

**KALLAM SPINNING MILLS LTD.**

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## **KALLAM SPINNING MILLS LTD.**

### **NOTICE TO SHAREHOLDERS**

NOTICE is hereby given that the Eighteenth Annual General Meeting of the Members of **KALLAM SPINNING MILLS LIMITED** will be held on Saturday, the 18<sup>th</sup> of September, 2010 at 3.00 P.M. at the Registered Office of the Company at NH-5, Chowdavaram, Guntur 522 019 to transact the following business.

#### **Ordinary Business**

1. To receive, consider and adopt the Profit and Loss Account for the financial year ended March, 31<sup>st</sup> 2010 and the Balance Sheet as at that date together with the reports of the Board of Directors and Auditors there on.
2. To declare dividend on equity shares
3. To appoint a Director in place of Sri M.R. Naik, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Sri N. Prabhakara Rao, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint a Director in place of Sri M.V. Subba Reddy, who retires by rotation and being eligible, offers himself for re-appointment.
6. To re-appoint M/s. Brahmayya & Co., (Regd. No. 000153S) a firm of Chartered Accountants, as Statutory Auditors of the Company, for the period commencing from conclusion of this meeting till the conclusion of the next Annual General Meeting on such remuneration as may be fixed by the Board of Directors.

By order of the Board of Directors

**P. Venkateswara Reddy**  
Managing Director

Place: Chowdavaram

Date: 29.05.2010

#### **NOTES:**

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend, and vote on a poll, instead of himself / herself and such proxy need not be Member. The proxy form is enclosed which should be deposited at the Registered Office of the Company duly completed and signed, not later than 48 hours before the commencement of the Meeting.
2. The Register of Members and Share Transfer Books of the Company will remain closed from 14<sup>th</sup> September to 18<sup>th</sup> September (both days inclusive).
3. The accounts, the reports and all other documents required under the law to be annexed thereto will be available for inspection during working hours at the Registered Office of the Company on any working day prior to the date of the Annual General Meeting.
4. Dividend recommended by Directors, if approved by the Members at the Annual General Meeting, will be paid on or after 23<sup>th</sup> September 2010 to those members whose names appear on the Register of Members as on 18<sup>th</sup> September 2010. In respect of shares held in electronic form, the dividend will be payable on the basis of beneficial ownership as at the close of 13<sup>th</sup> September 2010 as per the details furnished by National Securities Depository Limited/Central Depository Service (India) Limited for the purpose as on that date.
5. Members desiring to seek any information on the Annual Accounts to be explained at the meeting are requested to send their queries in writing to the Company at the Registered Office so as to reach at least 7 days before the date of the meeting to make the required information.
6. Members holding shares in physical form are requested to notify/send the following to the Company's Registrar and Transfer Agent at: **Bigshare Services Private Limited, G-10, Left-Wing, Amrutha Ville, Opp: Yashoda Hospital, Rajbhavan Road, Somajiguda, Hyderabad – 500 082** at the earliest

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not later than 13<sup>th</sup> September 2010.

- 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.3 :**

Mr.M.R. Naik is a Non-Executive Independent Director of Kallam Spinning Mills Limited. He is aged about 72 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 compli-ments came before for hearing and order. His knowledge and experience will be of great help to the company complying with various government and other institutional rules procedures and regula-tions.

Sri. M.R. Naik is not a Director or member on any other company's Board / Committees. He is a Member of Audit Committee and Remuneration Committee Constituted by the Company.

#### **Item No. 4 :**

N.Prabhakar Rao is the Non-Executive Independent Director of Kallam Spinning Mills Limited. He is aged about 75 years and is an Electrical Engineer. He has retired as superintending Engineer of APSEB having served in various capacities and used to provide his valuable suggestions in areas of Electrical Engineering etc in times of need. He is also Director in Janapadu Hydro Power Projects Private Limited. Considering his vast experience knowledge the board of directors appointed him as a director of the company.

#### **Item No. 5 :**

M.V.Subba Reddy is the Whole Time Director of Kallam Spinning Mills Limited. He is associated with the company since its inception as purchase in charge (raw material) He is post graduate in commerce having experience in cotton purchase for the last 12 years with the company gained excellent knowledge in procurement of raw material sales of yarn and waste .He is also having experience in Accounts.

Sri M.V. Subba Reddy is not a Director or member on any other company's Board / Committees. He is a Member of Share Transfer Committee and Shoreholders Greivance Committee constituted by the Company.

Place: Chowdavaram

Date: 29.05.2010

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 Eighteenth Annual Report of the Company together with the Audited Statements of Accounts for the year ended 31<sup>st</sup> March 2010. I. **FINANCIAL RESULTS:**

The financial results for the year ended 31<sup>st</sup> March 2010 are summarized below:

S.No.	Particulars	2009-2010 (Rs. in lacs)	2008-2009 (Rs. in lacs)
01	Sales	8305.56	6723.58
02	Other income	103.10	113.04
03	Increase /(Decrease) in stock	(102.71)	0.08
04	Expenditure	7516.31	6383.75
05	Prodit before Interest, Depreciation & Tax	1877.95	1391.68
06	Depreciation	486.56	400.63
07	Interest	601.75	538.11
08	Profit before tax	789.64	452.95
09	Provision for income tax		
	i) Current Year Tax	-25.66	(3.70)
	ii) Fringe Benefit Tax	---	1.05
	iii) Deferred Tax	208.84	109.93
10	Profit after tax	606.46	345.67
11	Earning per share	8.85	5.05

Transfers & appropriations from the profit are as detailed below :

12	Net Profit after tax	606.46	345.67
13	Balance brought forward from previous year	1457.47	1183.94
14	Profit for appropriations	2063.93	1529.61

#### APPROPRIATIONS

15	Transfer to General Reserve	31.00	0.00
16	Proposed Equity Dividend	95.92	61.66
17	Tax on Proposed Equity Dividend (16.995)	15.93	10.48
18	Balance carried forward	1921.08	1457.47

The Sales of the company for the period under review increase to Rs.8305.56 Lakhs as compared to Rs.6723.58 registering a growth of Rs 23.53 percent on annulizes basis .The profit before interest and taxes of the company has grown by 40.39 percent on annulized basis from Rs 1391.39 lakhs in previous year to Rs. 991.06 lakhs in the period under review.

#### II. DIVIDEND:

In view of the company's profitable performance, your Directors are pleased to recommend for approval of shareholders a Final Dividend of 14%(Rs 1.40 paisa per share) on 68, 51,100 Equity shares of the company in respect of the financial year 2009-2010. The final Dividend if declared as above, would involve an outflow of Rs. 95.92 Lakhs towards Dividend and Rs. 15.93 lakhs towards Dividend Tax resulting outflow of Rs. 111.85 Lakhs.

The paid up capital of your company remained unchanged at Rs. 685.11 lakhs. Earning per share was Rs. 8.85 and cash per earning share was Rs. 15.95.

#### III. EXPANSION & MODERNISATION:

Your company continues to expand and modernize the facilities as ongoing process. During the financial year under review the following expansion cum modernization had taken place in various divisions.

##### a) Ring spinning Division

The Ring Spinning Division turnover is 74.18 crores. In the beginning of the year the total installed spindles were 50256. This includes old Textool Ring Frame and G.5/ Ring Frames. On this ring frames the production is low. These were replaced with 5856 spindles of Auto Doffing Ring frame Spindles where in the Auto Doffing is imported from Toyota Japan. Now bringing the total spindles to 52000.

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Similarly an old Murata Auto Coner was replaced by latest AC5 from Schlafhorst Germany to improve quality and productivity. Looking in to Labour shortage being experienced in recent past we are planning to replace more old spindles with Auto doffing ring frames.

The demand for value added yarns like compact Yarn, Siro yarn in increasing. We are planning to increase the capacity in this financial year.

The spindnlage installed capacity of your mill is as follows.

Financial year	-	No of Spindles
2000-2001	-	18144
2001-2002	-	18144
2002-2003	-	20040
2003-2004	-	21240
2004-2005	-	22608
2005-2006	-	24816
2006-2007	-	41376
2007-2008	-	44712
2008-2009	-	50256
2009-2010	-	52000

**Compact spinning which is a value addition activity of your company had increased as follows :**

2007	:	6624
2008	:	2208
2009	:	6624
2010	:	<u>6624</u>
Total	:	<u>22080</u>

TFO Capacity :

As a further value addition activity your mill had installed SSM Doufer with volkmann TFOS

2007	-	960 drums
2008	-	702 drums

### b) Open End Division

The Turnover of O.E. Division was 8.25 Crores. The O.E. Plant was commissioned in this financial year with 1248 rotors. We have received 832 additional rotors and will be installed during the current financial year. We have purchased OE machine from Schlafhorst BD 416, longest machine available with added features. We are using our own waste produced in ring spinning and converting into yarn. At this moment we are consuming two types of waste produced in ring spinning. We are in process of installing one more waste cleaning line which will enable us to consume all the wastes producing Spinning & O.E. to convert in to salable yarn.

We are augmenting the Blow Room, cards by installing latest blow room equipments such as Blendoment from Trutzschler. The yarn produced is well accepted in the local market as well as export market. We are planning to install additional 416 rotors in the next financial year.

