor 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 labor 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 labor 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 operated at 56400 spindles capacity. The OE plant and new Automatic Ginning and Pressing Unit had commenced its operation in during the financial year. Your Company has made balanced approach towards export and domestic market. In domestic market most of the buyers are corporate entities and they in turn export fabric ornaments. We see that maximum product value is accrued to the Company. The company relies on consistent supply of international standard quality yarn. The company had clear vision and mission, well placed systems, team comprises with expertise professionals and strategic management expertise to diversify its qualitative products.

HYDEL POWER DIVISION:

Keeping in view the outstanding performance of the Hydel project for the past five years, the company 3rd power plant had commenced its commercial operation during the year-2010-11.

During the year under review, with the plenty of water available in Krishna Basin the Hydel power generation had increased to from 91,27,959 units to 1,32,96,945 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, procurement prices for cotton for its quality and the yarn realisation vis a vis the cotton cost. Raw material prices, as is

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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 favorable environment at work place. Your Company has various welfare measures both government sponsored and privately envisaged. The Company is providing good accommodation facilitates by constructing new quarters / apartments. The company also recognises the importance of training and consequently deputed 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 DIRECTORS' REPORT

REPORT ON CORPORATE GOVERNANCE FOR THE PERIOD APRIL 1, 2011 TO MARCH 31, 2012.

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

Kallam's Philosophy on Corporate Governance envisages achieving the highest standard of accountability, transparency, integrity and equity in all its spheres and in all its dealings with its stakeholders. The Company is committed to establish and diligently follow the high standards of Corporate Governance practices in its pursuit of profitable growth and enhancement of shareholders value. Corporate Governance practices are driven by strong board oversight, timely disclosures, transparent accounting policies and high level of integrity in decision making. The company is in compliance with the requirement of the guidelines on corporate governance as stipulated under clause 49 of the listing agreement with stock exchanges.

2. Composition of Board :

As on 31-03-2012 the Board consists of eight Directors, of which five are non executive Directors. The Company has a non-executive chairman. Three Directors of the Board are executive Directors. Five Directors of the Company are Non-Executive directors, including Nominee Director and all of them are Independent Directors. The Non-Executive Directors bring external and wider perspective in the Board's deliberations and decisions. The composition of board is in conformity with clause 49 of listing agreement entered into with the stock exchanges.

None of the directors on the board is a member of more than 5 Board level committees or chairman of more than 5 committees across all the listed and unlisted public companies in which he is a director. Necessary disclosures regarding committee positions and other directorship held in public companies as on March 31, 2012 have been made by the directors.

The independent director have confirmed that they satisfy the criteria of independence as stipulated in clause 49 of the listing agreement.

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

During the financial year ended March 31, 2012 five Board Meetings were held on 30th May 2011, 28th July 2011, 27th August 2011, 29th October 2011, and 28th January 2012.

Attendance of each Director at the Board Meetings, last Annual General Meeting 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. Held/Attnd. | 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 | 5 | 5 | Yes | Nil | Nil |
| Shri P. Venkateswara Reddy | M.D. | NIE | 5 | 5 | Yes | Nil | Nil |
| Shri G.V. Krishna Reddy | J.M.D | NIE | 5 | 5 | Yes | Nil | Nil |
| Shri M.V. Subba Reddy | W.T.D | I & N.E.D | 5 | 5 | Yes | Nil | Nil |
| Shri M.R. Naik | Director | I & N.E.D | 5 | 4 | Yes | Nil | Nil |
| Shri V.S.N. Murthy | Director | I & N.E.D | 5 | 5 | Yes | 5 | 1 |
| Shri A. Krishna Murthy* | Director | I & N.E.D. | 5 | 5 | Yes | Nil | Nil |
| Shri S. Pulla Rao | Director | I & N.E.D | 5 | 4 | No | Nil | Nil |

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

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"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, focusing 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, 2012 the committee met Four times on 30th May 2011, 28th July 2011, 29th October 2011 and 28th January 2012 The attendance of the each member of the committee is given below:

| Directors | Chairman / Member | Category | No. of Meetings Attended |
|--------------------|-------------------|------------------|--------------------------|
| Shri V.S.N. Murthy | Chairman | Nominee Director | 4 |
| Shri S. Pulla Rao | Member | I & N.E.D. | 4 |
| Shri M.R. Naik | Member | I & N.E.D. | 3 |

At the invitation of the Company, internal auditors, cost auditors and Statutory auditors also attended the Audit Committee meetings to respond to queries raised at the Committee meetings.

4 Remuneration Committee:

(a) Terms of Reference

The Company had constituted the Remuneration Committee on 26th 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.

The committee comprises as follows:

| Directors | Chairman / Member | Category |
|------------------------|-------------------|------------------|
| Shri A. Krishna Murthy | 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. 5000/- for attending each meeting of the Board, and Rs.5000/- for attending each Audit committee meeting thereof.

| Directors | Salary | Benefits | Commission | Sitting Fees | Total |
|----------------------------|----------|----------|------------|--------------|----------|
| Shri P. Venkateswara Reddy | 6,00,000 | 30,570 | --- | --- | 6,30,570 |
| Shri G.V. Krishna Reddy | 6,00,000 | 91,761 | --- | --- | 6,91,761 |
| Shri M.V. Subba Reddy | 3,42,000 | 98,611 | --- | --- | 4,40,611 |
| Shri M.R. Naik | --- | --- | --- | 35,000 | 35,000 |
| Shri V.S.N. Murthy | --- | --- | --- | 45,000 | 45,000 |
| Shri A. Krishna Murthy | --- | --- | --- | 25,000 | 25,000 |
| Shri S. Pulla Rao | --- | --- | --- | 30,000 | 30,000 |

5. Finance Committee

The company had constituted the Finance committee on 28th October 2010. Finance committee function with Mr. G.V.Krishna Reddy as chairman, and Mr. P.Venkateswra Reddy and Mr.M.V. subba Reddy as other members of the committee. The finance committee has re-constituted on 28th January 2012 with Mr. G.V.Krishna Reddy as chairman, and Mr. P. Venkateswra Reddy, Mr. M.V.Subba Reddy and Mr.S.Pulla Rao as other members of the committee. The finance committee authorised to borrow the funds by way of term loans, Letter of credits or any such other limits from any banks or financial institutional for the company's business purpose and that the total borrowings at any particular point of time, should not exceed the limits prescribed by the share holders and that the finance committee should report about the financial assistance and borrowings made every time to the board of directors in the subsequent board meeting.

6. Shareholders/Investor Grievance Committee

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

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

1) A Shareholders/Investor Grievance Committee” to specifically look into the redressal of

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Shareholders' / Investors' complaints and of investors such as transfer or credit of shares to demat accounts, on receipt of dividend / notices / annual returns etc.

- 2) 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.M.V.Subba Reddy.
 - 3) The Company received a total of 13 complaints from its shareholders for the period 01.04.2011 to 31.03.2012, all of which were resolved within 30 days to the satisfaction of the shareholders.
 - 4) Name , designation and address of the compliance officer Mr. P. Venkateswara reddy, Managing Director ,Kallam Spinning Mills Ltd ,NH-5 ,Chowdavaram, GUNTUR, A.P-522019.
7. **Share Transfer Committee:**At present The Share Transfer Committee functions 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 - 12- times during the year 2011-12. Share Transfers approved by the Committee are placed at the Board Meeting from time to time. During the period under review, 25,100, Equity shares were transferred. There are no pending Share Transfers as on date of this Report.

8. **Annual General Meetings:**

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

| Date of AGM | Time | Place |
|----------------------------------|----------|---|
| 19 th September, 2009 | 3.00 P.M | Regd. Office at NH-5, Chowdavaram, GUNTUR 522 019 |
| 18 th September, 2010 | 3.00 P.M | Regd. Office at NH-5, Chowdavaram, GUNTUR 522 019 |
| 27 th August, 2011 | 3.00 P.M | Regd. Office at NH-5, Chowdavaram, GUNTUR 522 019 |

Disclosures

There are no materially significant related party transaction i.e transaction 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 interest of company at large.

The company has entered material contract with Kallam Agro Products & Oils Private Limited & kallam Brothers Cotton Private Limited in which companies Director are interested after taking necessary approvals U/S 297 of the Companies Act 1956 from the Central Government. The Details were mentioned in point 39 of the notes forming part of the Accounts.

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

9. **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 Audited and 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.

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.

10. General Shareholder Information

Ensuring Annual General Meeting : Saturday, the 22nd September, 2012 at 3.00 P.M at the Registered office of the company

Financial Year : a) 01.4.2011 to 31.03.2012

Financial Calendar : 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 May

Dates of Book Closure : 17th September, 2012 to 22nd September, 2012 (both days inclusive)

Dividend payment date : Nil

Listing on Stock Exchanges : The Company's shares are listed on the following stock exchanges

i) Bombay Stock Exchange Limited (Code 530201)

Phiroze Jeejeebhoy Towers, Dalai Street,
MUMBAI 400 001. Ph: 022 22721233/34

Listing fees for the year 2011-2012 have been paid.