The Company had installed and successfully commissioned 33 K.V dedicated feeder line from 132/33K.V Vengalayapalem sub-station.

### c) Ginning Division

In order to improve the quality of raw cotton we have implemented backward integration by installing 24 high production NIPHA Ginning machines. The entire plant is as per the TMC (Government of India) norms. The raw kappas is fed at one end, the material is transported automatically and fully pressed bales are delivered. This avoids contamination. The Seed removed is transported automatically to seed storage silos. The automatic ginning plant reduced the labour requirements significantly.

The capacity of this Ginning is 200 bales per day. This is more than 50% of our requirement for the

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year based on the 200 days cotton season. The 'B' Grade cotton sorted out will be consumed in O.E. division.

### **d) Hydro Electric Division**

The Company has Two Hydro Electric units of 0.8 M.W and 1.6 M.W under operation. The 3<sup>rd</sup> Hydro Electric unit of 1.6 M.W is under execution and will be completed during the financial year 2010-11.

### **IV.FINANCE:**

Your company is planning further expansion and modernization at a cost of Rs. 20 Crores out of which the loan from bank is Rs. 16.50 Crores and the balance will be met through from internal accuruvals. The expansion and modernization will be done in Ring spinning and O.E. Plants.

### **V.FIXED DEPOSITS:**

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

### **VI.FUTURE OUTLOOK:**

The company is projecting Rs. 120.00 Crores Turnover during the current financial Year. The O.E.Unit is expected to add bottom line to the company.

### **VII.DIRECTORS:**

In accordance with the provisions of the Companies Act, 1956 and Articles of Association of the Company Sri.M.R. Naik, Mr. N. Prabhakara Rao and Mr. M.V. Subba Reddy will retire by rotation at the ensuing Annual General Meeting and being eligible offers themselves for re-appointment. Mr. A. Rajendra Prasad Director has resigned from the Board wef 17-04-2010. None of the Directors of the Company are disqualified for being appointed as Directors as specified in Section 274 of the Companies Act, 1956.

### **VIII ENERGY, TECHNOLOGY AND FOREIGN EXCHANGE:**

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

### **IX. PARTICULARS OF EMPLOYEES:**

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

### **X. 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 reappointed. 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.

### **XI. 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 & Co Cost Accountant, to carry out an audit of Cost accounts of the Company in respect of textiles for accounting year ending 31<sup>st</sup> March 2011.

### **XII. CORPORATE GOVERNANCE:**

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

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

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

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

In conformity with the provisions of Clause 32 of the Listing agreement the Cash Flow Statement for the year ended 31.03.2010 is annexed hereto.



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### XV. DIRECTORS RESPONSIBILITY STATEMENT:

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

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

### XVI. ACKNOWLEDGEMENTS:

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

PLACE: GUNTUR

DATE: 29<sup>th</sup> May 2010.

For and on behalf 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, 2010.

#### 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)	1,93,88,976	2,17,34,324
	Total amount in Rs.	6,30,47,301	7,37,62,936
	Rate per unit Rs.	3.25	3.39
b)	Own Generation		
i)	Through Diesel Generator		
	Units Generated (KWH)	2,400	13,500
	Total amount Rs.	31,128	1,73,610
	Cost per unit Rs.	12.97	12.86
ii)	Through Steam Generation	--	--
iii)	Through Hydel Generation		
	Units generated – KWH	76,55,800	1,13,68,300
	Units consumed – KWH	54,25,341	77,98,655
	Total Cost Rs.	2,00,73,762	2,88,55,024
	Cost per KWH Rs.	3.70	3.70
2.	Coal	--	--
3.	Furnace Oil	--	--

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4. Other Internal Generation		
b) CONSUMPTION PER UNIT OF PRODUCTION (NO. OF UNITS/KG.)		
1. Electricity	4.56	5.16
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.919.77 lakhs. The foreign exchange utilized during the year amounted to Rs 615.192 lakhs.

## **MANAGEMENT DISCUSSION AND ANALYSIS:**

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

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

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

Textile industry 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 14.42% to the country's export earnings. 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**

The Technology Upgradation Fund Scheme (TUFS) was commissioned in the year 1999 with a view to facilitate the modernization and upgradation of the textiles industry by providing credit at reduced rates to the entrepreneurs both in the organized and the unorganized sector. The Scheme, which has now been extended up to 31.03.2012, 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 textile sector, and help it capitalize on the vibrant and expanding global and domestic markets, through technology upgradation, cost effectiveness, quality production, efficiency and global competitiveness. It is estimated that this will ensure a growth rate of 16 percent in the sector.

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

The net sales of the Company for the year under review increased to Rs. 8305.56 lakhs as compared to Rs. 6723.58 lakhs in the previous financial year, registering a growth of 23.53 percent. The profit before interest and tax of the company has increased by 40.39 percent on annualized basis from Rs. 991.06 lakhs in previous year to Rs. 1391.39 lakhs in the current financial year. The net profit for the year under report was affected and registered a growth to Rs. 606.46 lakhs from Rs.345.67 lakhs. Your company's Hydel power project generated power of the value of Rs 263.15 lakhs as against Rs. 331.18 lakhs in the previous year resulting a marginal fall of 20.54 percent.

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

Keeping in view the trends in India and the world in the textile field, the Company is expanding its operations by increasing the spindleage capacity to the maximum level and construction of new Open

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Ended Unit which will utilize the cotton waste to another high marketable product. The Company's spindle capacity was 52000 spindles and the Open End Plant is commenced its operations and added considerable revenue to the Company. The company has also set up new Automatic Ginning and Pressing Unit and ready to commence its operations.

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

A SWOT Analysis.

#### **Strengths**

1. The management team is well experienced with hands on experience in all areas of operations and key members of the team are able to access to trend forecasts and strategic planning at macro and micro levels
2. Since cotton sourcing is the single most important element in the spinning industry, our focus has been to develop competencies in this area. We source directly from the market and have created long-standing relationship with our suppliers. Our international relationships give us the leeway to source instantly from global markets if so desirable.
3. We use the latest machines and equipment, scientifically monitor our labour productivity and have adopted a policy of constant improvement. In addition, we also use MIS tools for operating at optimal efficiency. We have provided adequate attention to many other related areas, like shipping and logistics, spare parts sourcing and financial planning to increase our overall efficiency.
4. Most of our customers are repeat customers. This is testimony to our product quality and standardization. Our aim has been to always lead in the area of product development.
5. Our fair policies and consistent quality have earned us significant goodwill in the markets we operate in, giving us an advantage against competition.
6. By following a proactive labour policy, we have been able to develop a workforce that identifies themselves as a part of a family rather than as mere employees. Our units have enjoyed the distinction of never having suffered any labour unrest since 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 52000 spindles capacity. Your company has also constructed new OE Plant with capital outlay of Rs. 11.64 crores and commenced its operations during the year and added considerable revenue to the Company. The company has also established a new Automatic Ginning and Pressing Unit with a capital outlay of Rs. 9.95 Crores and it is expected to commence its operations in the present financial year.

Your Company has made balanced approach towards exports and domestic market. In domestic market most of the buyers are corporate entities and they import export fabric garments. We see that maximum product value is accrued to the Company.

#### **HYDEL POWER DIVISION:**

The company has permission to establish 3 Nos hydroelectric plants on 16<sup>th</sup> & 17<sup>th</sup> Branch canal of Nagarjunasagar Left canal at Nelakondapalli. We have established two hydroelectric plants of 0.8MW and 1.6MW in 2002. The construction of third plant was postponed and now we are in the process of constructing the third plant. It is expected to commence its commercial operations during the present financial year 2010-11.

During the year under review, due to non availability of water in Krishna Basin the Hydel power

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generation fall from 1,13,68,300 units to 76,55,800 units. Most of the power generation was for the captive consumption of the spinning division.

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

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

The main twin risks in this industry, especially in the cotton yarn spinning sector, are the procurement prices for cotton for its quality and the yarn realisation vis a vis the cotton cost ie. Raw material prices, as is common with every industry. In the case of marketing of yarn, the price realisation depends on the demand from garment manufacturers and power loom sector. In recent times the competition from the emerging economies in the neighbouring countries such as Sri Lanka, China and Pakistan with their comfortable status engendered by the preferential treatment in USA and EU markets poses a real challenge to the textile yarn spinning units in our country.

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

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

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

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

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

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

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

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

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

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

Employees are your company's most valuable resource. Your Company continues to create a favourable environment at work place. Your Company has various welfare measures both government sponsored and privately envisaged. The Company is providing good accommodation facilities 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.

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**ANNEXURE TO THE DIRECTOR'S REPORT**

**REPORT ON CORPORATE GOVERNANCE FOR THE PERIOD APRIL 1, 2009 TO MARCH 31, 2010.**

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 polices 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. Board of Directors**

The strength of the Board of Directors as on 31/03/2010 is 10. The Board comprises of Executive and Non-Executive Directors. The Non-Executive Directors bring external and wider perspective in the Board's deliberations and decisions. There are three Executive Directors. There are Seven Non-Executive directors, including Nominee Director and all of them are Independent Directors.

None of the directors on the board is a member of more than 10 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, 2010 have been made by the directors.

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

During the financial year ended March 31, 2010 Six Board Meetings were held on 25<sup>th</sup> April 2009, 27<sup>th</sup> June 2009, 31<sup>st</sup> July 2009, 31<sup>st</sup> October 2009, 30<sup>th</sup> January 2010 and 29<sup>th</sup> March 2010.

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

Name of the Director	Category of Directorship		No. of Board Meetings.		Attendance at Last AGM	No. of Other Directorships	No. of committees in position held in other Ltd., Com.	
			Held	Attended			Chairman	Member
Shri K. Haranadha Reddy	Chairman	NINE	6	4	Yes	1	Nil	Nil
Shri P. Venkateswara Reddy	MD	NIE	6	6	Yes	Nil	Nil	Nil
Shri G.V. Krishna Reddy	Jt.MD	NIE	6	6	Yes	Nil	Nil	Nil
Shri M.V. Subba Reddy	W.T.D.	NIE	6	6	Yes	Nil	Nil	Nil
Shri M.R. Naik	I&N.E.D	I&N.E.D	6	6	Yes	Nil	Nil	Nil
Shri N. Prabhakara Rao	I&N.E.D	I&N.E.D	6	6	No	1	Nil	Nil
Shri V.S.N. Murthy	I&N.E.D	I&N.E.D	6	3	No	4	1	1
Shri A. Krishna Murthy	I&N.E.D	I&N.E.D	6	6	No	Nil	Nil	Nil
Shri S. Pulla Rao	I&N.E.D	I&N.E.D	6	5	No	Nil	Nil	Nil
Shri A. Rajendra Prasad	I&N.E.D	I&N.E.D	6	4	No	Nil	Nil	Nil

## **KALLAM SPINNING MILLS LTD.**

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

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

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

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

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

## **3. Audit Committee**

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

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

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

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

The Audit Committee comprises of three Independent Non-Executive Directors. During the financial year ended March 31, 2010 the committee met Four times on 27<sup>th</sup> June 2009, 31<sup>st</sup> July 2009, 31<sup>st</sup>

**KALLAM SPINNING MILLS LTD.**

October 2009 and 30<sup>th</sup> January 2010. The attendance of the each member of the committee is given below:

Directors	Chairman / Member	Category	No.of meeting attended
Shri V.S.N. Murthy	Chairman	Nominee Director	3
Shri S. Pulla Rao	Member	I & N.E.D	4
Shri A. Rajendra Prasad	Member	I & N.E.D	3

**4. Remuneration Committee****(a) Terms of Reference**

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

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

The Remuneration Committee comprises of total three Independent Non-Executive Directors. The committee comprises as follows:

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

**(c) Remuneration of Directors**

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

Directors	Salary	Benefits	Commission	Sitting fees	Total
Shri K. Haranadha Reddy	---	---	---	---	---
Shri P. Venkateswara Reddy	6,00,000	27,189	8,23,565	---	14,50,754
Shri G.V. Krishana Reddy	6,00,000	87,085	8,23,565	---	15,10,650
Shri M.V. Subba Reddy	2,52,000	68,845	---	---	3,20,845
Shri M.R. Naik	---	---	---	18,000	18,000
Shri N. Prabhakara Rao	---	---	---	18,000	18,000
Shri V.S.N. Murthy	---	---	---	15,000	15,000
Shri A. Krishna Murthy	---	---	---	18,000	18,000
Shri S. Pulla Rao	---	---	---	23,000	23,000
Shri A. Rajendra Prasad	---	---	---	18,000	18,000

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

## **KALLAM SPINNING MILLS LTD.**

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

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

- i) A Shareholders/Investor Grievance Committee" to specifically look into the redressal of Shareholders' / Investors' complaints and of investors such as transfer or credit of shares to demat accounts, on receipt of dividend /notices /annual returns etc.
- ii) The Committee functions under the Chairmanship of Mr. N. Prabhakara Rao, a Non-executive and independent Director. The other members of the Committee are Mr. G.V.Krishna Reddy and Mr.M.V. Subba Reddy.
- iii) The Company received a total of two complaints from its shareholders for the period 01.04.2009 to 31.03.2010, all of which were resolved within 30 days to the satisfaction of the shareholders.
- !V) Name ,designation and address of the compliance officer Mr.K.Kumara Swamy, Asst Company Secretary, Kallam Spinning Mills Ltd, NH-5, Chowdavaram, GUNTUR, A.P-522019.

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

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 5 times during the year 2009-10. Share Transfers approved by the Committee are placed at the Board Meeting from time to time. During the period under review, 1300, Equity shares were transferred.

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

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

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

<b>Date of AGM</b>	<b>Time</b>	<b>Place</b>
10 <sup>th</sup> September, 2007	3.00P.M	Regd. Office at NH-5, Chowdavaram, GUNTUR - 522 019
20 <sup>th</sup> September, 2008	3.00P.M	Regd. Office at NH-5, Chowdavaram, GUNTUR - 522 019
19 <sup>th</sup> September, 2009	3.00P.M	Regd. Office at NH-5, Chowdavaram, GUNTUR - 522 019

### **Disclosures**

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

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

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

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

The quarterly unaudited financial results of the Company were published in Deccan Chronicle (English newspaper) Andhra Bhoomi (vernacular newspaper) and Audited results of the company were published in Business Line (English Newspaper) Andhra Bhoomi (Vernacular Newspaper) Half-yearly results were not sent to each of the shareholders.

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



## **KALLAM SPINNING MILLS LTD.**

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

### **9. General Shareholder Information**

Ensuring Annual General Meeting :	Saturday, the 18 <sup>th</sup> September, 2010 at 3.00 P.M at the Registered Office of the Company.
Financial Year :	01.4.2009 to 31.03.2010
Financial Calender:	a) First Quarter Results – Normally, last week of July b) Half yearly Results – Normally, last week of October c) Third Quarter Results – Normally, last week of January d) Annual Audited Financial Results- Normally last week of May
Dates of Book Closure :	14 <sup>th</sup> September, 2010 to 18 <sup>th</sup> September, 2010 (both days Inclusive)
Dividend payment date :	23 <sup>th</sup> September 2010
<b>Listing on Stock Exchanges</b> :	The Company's shares are listed on the following stock exchanges i) Hyderabad Stock Exchange Ltd. 6-3-654, Adjacent to Erramanjali Bus Stop, Somajiguda, HYDERABAD-500 082. PH: 040-23371701, 23435455 Fax No.040-23371696 ii) Bombay Stock Exchange Limited (Code 530201) Phiroze Jeejeeboy Towers, Dalal Street, MUMBAI – 400 001. Ph: 022 – 22721233/34 Listing fees for the year 2009-2010 have been paid.
<b>Stock Code</b> :	<b>530201(BSE)</b>
<b>Depository Participation:</b>	i) National Securities Depository Ltd,(NSDL) Trade World, 4 <sup>th</sup> Floor, Kamala Mills Compound, Senapati Bapat Marg, Lower Parel, Mumbai – 400 013. Ph. No: 022 - 2497 2964 ii) Central Depository Services (India) Ltd, (CDSL) P.J. Towers, 28 <sup>th</sup> Floor, Dalal Street, Mumbai – 400 023. Ph. No: 022 - 2497 2964
ISIN Number for NSDL & CDSL :	INE629F01017

## KALLAM SPINNING MILLS LTD.

### Market Price Data

#### Bombay Stock Exchange Limited

Month	Share Price (Rs.)		No. of Shares Traded	Sensex			
	High	Low		High	Low		
April	-	2009	12.90	10.00	7923	10,469.72	8,631.60
May	-	2009	15.14	10.25	23453	9,724.87	8,619.22
June	-	2009	16.45	13.65	35519	10,127.09	8,047.17
July	-	2009	15.60	12.35	49034	11,492.10	9,546.29
Aug	-	2009	17.30	13.36	87714	14,930.54	11,621.30
Sept	-	2009	19.00	15.20	98503	15,600.30	14,016.95
Oct	-	2009	18.00	15.00	84836	15,732.81	13,219.99
Nov	-	2009	23.00	14.65	79289	16,002.46	14,684.45
Dec	-	2009	29.80	18.35	391075	17,142.52	15,356.72
Jan	-	2010	28.90	22.80	249788	17,493.17	15,805.20
Feb	-	2010	25.60	21.20	87426	17,290.48	15,330.56
Mar	-	2010	28.55	21.25	216294	17,530.94	16,577.78

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

#### Share Transfer System:

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

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

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

#### Distribution of Shareholding as on 31<sup>st</sup> March 2010

Range (No. of Shares)	No. of Shareholder	No. of Shares	% to Total
1- 500	176	3695	0.05
501- 1000	1077	107298	1.57
1001- 2000	823	162408	2.37
2001- 3000	227	65987	0.96
3001- 4000	124	48887	0.71
4001- 5000	245	122000	1.79
5001- 10000	289	241188	3.52
10000 and above	386	6099637	89.03
	3347	6851100	100.00

**KALLAM SPINNING MILLS LTD.****Categories of Share Holders as on 31<sup>st</sup> March 2010**

Category	No. of Shares held	% of share holding
1. Promoters		
--- Inian	3580784	52.27
--- 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)	---	---
c. Flls	---	---
4. Others		
--- Private Corporate Bodies	491158	7.17
--- Indian Public	2640388	38.54
--- NRI / OCBs	126520	1.85
--- Others (Clearing Members)	2250	0.03
	6851100	100.00

**Dividend History**

Financial Year	% of Dividend
2004-05	7
2005-06	10
2006-07	12
2007-08	12
2008-09	9
2009-10	14

**Factory**

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

No. of Employees as on 31<sup>st</sup> March 2010 : 319

Address for Correspondence

A) Company :

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

B) Registrars & Share Transfer Agents :

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

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

**KALLAM SPINNING MILLS LTD.**

**DECLARATION BY MANAGING DIRECTOR /CEO**

I, P.Venkateswara Reddy, Managing Director of Kallam Spinning Mills Limited hereby confirm that all the board members and senior managerial personnel have affirmed for the year ended 31<sup>st</sup> March, 2010 the compliance with the code of conduct of the Company laid down for them.