Stock Code : **530201(BSE)**

Depository Participation : i) National Securities Depository Ltd, (NSDL)

Trade World, 4th Floor, Kamala Mills Compound,
Senapati Bapat Marg, Lower Parel,
Mumbai 400 013. Ph. No: 022 - 2497 2964

ii) Central Depository Services (India) Ltd, (CDSL)

Phiroze Jeejeebhoy Towers, 28th Floor,

Dalai Street, Mumbai 400 023. Ph. No: 022 - 2497 2964

ISIN Number for NSDL & CDSL : **INE629F01017**

Market Price Data**Bombay Stock Exchange Limited**

| Month | Share Price (Rs.) | | No. of Shares Traded | Sensex | |
|------------------|-------------------|-------|----------------------|-----------|-----------|
| | High | Low | | High | Low |
| April - 2011 | 71.85 | 53.20 | 565852 | 19,811.14 | 18,976.19 |
| May - 2011 | 65.00 | 44.50 | 358865 | 19,253.87 | 17,786.13 |
| June - 2011 | 48.60 | 37.90 | 195512 | 18,873.39 | 17,314.38 |
| July - 2011 | 44.65 | 35.55 | 95293 | 19,131.70 | 18,131.86 |
| August - 2011 | 36.50 | 25.25 | 311939 | 18,440.07 | 15,765.53 |
| September - 2011 | 29.85 | 26.00 | 65429 | 17,211.80 | 15,801.01 |
| October - 2011 | 31.40 | 25.30 | 31309 | 17,908.13 | 15,745.43 |
| November - 2011 | 28.00 | 25.00 | 43156 | 17,702.26 | 15,478.69 |
| December - 2011 | 26.95 | 22.05 | 20550 | 17,003.71 | 15,135.86 |
| January - 2012 | 27.75 | 23.05 | 48731 | 17,258.97 | 15,358.02 |
| February - 2012 | 31.55 | 26.50 | 76981 | 18,523.78 | 17,061.55 |
| March - 2012 | 32.50 | 25.15 | 50246 | 18,040.69 | 16,920.61 |

Registrars & Share Transfer Agents : Big share Services Pvt. Ltd.,
306, 3rd Floor, Ring Wing, Amrutha Ville,
Opp. Yashodha Hospital, Raj Bhavan Road,
Somajiguda, Hyderabad 500082.

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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 31st March 2012

| Range (No. of Shares) | No. of Shareholders | No. of Shares | % to Total |
|-----------------------|---------------------|---------------|------------|
| 1 - 500 | 371 | 8766 | 0.13 |
| 501 - 1000 | 1141 | 112860 | 1.65 |
| 1001 - 2000 | 835 | 162906 | 2.38 |
| 2001 - 3000 | 248 | 71020 | 1.03 |
| 3001 - 4000 | 139 | 54471 | 0.79 |
| 4001 - 5000 | 242 | 119709 | 1.75 |
| 5001 - 10000 | 312 | 256808 | 3.75 |
| 10000 and above | 402 | 6064560 | 88.52 |
| | 3690 | 6851100 | 100.00 |

Categories of Share Holder as on 31st March 2012

| Category | No. Of Shares held | % of share holding |
|--|--------------------|--------------------|
| 1. Promoters | | |
| --- Indian | 3492373 | 50.98 |
| --- 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. FII's | --- | --- |
| 4. Others | | |
| --- Private Corporate Bodies | 325743 | 4.75 |
| --- Indian Public | 2850017 | 41.60 |
| --- NRI / OCBs | 171814 | 2.51 |
| --- Others (Clearing Members) | 1153 | 0.01 |
| | 6851100 | 100.00 |

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| Dividend History: | Financial Year | % of Dividend |
|-------------------|----------------|---------------|
| | 2004-05 | 7 |
| | 2005-06 | 10 |
| | 2006-07 | 12 |
| | 2007-08 | 12 |
| | 2008-09 | 9 |
| | 2009-10 | 14 |
| | 2010-11 | 18 |

Factory

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

No. of Employees as on 31st March 2012 : 330

Address for Correspondence : A) Company:
Kallam Spinning Mills Limited
NH-5, Chowdavaram, GUNTUR, A.P 522 019.
B) Registrars & Share Transfer Agents:
Big share Services Pvt. Ltd.,
306, 3rd Floor, Ring Wing, Amrutha Ville,
Opp. Yashodha Hospital, Raj Bhavan Road,
Somajiguda, Hyderabad 500082.
Tel: (040)-23374967, TelFax: 23370295
Email: bsshyd@bigshareonline.com

Compliance Certificate of the Auditors:

The company has complied with the mandatory requirements of the code of corporate Governance as stipulated in clause 49 of the Listing Agreement with the Stock Exchanges. The company has submitted the compliance report in the prescribed format to the stock exchanges for the quarters ended June 30, 2011, September 30, 2011, December 31, 2011, and March 31, 2012. The statutory Auditors have certified that the company has complied with the condition of corporate governance as stipulated in clause 49 of the listing agreements with the stock exchanges. The said certificate is annexed to the director's report and will be forwarded to the stock exchanges and Registrar of companies, Tamil Nadu, Chennai along with the Annual report

Prevention of insider trading:

The company has framed a code of conduct for prevention of insider trading based on SERI (prohibition of insider Trading) Regulation, 1992. This code is applicable to all Director/officer/designated employees. Under this code they are prohibited to deal in shares of the company during the closure of Trading Window and other specified period(s).

Risk Management:

The company has laid down procedures to inform board members about the risk assessment and minimization procedures. The board periodically discusses the significant business risks identified by the management and the mitigation measures to address such risks.

DECLARATION BY MANAGING DIRECTOR /CEO

I P.Venkateswara Reddy , Managing Director of Kallam Spinning Mills Ltd hereby confirm that all the board members and senior managerial personnel have affirmed for the year ended 31st March 2012 the compliance with the code of conduct of the company laid down for them.

Place : Guntur
Date : 25-05-2012.

P. Venkateswara Reddy
Managing Director

KALLAM SPINNING MILLS LTD.

MANAGING DIRECTOR & CHIEF FINANCIAL OFFICER CERTIFICATION

We have reviewed Financial Statements and Cash Flow Statements for the year April 1, 2011 to March 31, 2012 and to the best of our Knowledge and belief:

- I) These statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
- II) These statements together present a true and fair view of the company's affairs and are in compliance with existing accounting standards, applicable laws and regulations;
- III) No transaction entered into by the company during the above said period which are fraudulent, illegal or violate of the company's Code of Conduct.

Further, we accept that it is our responsibility to establish and maintain internal controls for financial reporting. Accordingly, we have evaluated the effectiveness of internal control systems of the company pertaining to Financial Statements and have disclosed to the Auditors and Audit Committee, wherever applicable:

- a) Deficiencies in the design or operation of internal controls, if any which come to our notice and steps have been taken/ proposed to be taken to rectify these deficiencies.
- b) Significant changes in internal control over financial reporting during the year:
- c) Significant changes in accounting policies during the year and that the same have been disclosed in the notice to the financial statements:
- d) Instances of significant fraud of which we became aware and the involvement therein, if any, of the management or an employee having a significant role in the company's internal control system over financial reporting.
- e) The disclosures have been received from the senior management personnel relating to the financial and commercial transaction in which they or their relative may have personal interest. However none of these transactions have conflict with the interest of the company at large.

For and on behalf of the Board of Directors

Place : Guntur
Date : 25-05-2012.

M.V. Subba Reddy
Director (Finance)

P.Venkateswara Reddy
Managing Director

CFO

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 31st March, 2012, 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 31st March, 2012.

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.

Place : Guntur
Date : 25-05-2012

For **BRAHMAYYA & CO.**,
Chartered Accountants
(KARUMANCHI RAJAJI)
Partner
ICAI Membership No. 202309

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 2012, the Statement of Profit and Loss 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 Statement of Profit and Loss and Cash-flow Statement dealt with by this report are in agreement with the books of account;
- d. In our opinion, the Balance Sheet, Statement of Profit and Loss 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, 2012, and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on March 31, 2012 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 31st March, 2012;
 - ii. In the case of the Statement of Profit and Loss, 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
Firm Regn. No. 000513S

(KARUMANCHI RAJAJI)
Partner
ICAI Membership No. 202309

Place : Guntur
Date : 25-05-2012

KALLAM SPINNING MILLS LTD.

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.68.95 lakhs from 3 directors, Rs.20.14 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.
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

KALLAM SPINNING MILLS LTD.

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 out standing 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 : 25-05-2012

For **BRAHMAYYA & CO.,**
Chartered Accountants
Firm Regn. No. 000513S
(KARUMANCHI RAJAJI)
Partner
ICAI Membership No. 202309

KALLAM SPINNING MILLS LTD.