Place : Guntur  
Date: 29.05.2010

**P.Venkateswara Reddy**  
Managing Director

**CERTIFICATION BY CHIEF EXECUTIVE OFFICER**

To the best of our knowledge and belief:

- i. we have received the balance sheet and profit and loss and all its schedules and notes an account as well as the cash Flow statements and the Directors Report:
- ii. These statements do not contain any materially untrue statement or omit any material fact nor do they contain statements that might be misleading:
- iii. These statements together present a true and fair view of the company, and are in compliance with the existing accounting standards and /or applicable laws and regulations:
- iv. We are responsible for establishing and maintaining internal controls and have evaluated the effectiveness of Internal control systems of the company, and they have also disclosed to the auditors and the audit committee,  
Deficiencies in the design or operation of internal controls, if any and what they have done or proposed to do rectify these;
- v. We have also disclosed to the auditors as well as Audit Committee, instances of significant fraud, if any, that involves management or employees having a significant role in the company's internal control systems: and  
We have indicated to the auditors, the Audit Committee and in the notes on accounts, Whether or not there were significant changes in internal control and /or of accounting polices during the year.

Place: Chowdavaram  
Date: 29.05.2010

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

**KALLAM SPINNING MILLS LTD.**

**AUDITORS' CERTIFICATE ON CORPORATE GOVERNANCE**

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

We have examined the compliance of conditions of corporate governance by **Kallam Spinning Mills Limited** for the year ended 31<sup>st</sup> March, 2010, as stipulated in Clause 49 of the Listing Agreement of the said Company with Stock Exchanges where its shares are listed.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination has been limited to a review of the procedures and implementations thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance as stipulated in the said clause. It is neither an audit nor an expression of opinion on the financial statements of the Company.

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

We state that as per the records maintained, and certified by the Registrars of the Company, there were no investors' grievances remaining unattended as at 31<sup>st</sup> March, 2010.

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

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

Place : Guntur  
Date : 29.05.2010

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

**KALLAM SPINNING MILLS LTD.**

**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 2010, its Profit and Loss Account for the year ended on that date annexed thereto, and its Cash-flow Statement for the year ended on that date. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India, which require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As required by the Companies (Auditors' Report) Order, 2003 issued by the Government of India in terms of sub-Section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

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

- a. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
- b. In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of such books;
- c. The Balance Sheet and Profit and Loss Account and Cash-flow Statement dealt with by this report are in agreement with the books of account;
- d. In our opinion, the Balance Sheet, Profit and Loss account and Cash-flow Statement dealt with by this report comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;
- e. On the basis of written representations received from the directors, as on March 31, 2010, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2010 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956;
- f. In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the significant accounting policies and notes thereon give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India;
  - i. in the case of the Balance Sheet, of the state of affairs of the Company as at 31<sup>st</sup> March, 2010;
  - ii. in the case of the Profit and Loss Account, of the Profit for the year ended on that date, and
  - iii. in the case of the Cash-flow Statement of the cash-flows of the company for the year ended on that date.

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

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

Place : Guntur  
Date : 29.05.2010

## 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.30.75 lakhs from 3 directors, Rs.11.09 lakhs from 7 parties covered in the register maintained under Section 301 of the Companies Act 1956.
- 3.3 According to the information and explanations furnished to us, the above loans obtained are interest free. The other terms and conditions on which loans have been taken by the company from the parties covered in the register maintained under section 301 of the Companies Act, 1956 are not, *prima facie*, prejudicial to the interest of the company.
- 3.4 According to the information and explanations furnished to us, the above loans are repayable on demand and hence the question of regularity in repayment of principal amounts does not arise.
4. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the company and the nature of its business with regard to purchase of inventory, fixed assets and with regard to the sale of goods and services. Further, during the course of our audit, we have not come across any instances of major weaknesses in internal control system that in our opinion, require correction but have so continued without correction.
- 5.1 Based on the information and explanations given to us, we are of the opinion that the particulars of contracts or arrangements referred to in Section 301 of Act have been entered in the register required to be maintained under that section.
- 5.2 In opinion and according to the information and explanations given to us, the transactions made in pursuance of such contracts or arrangements that have been entered in the register maintained under Section 301 of the Companies Act, 1956 have been made at prices which are reasonable having regard to prevailing market prices and other terms of business with such parties, at the relevant time.
6. In our opinion and according to the information and explanations given to us, the company has complied with the provisions of section 58A, 58AA and any other relevant provisions of the Act and Companies (Acceptance of Deposits) Rules, 1975 with regard to the deposits accepted from the public. According to the information furnished to us, no Order has been passed on the company by the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal for non-compliance with the provisions of Sections 58A, 58AA of the Companies Act 1956.

## **KALLAM SPINNING MILLS LTD.**

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

Place : Guntur  
Date : 29.05.2010

**24**

For **BRAHMAYYA & CO,**  
Chartered Accountants  
Firm Regn. No. 000513S  
**P. LAKSHMANA RAO**  
Partner  
ICAI Membership No.13254



**KALLAM SPINNING MILLS LTD.**

<b>BALANCE SHEET AS AT 31ST MARCH, 2010</b>			
Particulars	Schedule No.	As at 31.03.2010 Rs.	As at 31.03.2009 Rs.
<b>I. SOURCES OF FUNDS :</b>			
<b>1. Shareholders' Funds</b>			
(a) Capital	1	6,85,11,000	6,85,11,000
(b) Reserves & Surplus	2	19,83,08,452	14,88,47,249
<b>2. Deferred Govt. Grants</b>	3	2,02,610	2,33,158
<b>3. Loan Funds</b>			
(a) Secured Loans	4	99,46,06,107	76,69,00,250
(b) Unsecured Loans	5	2,24,72,023	2,42,05,253
<b>4. Deferred Tax Liability</b>		9,66,89,040	7,58,04,862
<b>TOTAL</b>		<b>1,38,07,89,232</b>	<b>1,08,45,01,772</b>
<b>II. APPLICATION OF FUNDS</b>			
<b>1. Fixed Assets</b>			
(a) Gross Block		1,12,48,02,559	89,90,41,514
(b) Less : Depreciation		25,59,32,619	21,56,34,330
(c) Net Block	6	86,88,69,940	68,34,07,184
(d) Capital work-in-progress		8,90,85,990	12,02,25,461
(e) Advance for capital works		2,92,56,247	2,63,99,145
		98,72,12,177	83,00,31,790
<b>2. Investments</b>	7	3,200	3,200
<b>3. Current Assets, Loans and Advances</b>			
(a) Inventories	8	28,75,91,720	17,08,86,914
(b) Sundry Debtors	9	5,49,54,957	2,62,41,168
(c) Cash and Bank balances	10	84,29,678	2,11,39,763
(d) Other Current Assets	11	5,82,124	7,80,190
(e) Loans and Advances	12	9,41,88,827	7,96,59,887
		44,57,47,306	29,87,07,922
<b>Less: Current Liabilities &amp; Provisions</b>			
(a) Current Liabilities	13	2,45,81,755	1,85,26,330
(b) Provisions	14	2,75,91,696	2,57,14,810
		5,21,73,451	4,42,41,140
<b>Net Current Assets</b>		<b>39,35,73,855</b>	<b>25,44,66,782</b>
<b>TOTAL</b>		<b>1,38,07,89,232</b>	<b>1,08,45,01,772</b>

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

As per our report of even date  
For **BRAHMAYYA & CO.,**  
Chartered Accountants  
Firm Regn.no.000513S

**P. LAKSHMANA RAO**  
Partner  
ICAI Membership No. 13254  
Place : Guntur  
Date : 29.05.2010

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

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

Place : GUNTUR  
Date : 29.05.2010

**KALLAM SPINNING MILLS LTD.**

<b>PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2010</b>			
Particulars Schedule	Schedule No.	Year ended 31.03.2010 Rs.	Year ended 31.03.2009 Rs.
<b>INCOME</b>			
Sales		<b>85,06,29,745</b>	69,58,16,391
Less : Inter Divisional Sales		<b>2,00,73,762</b>	2,34,58,227
(Excise Duty Rs. NIL, Pr. Year Rs. NIL)			
Other Income	15	<b>1,03,10,434</b>	1,13,04,119
Increase / (Decrease) in Stocks	16	<b>(1,02,71,372)</b>	8,123
<b>Total : A</b>		<b>83,05,95,045</b>	68,36,70,406
<b>EXPENDITURE</b>			
Raw Materials consumed	17	<b>44,86,09,347</b>	37,86,05,498
Purchase of Finished goods	18	<b>68,10,368</b>	1,86,75,314
Payments and Benefits to Employees	19	<b>1,76,81,416</b>	1,30,83,433
Manufacturing, Selling, Administrative and other expenses	20	<b>15,44,96,563</b>	12,51,92,781
Rates & Taxes	21	<b>1,52,01,906</b>	89,44,828
Interest	22	<b>6,01,75,441</b>	5,38,11,015
Depreciation		<b>4,86,55,735</b>	4,00,62,351
<b>Total : B</b>		<b>75,16,30,776</b>	63,83,75,220
<b>Profit before Tax (A-B)</b>		<b>7,89,64,269</b>	4,52,95,186
Less : Provision for			
i) Current Tax		<b>1,50,00,000</b>	56,00,000
ii) Fringe Benefit Tax		---	1,05,000
iii) Deferred Tax		<b>2,08,84,178</b>	1,09,93,484
		<b>4,30,80,091</b>	2,85,96,702
<b>Add :</b> (i) Tax Credit under MAT		<b>1,50,00,000</b>	56,00,000
(ii) Excess Provision for Income Tax		<b>25,65,687</b>	3,70,062
<b>Profit after Tax</b>		<b>6,06,45,778</b>	3,45,66,764
<b>Add :</b> Profit brought forward from previous year		<b>14,57,47,249</b>	11,83,94,385
<b>Profit available for appropriations</b>		<b>20,63,93,027</b>	15,29,61,149
<b>Appropriations:</b>			
Transfer to General Reserve		<b>31,00,000</b>	---
Proposed Dividends		<b>95,91,540</b>	61,65,990
Tax on Distributed Profits		<b>15,93,035</b>	10,47,910
Surplus carried forward to Balance Sheet		<b>19,21,08,452</b>	14,57,47,249
No. of Equity Sharees of Rs. 10/- each		<b>68,51,100</b>	68,51,100
Earning per Share : Profit After Tax/No. of Shares		<b>8.85</b>	5.05

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

As per our report of even date  
For **BRAHMAYYA & CO.**,  
Chartered Accountants  
Firm Regn. No. 000513S

**P. LAKSHMANA RAO**  
Partner  
ICAI Membership No. 13254  
Place : Guntur  
Date : 29.05.2010

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

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

Place : GUNTUR  
Date : 29.05.2010

**KALLAM SPINNING MILLS LTD.**

<b>SCHEDULES FORMING PART OF BALANCE SHEET</b>			
		<b>As at 31.03.2010 Rs.</b>	<b>As at 31.03.2009 Rs.</b>
1.	<b>SHARE CAPITAL</b> Authorised 1,00,00,000 Equity Shares of Rs. 10/- each <b>Issued, Subscribed and Paid - up</b> 68,51,100 Equity shares of Rs. 10/- each <b>Total taken to Balance Sheet</b>	 <b>10,00,00,000</b>  <b>6,85,11,000</b> <b>6,85,11,000</b>	 10,00,00,000  6,85,11,000 6,85,11,000
2.	<b>RESERVES &amp; SURPLUS</b> a) Capital Reserve - Investment Subsidy b) General Reserve - As per last balance sheet 16,00,000 Add : Transfer from Profit and Loss account <u>31,00,000</u> c) Surplus in Profit and Loss account  <b>Total taken to Balance Sheet</b>	 <b>15,00,000</b>  <b>47,00,000</b> <b>19,21,08,452</b>  <b>19,83,08,452</b>	 15,00,000 16,00,000 14,57,47,249  14,88,47,249
3.	<b>DEFERRED GOVT. GRANTS</b> Subsidy received from Andhra Pradesh State Government <b>Less</b> : Amount Credited to Profit and Loss Account <b>Total taken to Balance Sheet</b>	 <b>2,33,158</b> <b>30,548</b> <b>2,02,610</b>	 2,63,706 30,548 2,33,158
4.	<b>SECURED LOANS</b> <b>I. Long Term Loans :</b> <b>(i) From Financial Institutions :</b> (a) Rupee Loan <b>(ii) From Banks :</b> (a) Rupee Loan Interest accrued and due on above (of the above Rs 4,06,29,000/- falls due for payment in next year) <b>II. Short Term Loans :</b> (a) Working Capital Loan from banks <b>Total taken to Balance Sheet</b>	   <b>2,28,99,760</b>   <b>72,12,20,444</b> ---  <b>25,04,85,903</b> <b>99,46,06,107</b>	   3,06,74,230  60,08,57,459 67,36,385  12,86,32,176 76,69,00,250
5.	<b>UNSECURED LOANS</b> <b>Long Term Loans :</b> (a) Sales Tax Deferment under Sales Tax Deferral Scheme from Andhra Pradesh State Government (of the above Rs 33,77,887/- due for repayment in next year) (b) Teak Plantation Deposits (c) Loans from Promoters and their relatives (interest free) (d) Fixed Deposits from Directors (Interest free) <b>Total taken to Balance Sheet</b>	   <b>1,69,07,023</b>   <b>81,000</b> <b>20,09,000</b> <b>34,75,000</b> <b>2,24,72,023</b>	   1,94,92,303  22,950 20,60,000 26,30,000 2,42,05,253

6 FIXED ASSETS		Amount in Rupees									
S.NO.	NAME OF THE ASSET	GROSS BLOCK				DEPRECIATION				NET BLOCK	
		COST UP TO 31.03.2009	ADDITIONS ADJUSTMENTS DURING THE YEAR	DEDUCTIONS/ ADJUSTMENTS DURING THE YEAR	TOTAL COST UPTO 31.03.2010	TOTAL UPTO 31.03.2009	FOR THE YEAR	DEDUCTIONS/ ADJUSTMENTS DURING THE YEAR	TOTAL UPTO 31.03.2010	AS AT 31.03.2010	AS AT 31.03.2009
1.	LAND	98,12,218	3,42,280	---	1,01,54,498	---	---	---	---	1,01,54,498	98,12,218
2.	FACTORY BUILDINGS	17,85,85,691	5,78,54,417	---	23,64,40,108	3,15,93,544	71,62,444	---	3,87,55,988	19,76,84,120	14,69,92,148
3.	NON - FACTORY BUILDINGS	1,50,13,015	---	---	1,50,13,015	27,04,057	2,42,486	---	29,46,543	1,20,66,472	1,23,08,958
4.	PLANT AND MACHINERY	65,11,96,734	16,72,31,121	1,15,04,227	80,69,23,628	16,51,48,447	3,86,21,749	81,07,761	19,56,62,435	61,12,61,193	48,60,48,287
5.	ELECTRICAL & ELECTRONIC EQUIPMENTS	2,76,17,797	1,54,09,808	---	4,30,27,605	1,02,19,555	14,45,842	---	1,16,65,397	3,13,62,208	1,73,98,242
6.	BOREWELLES & WATER PUMPS	3,95,705	36,391	---	4,32,096	1,14,976	16,391	---	1,31,367	3,00,729	2,80,729
7.	OFFICE&OTHEREQUIPMENT	68,86,910	4,60,194	---	73,47,104	40,38,520	7,35,971	---	47,74,491	25,72,613	28,48,390
8.	FURNITURE & FITTINGS	21,10,156	70,320	---	21,80,476	6,67,861	1,33,251	---	8,01,112	13,79,364	14,42,296
9.	VEHICLES	38,23,174	41,000	5,80,145	32,84,029	11,47,370	2,97,601	2,49,685	11,95,286	20,88,743	26,75,802
10.	PLANTATIONS	21,80,161	---	21,80,161	---	---	---	---	---	---	21,80,161
11.	TEAK PLANTS WORK IN PROGRESS	14,19,953	---	14,19,953	---	---	---	---	---	---	14,19,953
	<b>Grand Total</b>	<b>89,90,41,514</b>	<b>24,14,45,531</b>	<b>1,56,84,486</b>	<b>1,12,48,02,559</b>	<b>21,56,34,330</b>	<b>4,86,55,735</b>	<b>83,57,446</b>	<b>25,59,32,619</b>	<b>86,88,69,940</b>	<b>68,34,07,184</b>
	<b>PREVIOUS YEAR</b>	<b>81,84,46,306</b>	<b>8,32,62,124</b>	<b>26,66,916</b>	<b>89,90,41,514</b>	<b>17,57,83,363</b>	<b>*4,07,77,738</b>	<b>9,26,771</b>	<b>21,56,34,330</b>	<b>68,34,07,184</b>	<b>64,26,62,943</b>
* Depreciation charged to profit and loss account for the previous year is after adjusting Rs. 7,15,387/- being excess depreciation and refund of duties paid in earlier years and capitalised to fixed assets.											