| BALANCE SHEET AS AT 31st MARCH, 2012 | | | | | (Amount in Rs.) |
|---|----------|------------------|--|------------------|-----------------------|
| Particulars | Note No. | As at 31-03-2012 | | As at 31-03-2011 | |
| I. EQUITY AND LIABILITIES | | | | | |
| 1. SHAREHOLDERS' FUNDS | | | | | |
| (a) Share Capital | 2 | 6,85,11,000 | | 6,85,11,000 | |
| (b) Reserves & Surplus | 3 | 32,99,45,510 | 39,84,56,510 | 32,39,46,077 | 39,24,57,077 |
| 2. NON-CURRENT LIABILITIES | | | | | |
| (a) Long-term borrowings | 4 | 88,99,62,352 | | 79,13,79,489 | |
| (b) Deferred tax liabilities (Net) | 5 | 10,70,60,632 | | 11,19,74,976 | |
| (c) Long-term provisions | 6 | 36,26,313 | 1,00,06,49,297 | 18,29,407 | 90,51,83,872 |
| 3. CURRENT LIABILITIES | | | | | |
| (a) Short-term borrowings | 7 | 45,48,82,042 | | 43,74,04,439 | |
| (b) Trade payables | 8 | 81,36,466 | | 1,49,12,707 | |
| (c) Other Current Liabilities | 9 | 17,23,37,122 | | 10,87,02,316 | |
| (d) Short-term provisions | 10 | 5,72,33,837 | 69,25,89,467 | 7,13,42,819 | 63,23,62,281 |
| TOTAL | | | 2,09,16,95,274 | | 1,93,00,03,230 |
| II. ASSETS | | | | | |
| 1. NON-CURRENT ASSETS | | | | | |
| (a) Fixed assets | | | | | |
| i. Tangible assets | 11 | 1,25,43,84,856 | | 1,13,07,43,730 | |
| ii. Intangible assets | | -- | | -- | |
| iii. Capital work-in-progress | | 5,77,60,499 | 1,31,21,45,355 | 19,69,363 | 1,13,27,13,093 |
| (d) Long-term loans and advances | 12 | | 2,52,46,761 | | 2,38,95,756 |
| 2. CURRENT ASSETS | | | | | |
| (a) Inventories | 13 | 48,81,50,578 | | 48,66,55,875 | |
| (b) Trade receivables | 14 | 8,93,61,963 | | 12,95,28,702 | |
| (c) Cash and Cash equivalents | 15 | 74,33,578 | | 1,14,92,643 | |
| (d) Short-term loans and advances | 16 | 16,74,29,533 | | 14,33,63,944 | |
| (e) Other current assets | 17 | 19,27,506 | 75,43,03,158 | 23,53,217 | 77,33,94,381 |
| TOTAL | | | 2,09,16,95,274 | | 1,93,00,03,230 |
| Significant accounting policies | 1 | | | | |
| Notes on accounts | 26-41 | | | | |
| As per our report of even date For BRAHMAYYA & CO., Chartered Accountants Firms' Registration No: 000513S KARUMANCHI RAJAJI Partner Membership No.: 202309 Place : Guntur Date : 25-05-2012 | | | For and on behalf of Board of Directors P. VENKATESWARA REDDY Managing Director G.V. KRISHNA REDDY Joint Managing Director Place : Guntur Date :25-05-2012 | | |

KALLAM SPINNING MILLS LTD.

| STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31st MARCH, 2012 | | | |
|--|----------|--|--------------------------|
| Particulars | Note No. | Year ended 31-03-2012 | Year ended 31-03-2011 |
| Continuing Operations | | | |
| I. Revenue : | | | |
| From Operations | | | |
| a. Sale of Products | 18 | 1,51,97,10,182 | 1,35,74,70,252 |
| b. Sale of services | | -- | -- |
| c. Other operating revenue | | -- | -- |
| | | 1,51,97,10,182 | 1,35,74,70,252 |
| Less: Excise duty | | -- | -- |
| Total | | 1,51,97,10,182 | 1,35,74,70,252 |
| Other Income | 19 | 3,95,02,321 | 1,68,52,990 |
| | | 1,55,92,12,503 | 1,37,43,23,242 |
| II. Expenses : | | | |
| Cost of materials consumed | 20 | 1,15,79,34,548 | 85,26,62,653 |
| Purchases of Stock-in-Trade | 21 | -- | 27,64,800 |
| Changes in Inventories of finished goods work-in-progress and Stock-in-Trade | 22 | (7,10,46,546) | (4,42,74,529) |
| Employee benefits expenses | 23 | 3,59,71,988 | 3,40,27,035 |
| Finance costs | 24 | 12,38,01,261 | 7,48,23,065 |
| Depreciation | | 6,92,39,908 | 5,66,90,385 |
| Other expenses | 25 | 24,21,95,707 | 19,78,40,045 |
| Total | | 1,55,80,96,866 | 1,17,45,33,454 |
| Profit before tax | | 11,15,637 | 19,97,89,788 |
| Less: Tax expense : | | | |
| - Current tax | | 2,15,000 | 4,02,36,270 |
| - Deferred tax | | -- | 1,52,85,936 |
| - Tax Credit under MAT withdrawn | | -- | 44,69,483 |
| Total | | 9,00,637 | 13,97,98,099 |
| Add: Deferred tax credit | | 49,14,344 | -- |
| MAT Credit entitlement | | 2,15,000 | -- |
| Profit after tax | | 60,29,981 | 13,97,98,099 |
| Earning Per Equity share of Rs. 10/- each Basic and diluted | | 0.88 | 20.41 |
| Significant accounting policies | 1 | | |
| Notes on accounts | 26-41 | | |
| As per our report of even date For BRAHMAYYA & CO., Chartered Accountants Firms' Registration No: 000513S KARUMANCHI RAJAJI Partner Membership No.: 202309 Place : Guntur Date : 25-05-2012 | | For and on behalf of Board of Directors P. VENKATESWARA REDDY Managing Director G.V. KRISHNA REDDY Joint Managing Director Place : Guntur Date :25-05-2012 | |

KALLAM SPINNING MILLS LTD.

| CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2012. | | |
|--|--|----------------------------|
| Particulars | Year 2011 - 2012 Rs. | Year 2010 - 2011 Rs. |
| A. CASH FLOW FROM OPERATING ACTIVITIES | | |
| Net Profit before tax | 11,15,637 | 19,97,89,788 |
| Adjustments for: | | |
| Depreciation | 6,92,39,908 | 5,66,90,385 |
| Loss on Sale of Fixed Assets (Net) | (71,89,760) | 6,18,092 |
| Interest Paid | 12,29,93,264 | 7,06,53,784 |
| Govt Grants Credited | (30,548) | (30,548) |
| Interest received | (13,18,835) | (11,29,195) |
| Operating Profit before working Capital Changes | 18,48,09,666 | 32,65,92,306 |
| Adjustments for: | | |
| Trade and Other Receivables | 2,53,25,974 | (10,21,48,557) |
| Inventories | (14,94,703) | (19,90,64,155) |
| Trade Payables | 2,33,30,071 | 2,42,59,053 |
| Cash generated from operations | 23,19,71,008 | 4,96,38,647 |
| Less: <i>Income Tax Paid</i> | 99,26,618 | 4,04,51,629 |
| Net Cash from (Used in) Operating Activities: (A) | 22,20,44,390 | 91,87,018 |
| B. CASH FLOW FROM INVESTING ACTIVITIES: | | |
| Purchase of Fixed Assets / Capital works under progress | (25,41,95,859) | (21,44,83,089) |
| Sale of / Adjustments to Fixed Assets | 1,27,13,449 | 21,55,617 |
| Interest received | 13,18,835 | 11,29,195 |
| Net Cash used in Investing Activities:(B) | (24,01,63,575) | (21,11,98,277) |
| C. CASH FLOW FROM FINANCING ACTIVITIES | | |
| Proceedings from borrowings | 15,13,85,920 | 28,69,12,583 |
| Interest paid | (12,29,93,264) | (7,06,53,784) |
| Payment of Dividend | (1,43,32,536) | (1,11,84,575) |
| NET CASH FROM FINANCING ACTIVITIES:(C) | 1,40,60,120 | 20,50,74,224 |
| Net Increase in Cash and Cash Equivalents (A+B+C) | (40,59,065) | 30,62,965 |
| Cash and Cash equivalents at the beginning of the year | 1,14,92,643 | 84,29,678 |
| Cash and Cash equivalents at the closing of the year | 74,33,578 | 1,14,92,643 |
| | (40,59,065) | 30,62,965 |
| As per our report of even date For BRAHMAYYA & CO. , Chartered Accountants Firms' Registration No: 000513S KARUMANCHI RAJAJI Partner Membership No.: 202309 Place : Guntur Date : 25-05-2012 | For and on behalf of Board of Directors P. VENKATESWARA REDDY Managing Director G.V. KRISHNA REDDY Joint Managing Director Place : Guntur Date :25-05-2012 | |

STATEMENT ON ACCOUNTING POLICIES

Note No. 1

1. GENERAL

The Accounts are prepared under the historical cost convention and in accordance with generally accepted accounting practices. The financial statements are prepared to comply in all respects with the Accounting Standards notified under section 211 (3C) of the Companies Act, 1956 and all the relevant provisions thereof.

2. USE OF ESTIMATES

The preparation of financial statements requires the management of the Company to make judgements, estimates and assumptions that affect the reported balance of assets and liabilities, revenues and expenses and disclosures relating to the contingent liabilities and commitments. The management believes that the estimates used in preparation of the financial statements are prudent and reasonable. The judgements, estimates and underlying assumptions are made with the management's best knowledge of the business environment and are reviewed on an on going basis. However, future results could differ from these estimates. Any revision to these accounting estimates is recognised prospectively in the current and future periods.

3. 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 capitalised. Interest on borrowings incurred up to the date of commissioning of assets are capitalised.

4. 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 capitalised as part of cost of such assets. All other borrowing costs are charged to revenue.

5. DEPRECIATION

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

6. INVENTORIES

Inventories are valued as follows

I. Spinning Division :

- a) Finished stocks are valued at cost or net realisable value which ever is lower.
- b) Cotton Waste is valued at Net realisable Value.
- c) Work-in-progress, Raw materials, stores and spares are valued at cost except where net realisable 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 realisable value which ever is lower.
- b) Tools & Implements are being valued at cost.

7. REVENUE RECOGNITION

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured.

KALLAM SPINNING MILLS LTD.

- i) Revenue from sale of products is recognised when the risks and rewards of ownership are transferred to the buyer under the terms of the contract which usually coincide on the dispatch of goods to the customer or when they are unconditionally appropriated under the terms of sale.
- ii) Sales are stated net of trade discount and sales tax.
- iii) Incentives such as DEPB benefits are recognised as Income only on actual realisation / on sale / utilisation of said licenses.
- iv) Power generated and supplied to spinning division is accounted for at the rate at which company purchases from the APTRANSCO
- v) Interest on investments and deposits is booked on a time proportion basis taking into account the amounts invested and the rate of interest.