**KALLAM SPINNING MILLS LTD.**

		As at 31.03.2010 Rs.	As at 31.03.2009 Rs.
7.	<b>INVESTMENTS : (Long Term)</b> Non-trade and Unquoted :		
	i) In Government Securities :		
	a) National Saving Certificates (Lodged with Government departments towards security)	3,200	3,200
	Total taken to Balance Sheet	3,200	3,200
8.	<b>INVENTORIES</b> (As Certified By the Managing Director)		
	a) Stores & Spares (including Packing Material)	1,14,96,233	1,03,71,646
	b) Raw Materials	25,14,91,991	12,56,40,400
	c) Work-in-process	1,56,15,636	1,94,75,171
	d) Finished Goods -Yarn and waste Banked Energy	86,32,224 3,55,636	1,44,54,237 9,45,460
	Total taken to Balance Sheet	28,75,91,720	17,08,86,914
9.	<b>SUNDRY DEBTORS</b> (Unsecured and considered good)		
	a) Outstanding for a period exceeding 6 months	4,93,593	59,60,059
	b) Other Debts	5,44,61,364	2,02,81,109
	Total taken to Balance Sheet	5,49,54,957	2,62,41,168
10.	<b>CASH AND BANK BALANCES</b>		
	(a) Cash on hand	3,36,675	12,57,491
	(b) Cash at Scheduled Banks:		
	i) In Current accounts	9,71,479	1,11,18,162
	ii) In Dividend accounts	14,75,601	12,27,169
	iii) In Fixed deposits	56,45,923	75,36,941
	Total taken to Balance Sheet	84,29,678	2,11,39,763
11.	<b>OTHER CURRENT ASSETS</b>		
	Accrued Interest on deposits	5,82,124	7,80,190
	Total Taken to Balance Sheet	5,82,124	7,80,190
12	<b>LOANS AND ADVANCES</b>		
	a) Advances ( Recoverable in cash or in kind or for value to be received, unsecured, considered good)	96,81,189	1,61,93,446
	b) Deposits recoverable	1,21,42,488	1,06,32,508
	c) EPCG Terminal Excise Duty Refund receivable	57,26,313	43,24,460
	d) Prepaid Expenses	7,18,546	4,99,665
	e) Excise Duty Deposit	6	6
	f) Input Tax Credit under VAT	54,97,433	2,29,340
	g) Advance Income Tax/Fringe Benefit Tax/TDS	51,06,101	1,16,74,587
	h) MAT Credit entitlement	3,17,00,000	1,67,00,000
	i) Interest Rebate receivable under TUF	2,36,16,751	1,94,05,875
	Total taken to Balance Sheet	9,41,88,827	7,96,59,887
13	<b>CURRENT LIABILITIES</b>		
	a) Sundry Creditors		
	-Due to Micro and Small Enterprises	8,58,838	2,45,118
	-Due to Others (including Rs.16,47,130/- P.Y. Rs. 9,59,996/- due to Managerial Personnel)	2,01,54,408	1,67,69,311

**KALLAM SPINNING MILLS LTD.**

		As at 31.03.2010 Rs.	As at 31.03.2009 Rs.
	b) Unclaimed Dividends	14,73,154	12,24,183
	c) Advances received against Sales	20,73,172	2,87,718
	d) Interest accrued but not due	22,183	---
	Total taken to Balance Sheet	2,45,81,755	1,85,26,330
<b>14</b>	<b>PROVISIONS</b>		
	a) Provision for Income - Tax	1,50,00,000	1,73,00,000
	b) Provision for Fringe Benefit Tax	---	2,15,000
	c) Provision for Gratuity	14,07,121	9,85,910
	d) Provision for Dividend	95,91,540	61,65,990
	e) Provision for Tax on Distributable Profits	15,93,035	10,47,910
	Total taken to Balance Sheet	2,75,91,696	2,57,14,810
<b>Schedules forming part of Profit and Loss Account for the Year ended 31.03.2010</b>		<b>Year ended 31.03.2010</b>	<b>Year ended 31.03.2009</b>
<b>15</b>	<b>OTHER INCOME</b>		
	a) Interest received from Banks and Others (TDS Rs.91,461/- P.Y. Year Rs.2,09,480/-)	7,20,955	11,08,657
	b) Deferred Government Grants Credited back	30,548	30,548
	c) Export Incentives	3,41,757	90,71,152
	d) Credit Balances Written back	74,854	11,089
	e) Claims Received	---	3,11,449
	f) Profit on Sale of Assets	5,34,390	1,363
	g) Power subsidy received	61,45,900	---
	h) Miscellaneous receipts	24,62,030	7,69,861
	Total taken to Profit and Loss Account	1,03,10,434	1,13,04,119
<b>16</b>	<b>Increase / (Decrease) in Stocks</b>		
	<b>A. Opening Stock</b>		
	Work-in-process	1,94,75,171	1,62,58,436
	Finished Goods - Yarn & Waste	1,44,54,237	1,83,20,858
	- Banked Energy	9,45,460	2,87,451
	Total (A)	3,48,74,868	3,48,66,745
	<b>B. Closing Stock</b>		
	Work-in-process	1,56,15,636	1,94,75,171
	Finished Goods - Yarn & Waste	86,32,224	1,44,54,237
	- Banked Energy	3,55,636	9,45,460
	Total (B)	2,46,03,496	3,48,74,868
	Total taken to Profit and Loss Account (B-A)	(1,02,71,372)	8,123
<b>17</b>	<b>RAW MATERIALS CONSUMED</b>		
	Opening Stock	12,56,40,400	18,55,64,769
	Add: Purchases of Cotton Lint	57,44,60,938	31,86,81,129
		70,01,01,338	50,42,45,898
	Less : Closing Stock	25,14,91,991	12,56,40,400
	Total taken to Profit and Loss Account	44,86,09,347	37,86,05,498
<b>18</b>	<b>PURCHASE OF FINISHED GOODS</b>		
	Cotton Yarn and Waste Cotton	68,10,368	1,86,75,314
	Total taken to Profit and Loss Account	68,10,368	1,86,75,314

**KALLAM SPINNING MILLS LTD.**

		Year ended 31.03.2010	Year ended 31.03.2009
<b>19.</b>	<b>PAYMENTS AND BENEFITS TO EMPLOYEES</b>		
	a) Salaries, Wages & Bonus	<b>1,56,94,176</b>	1,09,18,433
	b) Workmen & Staff Welfare Expenses	<b>7,18,630</b>	9,32,719
	c) Contribution to Provident Fund	<b>8,17,399</b>	5,49,184
	d) Incremental Liability for Gratuity	<b>4,51,211</b>	6,83,097
	Total taken to Profit and Loss Account	<b>1,76,81,416</b>	1,30,83,433
<b>20</b>	<b>MANUFACTURING, SELLING, ADMINISTRATIVE AND OTHER EXPENSES :</b>		
	<b>A) Manufacturing Expenses:</b>		
	a) Stores & Spares Consumed (including packing materials)	<b>2,67,15,788</b>	2,90,88,354
	b) Tools & Implements Written Off	---	7,925
	c) Power & Fuel	8,32,24,442	
	Less: Inter Divisional Sales	<u>2,00,73,762</u>	
	d) Conversion Charges	<b>30,278</b>	---
	e) Insurance	<b>12,48,159</b>	13,58,571
	f) Repairs to - Plant & Machinery	<b>2,05,65,854</b>	1,61,26,444
	- Buildings	<b>36,593</b>	99,535
	- Other Assets	<b>51,404</b>	19,092
	TOTAL (A)	<b>11,17,98,756</b>	9,70,09,921
	<b>B) Selling Expenses :</b>		
	a) Loading, Unloading, Transport etc.,	<b>1,24,79,668</b>	92,44,471
	b) Commission on Sales	<b>40,42,735</b>	63,90,639
	TOTAL (B)	<b>1,65,22,403</b>	1,56,35,110
	<b>C) Administrative Expenses :</b>		
	a) Directors Sitting Fee and Travelling Expenses	<b>2,94,247</b>	2,06,591
	b) Remuneration to Directors (Refer Note No. 11)	<b>32,82,249</b>	26,15,648
	c) Donations	<b>12,61,005</b>	6,000
	d) Payment to Auditors (Refer Note No. 10)	<b>1,11,270</b>	78,180
	e) Miscellaneous Expenses	<b>92,91,160</b>	77,16,828
	f) Loss on Sale of Assets	<b>5,33,480</b>	1,09,918
	TOTAL (C)	<b>1,47,73,411</b>	1,07,33,165
	<b>D) Other Items</b>		
	a) Bad Debts Written Off	<b>84,235</b>	1,18,515
	b) Exchange Fluctuations (net)	---	16,96,070
	c) Claims written off	<b>1,76,031</b>	---
	d) Accumulated expenditure incurred on Teak Plants written off on its removal	<b>37,48,860</b>	---
	e) Disputed Power Charges recoverable from APTRANSCO written off	<b>73,92,867</b>	---
	TOTAL(D)	<b>1,14,01,993</b>	18,14,585
	Total taken to Profit and Loss Account (A+B+C+D)	<b>15,44,96,563</b>	12,51,92,781
<b>21</b>	<b>RATES AND TAXES :</b>		
	Rates and taxes	<b>1,52,01,906</b>	89,44,828
	Total taken to Profit and Loss Account	<b>1,52,01,906</b>	89,44,828
<b>22</b>	<b>INTEREST PAID</b>		
	a) on Fixed Period Loans	<b>3,77,39,238</b>	3,84,30,280
	b) To banks and Others	<b>2,24,36,203</b>	1,53,80,735
	Total taken to Profit and Loss Account	<b>6,01,75,441</b>	5,38,11,015

**KALLAM SPINNING MILLS LTD.**

**NOTES FORMING PART OF THE ACCOUNTS**

**1. SECURED LOANS : SPINNING DIVISION**

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

**POWER DIVISION:**

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

2. SALES	Year ended 31-03-2010		Year ended 31-03-2009	
	Quantity (Kgs)	Value (Rs.)	Quantity (Kgs)	Value (Rs.)
Yarn	46,35,347	70,92,54,156	43,98,272	60,50,79,068
OE Yarn	8,73,174	8,01,39,783	--	--
Waste	11,34,991	3,25,83,542	13,91,024	5,76,19,193
OE Waste	1,74,443	23,37,760	--	--
Power (KWH)	77,22,081	2,63,14,504	97,50,551	3,31,18,130
		85,06,29,745		69,58,16,391
Less: Inter divisional sales	54,25,341	2,00,73,762	63,40,061	2,34,58,227
<b>Total:</b>		<b>83,05,55,983</b>		<b>67,23,58,164</b>
3. <b>RAW MATERIALS CONSUMED</b>				
Cotton Lint & Cotton Waste (Exclude Qty 507136 kgs of waste and 219332 kgs of lint used for manufacturing of OE Yarn)	65,49,476	44,86,09,347	57,16,729	37,86,05,498
4. <b>PURCHASE OF FINISHED GOODS</b>				
YARN	45,088	68,10,368	1,31,152	1,86,75,314
WASTE	-	-	-	-
<b>Total:</b>		<b>68,10,368</b>		<b>1,86,75,314</b>
5. <b>OPENING STOCK OF FINISHED GOODS</b>				
YARN	89,850	1,29,06,227	1,45,568	1,63,60,331
WASTE	1,71,261	15,48,010	1,32,206	19,60,527
STOCK OF POWER (KWH) (Banked with APTRANSCO)	18,18,193	9,45,460	3,90,559	2,87,451
<b>Total:</b>		<b>1,53,99,697</b>		<b>1,86,08,309</b>
6. <b>CLOSING STOCK OF FINISHED GOODS</b>				
Yarn	39,030	49,62,260	89,850	1,29,06,227
Waste	53,498	15,64,567	1,71,261	15,48,010
Stock of Power (KWH) (Banked with APTRANSCO)	3,75,282	3,55,636	18,18,193	9,45,460
OE Yarn	25,486	20,40,425	--	--
OE Waste	15,449	64,972	--	--
<b>Total:</b>		<b>89,87,860</b>		<b>1,53,99,697</b>



**KALLAM SPINNING MILLS LTD.**

<b>7. PARTICULARS REGARDING LICENCED, INSTALLED CAPACITY AND PRODUCTION</b>					
		<b>As at</b>		<b>As at</b>	
a) Licenced Capacity :		<b>31-03-2010</b>		<b>31-03-2009</b>	
(i) Spindles (Nos.)		<b>52,000</b>		52,000	
(ii) Rotors		<b>1,248</b>		--	
(iii) Power		<b>4MW</b>		4MW	
b) Installed Capacity					
(i) Spindles (Nos.)		<b>52,000</b>		50,256	
(ii) Rotors		<b>1248</b>		--	
(ii) Power		<b>2.40 MW</b>		2.40MW	
c) Production :		<u>Year ended 31.3.2010</u>		<u>Year ended 31.03.2009</u>	
(i) Yarn (kgs.)		<b>45,40,087</b>		42,11,856	
(ii) OE Yarn		<b>8,98,660</b>		--	
(ii) Power Generation (KWH)		<b>76,55,800</b>		1,13,68,300	
<p>Note : 1. Power Generation includes captive use of 54,25,341 KWH (P.Y : 63,40,061KHW) and 1,07,182 KWH (P.Yr. 1,59,155 KWH) surrendered to APTRANSCO towards Wheeling charges and 9736 KWH (P.Y.30,960 KWH) surrendered to APTRANSCO towards Banking charges.</p> <p>2. The installed capacities are as per certificate given by the managing Director on which the Auditors have relied.</p>					
<b>8. CIF VALUE OF IMPORTS MADE DURING THE YEAR :</b>		<b>Year ended</b>		<b>Year ended</b>	
		<b>31-03-2010</b>		<b>31-03-2009</b>	
		<b>Rs.</b>		<b>Rs.</b>	
i) Stores & Spares		<b>12,47,685</b>		4,69,592	
ii) Capital goods		<b>5,54,28,732</b>		8,61,13,923	
iii) Raw Material		<b>--</b>		12,21,01,552	
<b>9. COMPARISON BETWEEN CONSUMPTION OF IMPORTED AND INDIGENOUS RAW MATERIALS, SPARES AND COMPONENTS DURING THE YEAR</b>					
		<b>Year ended</b>		<b>Year ended</b>	
		<b>31-03-2010</b>		<b>31-03-2009</b>	
		<b>Value</b>	<b>Percentage</b>	<b>Value</b>	<b>Percentage</b>
		<b>Rs.</b>		<b>Rs.</b>	
a) Raw Materials :					
Imported		<b>3,05,38,898</b>	<b>6.81</b>	9,18,70,415	24.27
Indigenous		<b>41,80,70,449</b>	<b>93.19</b>	28,67,35,083	75.73
<b>Total</b>		<b>44,86,09,347</b>	<b>100.00</b>	<b>37,86,05,498</b>	<b>100.00</b>
b) Spares & Components :					
Imported		<b>7,22,670</b>	<b>2.71</b>	3,79,571	1.30
Indigenous		<b>2,59,93,118</b>	<b>97.29</b>	2,87,08,783	98.70
<b>Total:</b>		<b>2,67,15,788</b>	<b>100.00</b>	<b>2,90,88,354</b>	<b>100.00</b>
<b>10. PAYMENTS MADE TO AUDITORS</b>					
		<b>Year ended</b>		<b>Year ended</b>	
		<b>31-03-2010</b>		<b>30-03-2009</b>	
		<b>Rs.</b>		<b>Rs.</b>	
Towards Statutory audit		<b>77,210</b>		49,635	
Towards tax audit and taxation matters		<b>22,060</b>		16,545	
		<b>99,270</b>		66,180	
Towards Cost audit		<b>12,000</b>		12,000	
<b>Total</b>		<b>1,11,270</b>		<b>78,180</b>	

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11.	<b>a) Computation of Profit in accordance with Sec. 349:</b>		
	Net profit as per Profit & Loss account	---	7,89,64,270
	Remuneration paid to Directors	32,82,249	---
	Sitting fees paid to Directors	1,10,000	33,92,249
	<b>Net profit in accordance with Sec.349</b>		<b>8,23,56,519</b>
	<b>b) Details of Remuneration paid to Directors :</b>	Managing Director	Joint Managing Director WholeTime Director
	Salary	6,00,000	6,00,000 2,52,000
	Perquisites	27,189	87,085 68,845
	Commission	8,23,565	8,23,565 ---
	<b>Total:</b>	<b>14,50,754</b>	<b>15,10,650</b> <b>3,20,845</b>
	<b>GRAND TOTAL</b>		<b>32,82,249</b>
	Notes:Commission payable to Managing Director and Joint Managing Director is at 1% each on Profits computed u/s 349 of the Companies Act, 1956		
12	<b>EXPENDITURE IN FOREIGN CURRENCY DURING THE YEAR</b>	<b>Year ending 31.03.2010</b>	<b>Year ending 31.03.2009</b>
		<b>Rs.</b>	<b>Rs.</b>
	(i) Commission on Yarn Sales	<b>2,71,481</b>	27,14,302
	(ii) Foreign Travel	<b>48,442</b>	38,437
13	<b>EARNINGS IN FOREIGN CURRENCY</b>		
	Sales (FOB Value )	<b>9,19,77,067</b>	17,70,47,908
14	<b>CONTINGENT LIABILITIES NOT PROVIDED FOR</b>		
	i) Counter guarantees given to bank in respect of Bank guarantees and letter of credit issued in favour of various constituents.	<b>1,42,02,480</b>	1,64,98,026
	ii) Minimum guarantee repurchase amount promised to teak plantation Unit holders.	--	17,550
	iii) Estimated amounts of contracts remaining to be executed on Capital accounts, and not provided for.	<b>5,13,71,500</b>	2,56,95,913
	iv) State levies on Electricity	<b>37,33,908</b>	37,33,908
15.	Balances with Scheduled Banks in Fixed Deposits represents Rs. 56,45,923/- held as Margin Money Deposit against Bank Guarantee and letter of credits issued by them. (Previous year 75,36,941/-).		
16.	Balances in personal accounts of various parties are subject to confirmation by and reconciliation with the said parties.		
17.	In the opinion of the management, all the amounts stated under Current Assets, Loans and Advances are recoverable at the values at which they are stated.		
18.	a) Revenue expenditure capitalized to fixed assets/ Capital works under progress during the year includes		
	Borrowing costs as per AS-16-	<b>2009-10</b>	2008-09
	Interest paid on term loans and processing charges	<b>27,15,562</b>	31,54,293
	(Net after interest subsidy received under TUF scheme)		
	b) Revenue expenditure capitalized to Capital work-in-progress during the year includes :		
	Salaries and other expenses	--	59,537
	Lease Rent	--	34,500
	Professional Charges	--	6,81,557
19.	Interest paid is net after crediting subsidy received under TUF scheme	<b>3,11,15,303</b>	2,29,27,600