8. INTER-DIVISIONAL TRANSFERS

Inter-divisional transfer of goods as independent marketable products of separate divisions used for captive consumption are transferred at prevailing market prices. This accounting treatment has no impact on the profit of the company. Such transactions are neither included in turnover nor in consumption of materials, except for valuation purposes.

9. DEFERRED GOVT. GRANTS

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

10. 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 the each year.

The Liability for Leave encashment being short term benefits, is accounted on accrual of said liability.

11. 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 the date
 - Foreign Currency non-monetary items are reported using the exchange rate at which they were initially recognised.

In respect of forward exchange contracts in the nature of hedges

- Premium or discount on the contract is amortised over the term of the contract
- Exchange differences on the contract are recognised as profit or loss in the period in which they arise.

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 recognised, 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 recognised only when there is virtual certainty supported by convincing evidence that such assets will be realised. Deferred tax assets arising on other temporary differences are recognised only if there is a reasonable certainty of realisation.

13. SEGMENT REPORTING

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

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. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Provisions are recognised only when there is a present obligation as a result of past events and when a reliable estimate of the amount of obligation can be made. Provisions are not discounted to their present value and are determined based on the best estimate required to settle the obligation at the reporting date. These estimates are reviewed at each reporting date and adjusted to reflect the current best estimates.

Contingent liability is disclosed for (i) Possible obligation which will be confirmed only by future events not wholly within the control of the Company or (ii) Present obligations arising from past events where it is not probable that an outflow of resources will be required to settle the obligation or a reliable estimate of the amount of the obligation cannot be made. The company does not recognise contingent liabilities but the same are disclosed in the Notes.

Contingent assets are not recognised in the financial statements since this may result in the recognition of income that may never be realised.

15. DIVIDENDS

Provision is made in 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 profit is provided for in the year to which such distributable profits relate.

Place : Guntur
Date : 25-05-2012

For **BRAHMAYYA & CO.**,
Chartered Accountants
Firm Regn. No. 000513S

(KARUMANCHI RAJAJI)
Partner
ICAI Membership No. 202309

KALLAM SPINNING MILLS LTD.

| SHARE CAPITAL | | Note No. 2 | | |
|--|-----------------------|--|-----------------------|--|
| Particulars | As at 31-03-2012 | As at 31-03-2011 | | |
| Authorised | | | | |
| 1,00,00,000 Equity Shares of Rs. 10/- each | 10,00,00,000 | 10,00,00,000 | | |
| Issued, subscribed and paid up: | | | | |
| 68,51,100 Equity Shares of Rs. 10/- each fully paid up | 6,85,11,000 | 6,85,11,000 | | |
| Total | 6,85,11,000 | 6,85,11,000 | | |
| 1. The company has only one class of Equity shares having a par value of Rs. 10/- each. Each holder of equity share is entitled to one vote per share on poll and have one vote on show of hands. In the event of liquidation, the equity share holders are eligible to receive the remaining assets of the company in proportion to their shareholding after distribution of payments to preferential creditors | | | | |
| 2. Details of share holders holding more than 5% of total number of shares | | | | |
| Name of the Share Holder | As at 31-03-2012 | | As at 31-03-2011 | |
| | Number of Shares Held | % out of total Number of Shares of the company | Number of Shares Held | % out of total Number of Shares of the company |
| a. Kallam Haranadha Reddy | 4,37,200 | 6.38% | 4,37,200 | 6.38% |
| b. Gurram Venkata Krishna Reddy | 5,55,065 | 8.10% | 5,50,618 | 8.04% |
| c. Kallam Agro Products & Oils Pvt. Limited | 8,73,982 | 12.76% | 8,43,688 | 12.31% |
| 3. The company is neither a holding company nor a subsidiary company to any other company | | | | |
| 4. Reconciliation of number of Equity shares. | | | | |
| Name of the Share Holder | As at 31-03-2012 | | As at 31-03-2011 | |
| | Number of Shares Held | % out of total Number of Shares of the company | Number of Shares Held | % out of total Number of Shares of the company |
| Shares outstanding at the beginning of the year | 68,51,100 | 6,85,11,000 | 68,51,100 | 6,85,11,000 |
| Add: shares Issued during the year | -- | -- | -- | -- |
| | 68,51,100 | 6,85,11,000 | 68,51,100 | 6,85,11,000 |
| Less: Shares bought back during the year | -- | -- | -- | -- |
| Shares outstanding at the end of the year | 68,51,100 | 6,85,11,000 | 68,51,100 | 6,85,11,000 |
| 5. The company has not issued any bonus shares during the last five financial years. | | | | |
| 6. None of the shares were allotted in pursuant to contract without payment being received in cash. | | | | |
| RESERVES AND SURPLUS | | Note No. 3 | | |
| Particulars | As at 31-03-2012 | As at 31-03-2011 | | |
| Capital Reserve : | | | | |
| Investment Subsidy | | | | |
| Figures as at the end of the current and previous reporting period | 15,00,000 | 15,00,000 | | |
| | 15,00,000 | 15,00,000 | | |
| Deferred Govt. Grants | | | | |
| Figures as at the end of the previous reporting period | 1,72,062 | 2,02,610 | | |

KALLAM SPINNING MILLS LTD.

| Particulars | As at 31-03-2012 | As at 31-03-2011 |
|--|---------------------|---------------------|
| Additions : | -- | -- |
| Deductions - Credited to Statement of Profit and Loss | 30,548 | 30,548 |
| Figures as at the end of current reporting period | 1,41,514 | 1,72,062 |
| General Reserve | | |
| Figures as at the end of the previous reporting period | 1,52,00,000 | 47,00,000 |
| additions : Transfer from Statement of Profit and Loss | -- | 1,05,00,000 |
| Deductions | -- | -- |
| Figures as at the end of current reporting period | 1,52,00,000 | 1,52,00,000 |
| Surplus in Statement of Profit and Loss | | |
| Figures as at the end of the previous reporting period | 30,70,74,015 | 19,21,08,452 |
| Add : Profit for the year | 60,29,981 | 13,97,98,099 |
| Less : Proposed dividend | -- | 1,23,31,980 |
| tax on Proposed dividend | -- | 20,00,556 |
| Transfer to Reserves | -- | 1,05,00,000 |
| Figures as at the end of current reporting period | 31,31,03,996 | 30,70,74,015 |
| Total of Reserves and Surplus | 32,99,45,510 | 32,39,46,077 |
| LONG-TERM BORROWINGS | | Note No. 4 |
| A. Secured | | |
| Term Loans | | |
| - From Financial Institutions : | | |
| i IREDA | 1,68,52,950 | 2,03,08,270 |
| - From Banks | | |
| i Andhra Bank | 46,67,91,772 | 44,08,47,989 |
| ii Indian Bank | 38,49,64,538 | 30,84,00,094 |
| iii Bank of Baroda | 1,59,580 | -- |
| Total (a) | 86,87,68,840 | 76,95,56,353 |
| B. Unsecured | | |
| i. Deferred payment liabilities | | |
| Interest free Sales Tax Deferment | 1,09,84,512 | 1,35,29,136 |
| ii. Other Loans : | | |
| Loans from Promoters and their relatives | 33,14,000 | 29,09,000 |
| Fixed Deposits from Directors | 68,95,000 | 53,85,000 |
| Total (b) | 2,11,93,512 | 2,18,23,136 |
| Total (a+b) | 88,99,62,352 | 79,13,79,489 |

KALLAM SPINNING MILLS LTD.

i. IREDA:

- a. Term loan from IREDA is secured by first charge on all the movable and immovable assets of the company's power division of 0.80MW small hydro project at Nandigama branch canal at mile #3, Kotha Kothuru of Nela kondapalli village, Khammam dist., A.P. Further guaranteed by six promoter directors of the company and corporate guarantee of two companies.
- b. The above loan carries interest @10%
- c. the above loan is repayable in following manner.
2013-14 Rs. 3455320/-; 2014-15 Rs. 3455320/-; 2015-16 Rs. 2285984/-; 2016-17 Rs. 2355792 ;
2017-18 Rs. 2355792; 2018-19 Rs. 2355792/- and 2019-20 Rs. 588950/-
- d. There are no defaults in repayment of above loan.

ii. Andhra Bank :

- Power unit :

- a. Term loan from Andhra Bank is secured by way of charge on movable and immovable assets of power plant at Kotha Kothuru and Bhairavanipalli of Khamma Dist., A.P. which are exclusively created out of said loan. Also secured by way of second charge on fixed assets of spinning mill unit. The said loan is further guaranteed by two directors in their personal capacities.
- b. The above loans carries interest @ 13.5% and 14%

- Spinning Unit :

- a. Term loan from Andhra Bank is secured on paripassu basis by way of first charge on all the movable and immovable assets of spinning division of the company. Further guaranteed by two Directors in their personal capacities.
- b. The above loans carries interest @ 12.75/- 13.5% and 14%
- c. The above loans are repayable in following manner.
2013-14 Rs. 90016000/-; 2014-15 Rs. 84990992; 2015-16 Rs. 83026542/-; 2016-2017 Rs. 31838595; 2017-18 Rs. 19445000/-; 2018-19 Rs. 29000000/-; 2019-20 Rs. 47900000/-; 2020-21 Rs. 65274689; and 2021-22 Rs. 15299954/-
- d. There are no defaults in repayment of above loans.

iii. Indian Bank:

- a. Term loan from Indian Bank is secured on paripassu basis by way of first charge on all the movable and immovable assets of spinning division of the company. Further guaranteed by two directors in their personal capacities.
- b. The above loans carries interest @13% and 14%
- c. The above loans are repayable in following manner,
2013-14 Rs. 28770000/-; 2014-15 Rs. 35038400; 2015-16 Rs. 39670000/-; 2016-17 Rs. 66820000;
2017-18 Rs. 65425000/-; 2018-19 Rs. 52218798/-; 2019-20 Rs. 50000000/-; 2020-21 Rs. 47010240
- d. There are no defaults in repayment of above loans

iv. Bank of Baroda:

- a. Term loan from Bank of Baroda is secured by way of first charge on fixed assets of company's proposed Dyeing unit and further guaranteed by two directors in their personal capacities. However, the loan proceeds are not yet availed by the company.
- b. The above loan carries interest @ 13.25%

v. Interest free sales tax loan:

- a. The company availed interest free sales tax loan for the period from 1995-96 to 2008-09 aggregating to Rs. 25475992/- The said loan is repayable within a period of 10/14 years from each year of avallment

KALLAM SPINNING MILLS LTD.

| DEFERRED TAX LIABILITIES (Net) | | Note No. 5 | |
|--|---------------------|---------------------|--|
| Particulars | As at 31-03-2012 | As at 31-03-2011 | |
| a. Liability | | | |
| - On fixed assets towards depreciation | 12,28,03,687 | 11,27,48,142 | |
| b. Assets | | | |
| - Towards disallowances u/s 43B of Income-tax Act, 1961 | 14,18,076 | 7,73,166 | |
| - Unabsorbed depreciation | 1,42,83,722 | -- | |
| - Provision towards bad and doubtful debts | 41,257 | -- | |
| Total | 10,70,60,632 | 11,19,74,976 | |
| LONG TERM PROVISIONS | | Note No.6 | |
| Provision for employee retirement benefits | | | |
| Towards Group gratuity (Unfunded) | 36,26,313 | 18,29,407 | |
| Total | 36,26,313 | 18,29,407 | |
| SHORT TERM BORROWINGS | | Note No. 7 | |
| A. Secured | | | |
| Loans repayable on demand | | | |
| working capital Loans | | | |
| From Banks | | | |
| - Andhra Bank | 15,10,04,990 | 18,73,42,704 | |
| - Indian Bank | 11,10,14,552 | 14,33,29,235 | |
| - Axis Bank Ltd., | 19,28,62,500 | 10,67,32,500 | |
| Total | 45,48,82,042 | 43,74,04,439 | |
| <p>Note : The above loans are secured by way of hypothecation of Inventories and Book debts. Further secured by way of second charge on pari passu basis on fixed assets of the company other than those exclusively charged to IREDA. Further guaranteed by two directors in their individual capacities.</p> | | | |
| TRADE PAYABLES | | Note No. 8 | |
| Dues to : Small and Micro Enterprises * | 11,01,301 | 26,14,615 | |
| Others | 70,35,165 | 1,22,98,092 | |
| Total | 81,36,466 | 1,49,12,707 | |
| *Based on the information available with the company, on which auditors relied upon. | | | |

KALLAM SPINNING MILLS LTD.

| OTHER CURRENT LIABILITIES | | Note No.9 | |
|---|-------------------------|-------------------------|--|
| Particulars | As at 31-03-2012 | As at 31-03-2011 | |
| Creditors for capital goods | 4,08,94,778 | 23,35,211 | |
| Current maturities of long-term debt | | | |
| i. IREDA | 34,55,320 | 25,91,490 | |
| ii. Andhra Bank | 7,03,08,000 | 5,81,61,000 | |
| iii. Indian Bank | 2,52,70,000 | 55,00,000 | |
| iv. Interest free sales tax deferment | 25,44,624 | -- | |
| Interest accrued but not due on borrowings | 85,40,224 | 89,58,283 | |
| Advances received against sales | 5,19,047 | 77,99,735 | |
| Unpaid dividends | 21,10,964 | 17,90,647 | |
| Others : | | | |
| Teak Plantation Deposits | 67,500 | 81,000 | |
| Employee related payments | 34,60,105 | 76,14,310 | |
| Statutory liabilities | 11,44,030 | 13,38,925 | |
| Other liabilities | 1,40,22,530 | 1,25,31,715 | |
| Total | 17,23,37,122 | 10,87,02,316 | |
| SHORT-TERM PROVISIONS | | Note No. 10 | |
| Provision for employee retirement benefits | | | |
| - Leave Encashment | 10,337 | 10,283 | |
| Provision for Income Tax | 5,72,23,500 | 5,70,00,000 | |
| Provision for Proposed dividend | -- | 1,23,31,980 | |
| Provision for Tax on distributable profits | -- | 20,00,556 | |
| Total | 5,72,33,837 | 7,13,42,819 | |

KALLAM SPINNING MILLS LTD.

FIXED ASSETS

Note No. - 11

| S.No. | Particulars | GROSS BLOCK | | | | DEPRECIATION | | | | NET BLOCK | |
|------------------|-------------------------------------|-----------------------|---------------------------|----------------------------|-----------------------|---------------------|--------------------|------------------|-----------------------|-----------------------|------------------|
| | | As at 01-04-2011 | Additions during the Year | Deductions during the Year | As at 31-03-2012 | As at 01-04-2011 | For the Year | on Deductions | As at 31-03-2012 | As at 31-03-2012 | As at 31-03-2011 |
| Tangible: | | | | | | | | | | | |
| 1. | Land | 2,25,30,063 | 88,07,346 | 8,14,292 | 3,05,23,117 | -- | -- | -- | 3,05,23,117 | 2,25,30,063 | |
| 2. | Factory Buildings | 31,28,36,873 | 1,51,99,040 | -- | 32,80,35,913 | 4,67,37,403 | 1,06,73,937 | -- | 27,06,24,574 | 26,60,99,470 | |
| 3. | Non-Factory Buildings | 7,76,78,870 | -- | -- | 7,76,78,870 | 34,23,375 | 12,63,939 | -- | 7,29,91,557 | 7,42,55,495 | |
| 4. | Plant and Equipment | 94,58,46,228 | 16,84,10,721 | 1,33,59,921 | 1,10,09,97,028 | 23,54,46,965 | 5,31,02,660 | 91,07,595 | 82,14,54,998 | 71,03,99,263 | |
| 5. | Electrical and Electronic Equipment | 6,26,01,456 | 30,41,999 | 28,543 | 6,56,14,912 | 1,38,21,017 | 31,30,495 | -- | 4,86,63,400 | 4,87,80,439 | |
| 6. | Borewells and Waterpumps | 4,92,296 | -- | -- | 4,92,296 | 1,48,810 | 18,411 | -- | 3,25,075 | 3,43,486 | |
| 7. | Office and Other equipment | 85,67,016 | 16,66,656 | -- | 1,02,33,672 | 50,07,474 | 4,59,938 | -- | 47,66,260 | 35,59,542 | |
| 8. | Furniture and Fixtures | 24,19,954 | 94,238 | -- | 25,14,192 | 9,43,154 | 1,58,712 | -- | 14,12,326 | 14,76,800 | |
| 9. | Vehicles | 46,14,778 | 11,84,723 | 8,36,015 | 49,63,486 | 13,15,606 | 4,31,816 | 4,07,485 | 36,23,549 | 32,99,172 | |
| | Total | 1,43,75,87,534 | 19,84,04,723 | 1,50,38,771 | 1,62,09,53,486 | 30,68,43,804 | 6,92,39,908 | 95,15,080 | 1,25,43,84,856 | 1,13,07,43,730 | |
| | Previous Year | 1,12,48,02,559 | 32,13,20,940 | 85,35,965 | 1,43,75,87,534 | 25,59,32,619 | 5,66,90,386 | 57,79,201 | 1,13,07,43,730 | 86,88,69,940 | |

KALLAM SPINNING MILLS LTD.

| LONG TERM LOANS AND ADVANCES | | Note No. 12 | |
|---|---------------------|---------------------|--|
| Particulars | As at 31-03-2012 | As at 31-03-2011 | |
| a. Unsecured, Considered Good | | | |
| Capital Advances | 61,64,148 | 95,40,933 | |
| Security deposits with Govt. authorities | 1,90,82,613 | 1,43,54,823 | |
| Total | 2,52,46,761 | 2,38,95,756 | |
| INVENTORIES | | Note No. 13 | |
| Raw Materials | 32,19,17,829 | 39,89,89,252 | |
| Work-in-progress | 3,81,66,009 | 2,28,69,559 | |
| Finished goods | 10,17,58,562 | 4,60,08,466 | |
| Stores and spares | 2,63,08,178 | 1,87,88,598 | |
| Total | 48,81,50,578 | 48,66,55,875 | |
| TRADE RECEIVABLES | | Note No. 14 | |
| Unsecured, Considered good | | | |
| Outstanding for a period exceeding 6 months | 3,73,965 | 3,77,734 | |
| Others | 8,89,87,998 | 12,91,50,968 | |
| Total | 8,93,61,963 | 12,95,28,702 | |
| Unsecured, Considered doubtful | | | |
| Outstanding for a period exceeding 6months | 1,33,519 | -- | |
| Others | -- | -- | |
| Total | 1,33,519 | -- | |
| Less : Provision for bad and doubtful debts | 1,33,519 | -- | |
| | -- | -- | |
| Total | 8,93,61,963 | 12,95,28,702 | |
| CASH AND CASH EQUIVALENTS | | Note No. 15 | |
| 1. Cash on hand | 5,78,297 | 7,77,472 | |
| 2. Cash equivalents | | | |
| i. Balances with Banks | | | |
| a. Earmarked balances with banks (towards unclaimed dividend) | 21,13,155 | 17,93,204 | |
| b. Balances with banks held as margin money against LC and guarantees | 27,40,803 | 41,34,263 | |
| c. In Current Accounts | 20,01,323 | 47,87,704 | |
| Total | 74,33,578 | 1,14,92,643 | |

KALLAM SPINNING MILLS LTD.

| SHORT TERM LOANS AND ADVANCES | | Note No. 16 | | |
|---|-------------------|----------------------------------|-------------------------|----------------------------------|
| Particulars | | As at 31-03-2012 | As at 31-03-2011 | |
| Unsecured Considered Good | | | | |
| Advances against supplies | | 28,39,030 | 30,99,226 | |
| Employee related advances | | -- | 11,72,092 | |
| Other advances | | 19,500 | 88,078 | |
| Deposits recoverable | | 11,560 | 11,560 | |
| EPCG Terminal Excise Duty Refund Receivable | | 71,22,766 | 96,21,522 | |
| Duty draw back refund receivable | | 11,02,979 | -- | |
| Excise Duty Deposit | | 6 | 6 | |
| Input Tax Credit under VAT | | 2,64,26,273 | 1,25,44,177 | |
| Advance Income Tax / Fringe Benefit Tax / TDS | | 5,72,39,634 | 4,73,04,516 | |
| MAT Credit entitlement | | 2,74,45,517 | 2,72,30,517 | |
| Interest rebate receivable under TUF | | 1,62,00,555 | 2,81,42,625 | |
| Power Subsidy Receivable | | 2,90,21,713 | 1,41,49,625 | |
| Total | | 16,74,29,533 | 14,33,63,944 | |
| OTHER CURRENT ASSETS | | Note No. 17 | | |
| Accrued Interest | | 11,48,294 | 8,96,023 | |
| Prepaid Expenses | | 7,79,212 | 14,57,194 | |
| Total | | 19,27,506 | 23,53,217 | |
| SALE OF PRODUCTS | | Note No. 18 | | |
| Particulars | Qty (Kgs.) | Year ended 31-03-2012 | Qty (Kgs.) | Year ended 31-03-2011 |
| Cotton Yarn | 50,91,191 | 98,03,74,295 | 44,15,128 | 93,05,05,446 |
| OE Yarn | 41,25,488 | 48,59,35,022 | 30,21,473 | 39,41,89,840 |
| Cotton Waste | 20,43,541 | 12,08,79,868 | 19,79,591 | 11,45,54,087 |
| OE Waste | 5,71,304 | 87,87,910 | 4,48,699 | 73,76,101 |
| Cotton Seed | 21,15,844 | 2,71,31,546 | 1,65,130 | 22,04,781 |
| Sale of Power (KWH) | 1,07,97,342 | 3,21,82,820 | 83,97,614 | 2,64,81,431 |
| Cotton Lint | 4,03,840 | 6,41,99,117 | 1,80,175 | 2,70,26,250 |
| Pressing Charges | -- | 34,99,250 | -- | 1,89,350 |
| Total | -- | 1,72,29,89,828 | -- | 1,50,25,27,286 |
| Less: Inter Divisional Transfers | | | | |
| Power (KWH) | 68,08,259 | 2,51,90,560 | 56,59,226 | 2,13,37,632 |
| Cotton Waste | 16,38,812 | 11,04,19,517 | 11,68,917 | 9,65,03,802 |

KALLAM SPINNING MILLS LTD.

| Particulars | Qty (Kgs.) | Year ended 31-03-2012 | Qty (Kgs.) | Year ended 31-03-2011 |
|--|-------------|--------------------------|--------------------------|--------------------------|
| Cotton Lint | 4,00,779 | 6,41,70,319 | 1,80,175 | 2,70,26,250 |
| Pressing Charges | -- | 34,99,250 | -- | 1,89,350 |
| Total | -- | 20,32,79,646 | -- | 14,50,57,034 |
| Grand Total | -- | 1,51,97,10,182 | -- | 1,35,74,70,252 |
| OTHER INCOME | | | | Note No. 19 |
| Particulars | | Year ended 31-03-2012 | Year ended 31-03-2011 | |
| Interest from Bank and others | | 13,18,835 | 11,29,195 | |
| Deferred Govt. Grants Credited back | | 30,548 | 30,548 | |
| Export Incentives | | 80,73,632 | 64,65,426 | |
| Credit Balances written back | | 34,704 | 58,001 | |
| Profit on Sale of Assets | | 82,75,578 | 2,85,120 | |
| Power Subsidy Received | | 2,10,17,988 | 80,03,725 | |
| Miscellaneous Receipts | | 7,51,036 | 8,80,975 | |
| Total | | 3,95,02,321 | 1,68,52,990 | |
| COST OF MATERIALS CONSUMED | | | | Note No. 20 |
| Opening Stock | | 39,89,89,252 | 25,14,91,991 | |
| Add: Purchases of Raw Material | | 1,08,08,63,125 | 1,00,01,59,914 | |
| Total | | 1,47,98,52,377 | 1,25,16,51,905 | |
| Less : Closing Stock | | 32,19,17,829 | 39,89,89,252 | |
| Total | | 1,15,79,34,548 | 85,26,62,653 | |
| Components of Materials consumed: | | | | |
| Particulars | Qty (Kgs.) | Year ended 31-03-2012 | Qty (Kgs.) | Year ended 31-03-2011 |
| Cotton Kappas, Lint and Waste | 1,33,42,081 | 1,15,79,34,548 | 94,29,839 | 85,26,62,653 |
| PURCHASES OF STOCK-IN-TRADE | | | | Note No. 21 |
| Particulars | Qty (Kgs.) | Year ended 31-03-2012 | Qty (Kgs.) | Year ended 31-03-2011 |
| OE Yarn | -- | -- | 19,200 | 27,64,800 |
| Total | -- | -- | 19,200 | 27,64,800 |

KALLAM SPINNING MILLS LTD.

| CHANGES IN INVENTORIES OF FINISHED GOODS, WORK-IN-PROGRESS and STOCK-IN-TRADE | | | | Note No. 22 |
|--|------------|--------------------------|------------|--------------------------|
| Particulars | Qty (Kgs.) | Year ended 31-03-2012 | Qty (Kgs.) | Year ended 31-03-2011 |
| Closing Stock | | | | |
| Work in process | | | | |
| - Cotton Yarn | 2,01,400 | 3,29,52,048 | 1,53,073 | 2,12,76,651 |
| - OE Yarn | 60,235 | 52,13,961 | 17,560 | 15,92,908 |
| Finished Goods | | | | |
| - Cotton Yarn | 1,06,999 | 2,45,13,730 | 1,82,783 | 3,38,89,780 |
| - Cotton Waste | 798 | 37,935 | 87,000 | 30,34,337 |
| Stock of Power (KWH) (Banked with APTRANSCO) | 31,97,679 | 31,18,964 | 9,77,834 | 10,82,853 |
| - OE Yarn | 81,900 | 79,13,503 | 44,820 | 42,37,283 |
| - OE Waste | 1,274 | 26,046 | 24,930 | 7,07,584 |
| - Cotton Lint | 6,21,832 | 6,57,65,414 | -- | -- |
| - Cotton Seed | 66,787 | 3,82,970 | 2,25,249 | 30,56,629 |
| Sub Total : A | | 13,99,24,571 | | 6,88,78,025 |
| Opening Stock : | | | | |
| Work-in-Process | | | | |
| - Cotton Yarn | 1,53,073 | 2,12,76,651 | 1,51,073 | 1,45,76,497 |
| - OE Yarn | 17,560 | 15,92,908 | 15,560 | 10,39,139 |
| Finished Goods | | | | |
| - Cotton Yarn | 1,82,783 | 3,38,89,780 | 39,030 | 49,62,260 |
| - Cotton Waste | 87,000 | 30,34,337 | 53,498 | 15,64,567 |
| Stock of Power (KWH) (Banked with APTRANSCO) | 9,77,834 | 10,82,853 | 3,75,282 | 3,55,636 |
| - OE Yarn | 44,820 | 42,37,283 | 25,486 | 20,40,425 |
| - OE Waste | 24,930 | 7,07,584 | 15,449 | 64,972 |
| - Cotton Lint | -- | -- | -- | -- |
| - Cotton Seed | 2,25,249 | 30,56,629 | -- | -- |
| Sub Total : B | | 6,88,78,025 | | 2,46,03,496 |
| Increase in inventories Total : B-A | | -7,10,46,546 | | -4,42,74,529 |
| EMPLOYEE BENEFIT EXPENSES | | | | Note No. 23 |
| Particulars | | Year ended 31-03-2012 | | Year ended 31-03-2011 |
| Salaries and Wages | | 3,12,08,363 | | 3,12,95,418 |
| Contribution to Provident and other Funds | | 19,18,713 | | 13,31,748 |
| Staff Welfare Expenses | | 10,07,766 | | 8,72,150 |
| Incremental Liability for Gratuity | | 18,37,146 | | 5,27,719 |
| Total | | 3,59,71,988 | | 3,40,27,035 |

KALLAM SPINNING MILLS LTD.

| FINANCE COSTS | | Note No. 24 |
|---|--------------------------|--------------------------|
| Particulars | Year ended 31-03-2012 | Year ended 31-03-2011 |
| Interest paid to Banks and Others | 12,29,93,264 | 7,06,53,784 |
| Interest on Income Tax | 8,500 | 17,63,730 |
| Other Borrowing Costs | 7,99,497 | 24,05,551 |
| Total | 12,38,01,261 | 7,48,23,065 |
| OTHER EXPENSES | | Note No. 25 |
| Manufacturing Expenses : | | |
| Consumption of Stores and Spare Parts and Packing Materials | 4,90,37,253 | 3,68,82,388 |
| Power and Fuel | 10,33,41,655 | 9,17,58,239 |
| Repairs to : Buildings | 8,24,817 | 1,33,276 |
| : Machinery | 3,44,01,469 | 2,62,04,606 |
| : Others | 16,51,530 | 81,530 |
| Insurance | 26,14,607 | 20,23,280 |
| Selling Expenses : | | |
| Loading, Unloading, Transport Etc., | 2,42,25,606 | 1,83,15,695 |
| Commission on Sales | 81,66,614 | 91,27,095 |
| Administration and Other Expenses : | | |
| Rates and Taxes | 13,70,539 | 12,40,872 |
| Loss on Foreign Currency Exchange Fluctuations | 14,53,012 | 2,68,626 |
| Payments to Auditors towards: | | |
| : Statutory Audit | 1,10,300 | 77,210 |
| : Tax Audit and Taxation Matters | 75,004 | 22,060 |
| : For Certification and other | 16,545 | -- |
| : Towards Cost Audit | 14,000 | 14,000 |
| Directors Sitting Fee and Travelling Expenses | 8,61,294 | 1,75,288 |
| Claims written off | -- | 60,371 |
| Miscellaneous Expenses | 1,27,42,417 | 1,02,68,335 |
| Loss on Sale of Assets | 10,85,818 | 9,03,212 |
| Provision for Bad and Doubtful Debts | 1,33,519 | -- |
| Bad Debts written off | 69,708 | 2,83,962 |
| Total | 24,21,95,707 | 19,78,40,045 |

KALLAM SPINNING MILLS LTD.

| NOTES FORMING PART OF THE ACCOUNTS | | Year ended 31-03-2012 Rs. | Year ended 31-03-2011 Rs. |
|------------------------------------|---|---------------------------------|---------------------------------|
| 26. | CIF VALUE OF IMPORTS MADE DURING THE YEAR | | |
| i. | Stores & Spares | 5,32,916 | 51,41,495 |
| ii. | Capital goods | 7,61,22,748 | 2,70,95,986 |
| 27. | COMPARISON BETWEEN CONSUMPTION OF IMPORTED AND INDIGENOUS RAW MATERIALS SPARES AND COMPONENTS DURING THE YEAR | | |
| | | Year ended 31-03-2012 Rs. | Year ended 31-03-2011 Rs. |
| | | Value Rs. | Value Rs. |
| | | % | % |
| a. | Raw Materials : | | |
| | Imported | -- | -- |
| | Indigenous | 1,15,79,34,548 | 85,00,13,384 |
| | Total | 1,15,79,34,548 | 85,28,52,003 |
| b. | Spares and Components | | |
| | Imported | 5,32,916 | 37,19,289 |
| | Indigenous | 4,85,04,337 | 3,31,63,099 |
| | Total | 4,90,37,253 | 3,68,82,388 |
| 28. | EXPENDITURE IN FOREIGN CURRENCY DURING THE YEAR | Year ending 31-03-2012 | Year ending 31-03-2011 |
| i. | Commission on Yarn Sales | 5,05,430 | 9,08,959 |
| ii. | Foreign Travel | 13,89,694 | 1,08,062 |
| 29. | EARNINGS IN FOREIGN CURRENCY | | |
| | Sales (FOB Value) | 14,27,52,701 | 23,45,57,990 |
| 30. | CONTINGENT LIABILITIES NOT PROVIDED FOR | As at 31-03-2012 | As at 31-03-2011 |
| i. | Counter Guarantees given to Bank in respect of Bank guarantees and letter of credit issued in favor of various constituents | 4,09,46,170 | 7,05,67,634 |
| ii. | Estimated amounts of contracts remaining to be executed on Capital Accounts, and not provided for. | 3,98,525 | 3,66,94,573 |
| iii. | State levies on Electricity | 38,47,661 | 37,38,227 |
| 31. a. | Balances in personal accounts of various parties are subject to confirmation by and reconciliation with the said parties. | | |
| b. | 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. | | |
| 32. a. | Revenue expenditure capitalized to fixed assets / capital works under progress during the year includes borrowing costs as per As - 16 - | 2011-12 | 2010-11 |
| | Interest paid on term loans and processing charges (Net after interest subsidy received under TUF Scheme) | 10,05,790 | 72,46,984 |
| 33. | Interest paid is net after crediting subsidy received under TUF Scheme | 3,20,59,084 | 3,33,27,632 |

KALLAM SPINNING MILLS LTD.

34. Sales includes an amount of Rs. 9,03,020/- being gain on exchange fluctuation. (previous year Rs. 27,01,789/-)

35. 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 APSPDCL to pay 50% of the differential between the revised rate and the previous rate in force up to 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 APTRANSCO 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. The Supreme Court set out guidelines and remanded the matter to APERC with a direction that APERC shall hear the non-conventional energy generators afresh and determine the tariff expeditiously for purchase of Electricity in accordance with Law and pending the orders of APERC, APSPDCL is making payment of Rs. 1.92 per unit w.e.f. September, 2010, instead of billed rate of Rs. 2.74 per unit.

36. The Andhra Pradesh Electricity regulatory commission vide its order dated 23-02-2004 has increased the wheeling charges from 2% to 12.81% on the Electricity wheeled from the Power Plants of the Company by the APTRANSCO. 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 APTRANSCO 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 accountant for wheeling charges only at 2% pending final orders in the matter.

37. Disclosures required under the Micro, Small and Medium Enterprises Development Act 2006.

| Details | Amount |
|--|--------|
| i. Principal and interest overdue as on 31-03-2012 | Nil |
| ii. Interest paid on delayed payment during 2011 - 2012 | Nil |
| iii. Interest due on Principal amounts paid beyond due date during 2011 - 2012 | 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 the 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.

38. 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 15days 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.

| Profit and Loss Account | 2011-12 |
|-------------------------|------------------|
| Current Service Cost | 10,85,978 |
| Interest Cost | 1,49,264 |
| Actuarial Gain | 6,01,904 |
| Total | 18,37,146 |

Present value of obligation as on 31-03-2012

| | |
|---|------------------|
| Present value of obligation as on 01-04-2012 | 18,29,407 |
| Interest Cost | 1,49,264 |
| Current Service Cost | 10,85,978 |
| Benefits Paid | (40,240) |
| Actuarial Gain | 6,01,904 |
| Present Value of Obligation as on 31-03-2012 | 36,26,313 |

The Principal assumptions in determining Gratuity Liability are as follows:

| | |
|-------------------|--|
| Discount Rate | 8.25% |
| Salary Escalation | 12% |
| Mortality | LIC (1994-96) Ultimate Mortality Table |

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

A. List of Related Parties :-

1) Key Management Personnel :

1. K. Harandha 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. Harandha Reddy |
| 2. Poluri Sivanagendamma | 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 Venugopala Reddy | Son of P. Venkateswara Reddy |
| 6. Gurram Nitin | Son of G.V. Krishna Reddy |
| 7. Movva Kavitha | Wife of M.V. Subba Reddy |
| 8. Kallam Mohana Reddy | Son of K. Harandha Reddy |
| 9. M. Srinivasa Nagarjuna Reddy | Son of M.V. Subba Reddy |
| 10. M. Murali Sairam Krishna Reddy | Son of M.V. Subba Reddy |
| 11. G. Vijaya Lakshmi | Wife of G.V. Krishna Reddy |
| 12. 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, Guntur
2. Kallam Brothers Cottons Private Limited, Guntur

KALLAM SPINNING MILLS LTD.

| B) Transactions with the related parties | Key Management Personnel Amount Rs. | Relatives of Key Management Personnel Amount Rs. | Companies Controlled by Key Management Personnel / Relatives of Key Management Personnel Amount Rs. |
|--|--|---|--|
| I. Details of Transactions : | | | |
| a. Remuneration paid : | | | |
| 1. P. Venkateswara Reddy, MD | 6,30,570 | | |
| 2. G.V Krishna Reddy, JMD | 6,91,761 | | |
| 3. M.V. Subba Reddy, WTD | 4,40,611 | | |
| Total | <u>17,62,942</u> | | |
| b. Salary paid : | | | |
| P. Govardhna Reddy | | 2,23,314 | |
| c. Purchase of goods and Services | | | |
| 1. Kallam Borthers Cotton Pvt. Ltd., Guntur | | | |
| - Pressing Charges | | | 1,36,230 |
| - Cotton Lint | | | 52,79,249 |
| d. Sale of goods and Services | | | |
| 1. Kallam Brothers Cotton Pvt. Ltd., Guntur | | | 2,30,511 |
| 2. Kallam Agro Products and Oils Pvt. Ltd., Guntur | | | 2,44,66,119 |
| II. Balance as at 31-03-2012 | | | |
| a. Share capital of the Company held by | | | |
| 1. K. Haranadha Reddy, Chairman | 43,72,000 | | |
| 2. P. Venkateswara Reddy, MD | 26,35,800 | | |
| 3. G.V. Krishna Reddy, JMD | 55,50,650 | | |
| 4. M.V. Subba Reddy, W.T.D. | 6,85,000 | | |
| Total | <u>1,32,43,450</u> | | |
| 1. K. Venkata Subbayamma , w/o K. Haranadha Reddy | | 13,34,000 | |
| 2. P. Sivanagendramma, w/o P.Venkateswara Reddy | | 11,78,000 | |
| 3. M. Uma Sankara Reddy, b/o M.V. Subba Reddy | | 10,68,240 | |
| 4. P. Venugopala Reddy, S/o P. Venkateswara Reddy | | 10,05,480 | |
| 5. K. Mohana Reddy, S/o K: Harandha Reddy | | 31,15,000 | |
| 6. G. Nitin, S/o G.V.Krishna Reddy | | 10,18,000 | |
| 7. Others | | 8,84,260 | |
| Total | | <u>96,02,980</u> | |
| 1. Kallam Agro Products & Oils Pvt. Ltd., Guntur | | | 87,39,820 |

KALLAM SPINNING MILLS LTD.

| Nature of Transaction | Key Management Personnel Amount Rs. | Relatives of Key Management Personnel Amount Rs. | Companies Controlled by Key Management Personnel / Relatives of Key Management Personnel Amount Rs. |
|---|--|---|--|
| b. Loans / Inter Corporate Deposits received from (Unsecured) | | | |
| 1. P. Venkateswara Reddy, MD | 6,95,000 | | |
| 2. G.V.Krishna Reddy, JMD | 47,00,000 | | |
| 3. M.V. Subba Reddy, WTD | 15,00,000 | | |
| Total | <u>68,95,000</u> | | |
| 1. G.Vijayalakshmi, W/o G.V.Krishna Reddy | | 4,06,000 | |
| 2. M. Uma Sankara Reddy, B/o M.V.Subba Reddy | | 4,75,000 | |
| 3. P. Sivanagendramma, W/o P.Venkateswara Reddy | | 7,55,000 | |
| 4. G. Nitin, S/o G.V.Krishna Reddy | | 2,50,000 | |
| 5. Others | | 1,28,000 | |
| Total | | <u>20,14,000</u> | |
| C. Amount due to | | | |
| 1. P.Venkateswara Reddy, MD | 50,000 | | |
| 2. G.V. Krishna Reddy, JMD | 21,264 | | |
| 3. M.V.Subba Reddy, WTD | 30,000 | | |
| Total | <u>1,01,264</u> | | |
| D. Trade dues from | | | |
| 1. Kallam Brothers Cottons Pvt., Ltd., Guntur | | | 49,968 |

KALLAM SPINNING MILLS LTD.

40. SEGMENTAL RESULTS AS PER ACCOUNTING STANDARD - 17 ON "SEGMENT REPORTING". Segment wise Revenue Results and Capital Employed under Clause 41 of Listing Agreement.

| Particulars | Year 2011-12 Amount Rs. in lacs | Year 2010-11 Amount Rs. in lacs |
|---|------------------------------------|------------------------------------|
| Segment Revenue: | | |
| i. Spinning | 15,127.12 | 13,527.27 |
| ii. Power | 321.88 | 264.81 |
| Total | 15,449.00 | 13,788.08 |
| Less: Inter Segment Revenue | 251.90 | 213.38 |
| Net Revenue from Operations | <u>15,197.10</u> | <u>13,574.70</u> |
| Segment Results (Profit before Tax and Interest) | | |
| i. Spinning | 1,045.11 | 2,559.03 |
| ii. Power | 204.06 | 187.10 |
| Total | 1,249.17 | 2,746.13 |
| Less : Interest (Net) | 1,238.01 | 748.23 |
| Net Profit before Tax | <u>11.16</u> | <u>1,997.90</u> |
| Capital Employed (Segment Assets - Segment Liabilities) | | |
| i. Spinning | 17,322.19 | 16,253.82 |
| ii. Power | 2,242.85 | 1,830.41 |
| Total | 19,565.04 | 18,084.23 |
| Capital Expenditure | | |
| i. Spinning | 1,874.94 | 2,215.69 |
| ii. Power | 224.16 | 1,015.80 |
| Depreciation | | |
| i. Spinning | 599.49 | 519.96 |
| ii. Power | 92.91 | 46.94 |

41. General :

Consequent to the amendments made to Schedule-VI of the Companies Act, 1956, the Financial statements for the year ended 31st March, 2012 are prepared under revised schedule - VI. Accordingly, the previous year figures have also been reclassified to confirm to this year's classification.

As per our report of even date
For **BRAHMAYYA & CO.,**
Chartered Accountants
Firms' Registration No: 000513S
KARUMANCHI RAJAJI
Partner
Membership No.: 202309
Place : Guntur
Date : 25-05-2012

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

G.V. KRISHNA REDDY
Joint Managing Director

Place : Guntur
Date :25-05-2012



KALLAM SPINNING MILLS LIMITED

NH5, Chowdavaram , Guntur - 522 019, Andhra Pradesh

PROXY FORM

20th Annual General Meeting - 22nd September, 2012

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 20th ANNUAL
 GENERAL MEETING of the Company to be held at the NH5, Chowdavaram, Guntur - 522 019, Andhra
 Pradesh, India, on Saturday, the 22nd September, 2012 at 3-00 p.m. and at any adjournment(s) thereof.

Signed this..... day of..... 2012



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

20th Annual General Meeting - 22nd September, 2012

Regd. Folio No. / DP Client ID

| | | | | | | | | | | | | | | | | | | | |
|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|
| | | | | | | | | | | | | | | | | | | | |
|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|

No. of shares held

| | | | | | | | | | | | | | | | | | | | |
|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|
| | | | | | | | | | | | | | | | | | | | |
|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|

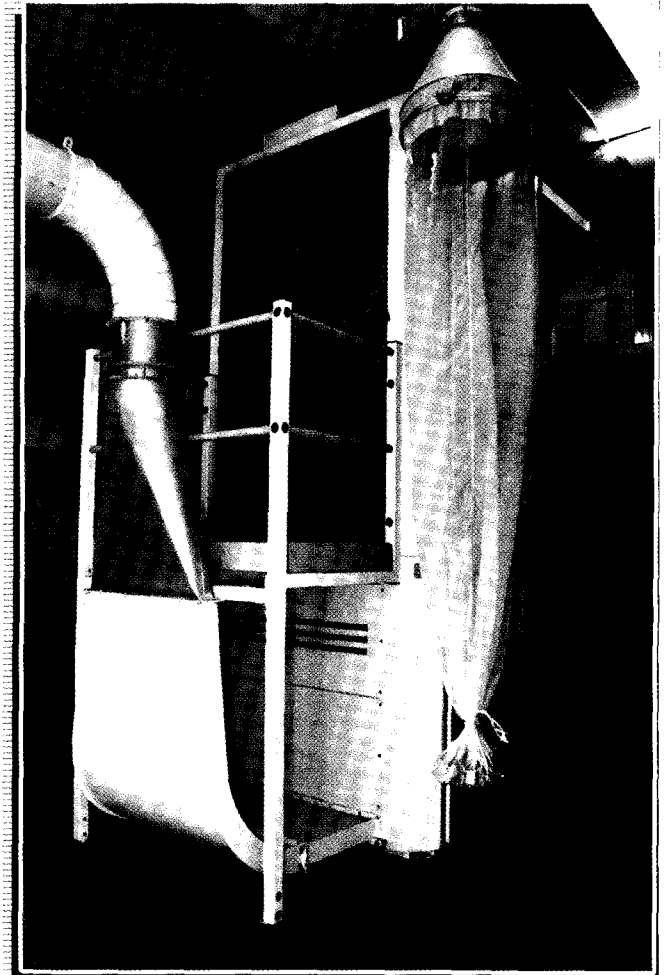
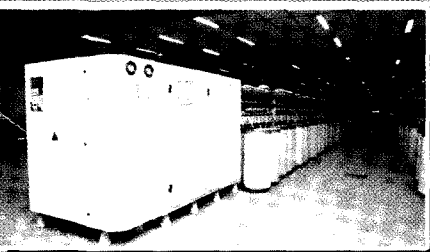
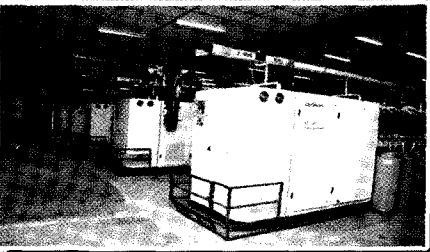
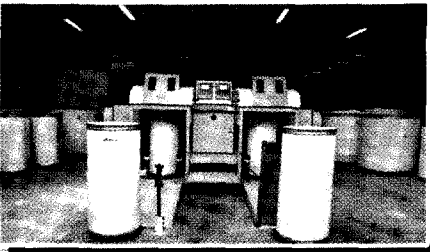
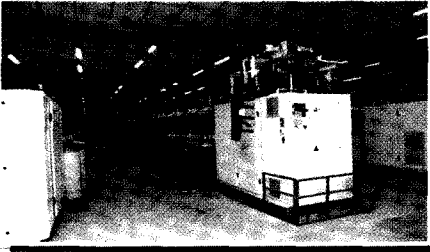
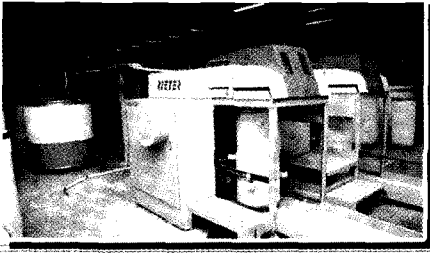
I Certify that I am a member / proxy for the member of the Company,

I hereby record my presence at the 20th ANNUAL GENERAL MEETING of the Company at the NH5, Chowdavaram, Guntur - 522 019, Andhra Pradesh, INDIA, on Saturday, the 22nd September 2012 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



If Undelivered Please Return to :

KALLAM SPINNING MILLS LIMITED

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