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20.	Sales includes an amount of Rs. 5,69,201/- being gain on exchange fluctuation.				
21.	The Andhra Pradesh Electricity regulatory Commission issued orders refixing the purchase price of Power purchased from the company at Rs.2.52 per Unit w.e.f 01.04.2004. The company contested the said order in High Court of Andhra Pradesh along with the other members of Small Hydro Power Developers Association The High Court issued an interim order directing AP Transco to pay 50% of the differential between the revised rate and the previous rate in force upto 31.03.2004. Subsequently the High Court transferred the case to the Appellate Tribunal for Electricity, New Delhi. The Appellate tribunal for Electricity decided the matter in favour of the company vide its order dated 02.06.06 and ordered the AP TRANSCO to pay the difference amount between the revised rate and the previous rate in force up to 31.03.2004. However the APTRANSCO preferred an appeal before the Supreme Court against the order of the Appellate Tribunal for Electricity and pending the orders of the Supreme Court, the Company billed the APTRANSCO at the rate of Rs.2.785 per Unit.				
22.	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 AP TRANSCO. The Company has filed writ petition in the Hon'ble High Court of Andhra Pradesh and the said Court has transferred the case to the Appellate Tribunal for Electricity, New Delhi. The Appellate Tribunal for Electricity passed the final order on 08.09.2005 directing the AP TRANSCO to continue to collect the wheeling charges only at 2%. However the APTRANSCO preferred an appeal before the Supreme Court against the orders of the Appellate Tribunal for Electricity, New Delhi. In view of the order passed by the Appellate Tribunal for Electricity, the company has accounted for wheeling charges only at 2% pending final orders in the matter.				
23.	<b>MAJOR COMPONENTS OF DEFERRED TAX ASSETS AND LIABILITIES ARISING ON ACCOUNT OF TIMING DIFFERENCES ARE: -</b>				
		(Rs.)		(Rs.)	
		As at 31-03-2010		As at 31-03-2009	
Particulars	Deferred Tax Asset	Deferred Tax Liabilities	Deferred Tax Asset	Deferred Tax Liabilities	
Depreciation	--	9,75,08,903	--	7,72,16,501	
Unpaid liabilities disallowed U/s 43B of IT Act, 1961	3,52,453	--	10,76,528	--	
Gratuity liability disallowed u/s 40A(7)	4,67,410	--	3,35,111		
<b>Total</b>	<b>8,19,863</b>	<b>9,75,08,903</b>	<b>14,11,639</b>	<b>7,72,16,501</b>	
Net deferred Tax liability		9,66,89,040		7,58,04,862	
Net Incremental Liability Charged to Profit & Loss Account		2,08,84,178		1,09,93,484	
24.	In compliance with the treatment prescribed in Accounting Standard -11 "The Effects of Changes in Foreign Exchange Rates" notified in Companies (Accounting Standards) Rules, 2006, the company has recognized the foreign currency exchange differences, in respect of restatement of its liability incurred towards Fixed Assets acquired from a Country outside India, as an expense amounting to Rs Nil in Profit and Loss account. (Previous year Rs.18,08,573/-)				
25.	<b>Disclosures required under the Micro, small &amp; Medium Enterprises Development Act, 2006</b>				
	<u>Details</u>			<u>Amount</u>	
	i. Principal and interest over due as on 31.03.2010			Nil	
	ii. Interest paid on delayed payments during 2009-10			Nil	
	iii. Interest due on principal amounts paid beyond due date During 2009-10			Nil	
	iv. Interest accrued but not due			Nil	
	v. Total Interest due but not paid			Nil	
	The above details were prepared based on information furnished by the respective suppliers and available with the company regarding their status under Micro, Small & Medium Enterprises Development Act, 2006. The said information to the extent furnished by the suppliers has been relied upon by the Company and its auditors for the said purpose.				

**KALLAM SPINNING MILLS LTD.****26. GROUP GRATUITY:**

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

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

<u>Profit and Loss Account</u>	<u>2009-10</u>
Current Service Cost	4,91,597
Interest Cost	77,673
Actuarial loss	<u>(1,18,059)</u>
	<u>4,51,211</u>
<u>Present value of obligation</u>	<u>As on 31.03.2010</u>
Present value of obligation as on 01.04.09	9,85,910
Interest Cost	77,673
Current Service Cost	4,91,597
Benefits paid	30,000
Actuarial Loss	(1,18,059)
Present Value of obligation as on 31.03.10	14,07,121

The Principal assumptions in determining gratuity liability are as follows.

Discount Rate	8%
Salary Escalation	8%
Mortality	LIC (1994-96) Ultimate mortality table

**27. DISCLOSURE REQUIREMENTS PURSUANT TO "ACCOUNTING STANDARD - 18 RELATED PARTY DISCLOSURES".****A) List of Related Parties :-****(1) Key Management Personnel:**

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

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

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

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

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

**KALLAM SPINNING MILLS LTD.**

B) Transactions with the related Parties :				(Amount in Rs.)
Particulars	Key Management Personnel	Relatives of Key Management Personnel	Companies controlled by Key Management Personnel / Relatives of Key Management personnel	
Remuneration paid	<b>32,82,249</b>	--	--	--
	(26,15,648)	(--)	(--)	(--)
Salary paid	--	<b>1,58,352</b>	--	--
	(--)	(1,31,200)	(--)	(--)
Interest Received	--	--	--	--
	(--)	(--)	(--)	(--)
Purchase of Cotton Lint	--	--	58,906	--
	(--)	(--)	(--)	(--)
Pressing Charges paid	--	--	<b>3,99,760</b>	--
	(--)	(--)	(3,33,450)	--
Purchase of Cotton Waste	--	--	--	--
	(--)	(--)	(--)	(--)
Sale of goods and Services	--	--	<b>1,31,700</b>	--
	(--)	(--)	(3,75,093)	--
<b>Balance as at 31.03.2010</b>				
a. Share Capital of the Company held by	<b>1,31,98,980</b>	<b>93,70,220</b>	<b>84,36,680</b>	
	(1,31,48,920)	(91,03,030)	(84,36,880)	
b. Loans/Inter Corporate Deposits received from (Unsecured)	<b>30,75,000</b>	<b>11,09,000</b>	--	
	(22,30,000)	(11,55,000)	(--)	
c. Amount due to	<b>16,47,130</b>	--	--	
	(9,59,996)	(--)	(--)	
d. Interest Receivable from	--	--	--	
	(--)	(--)	(--)	
e. Trade dues from	---	---	---	
	(--)	(--)	(44,165)	
<b>28</b>	<b>SEGMENTAL RESULTS AS PER ACCOUNTING STANDARD -17 ON "SEGMENT REPORTING".</b>			
	Segment wise Revenue Results and Capital employed under clause 41 of listing agreement:			
Particulars	<b>Year 2009-10</b>		Year 2008-09	
	<b>Amount Rs lacs</b>		<b>Amount Rs lacs</b>	
<b>Segment Revenue :</b>				
(i) Spinning	<b>8,243.15</b>		6626.98	
(ii) Power	<b>263.15</b>		331.18	
	<b>8,506.30</b>		6958.16	
Less : Inter segment Revenue	<b>200.74</b>		234.58	
Net Revenue from operations	<b>8,305.56</b>		6723.58	
Segment Results (Profit before Tax and interest)				
(i) Spinning	<b>1286.83</b>		712.13	
(ii) Power	<b>104.57</b>		278.93	
	1391.40		991.06	
Less: Interest (Net)	<b>601.76</b>		538.11	
Net Profit before Tax	<b>789.64</b>		452.95	

**KALLAM SPINNING MILLS LTD.**

Particulars	Year 2009-2010 Amount Rs lacs	Year 2008-2009 Amount Rs lacs
<b>Capital Employed</b> (Segment Assets - Segment Liabilities)		
(i) Spinning	12537.58	9443.56
(ii) Power	1270.31	1401.46
Total	<u>13807.89</u>	<u>10845.02</u>
<b>Capital Expenditure</b>		
i) Spinning	2413.89	1909.98
ii) Power	0.57	0.29
<b>Depreciation</b>		
i) Spinning	440.16	360.83
ii) Power	46.40	39.80
<b>29 General</b>		
(a) Paise have been rounded off to nearest Rupee		
(b) Figures for the previous year have been regrouped wherever necessary.		
Note : Signatures to Schedule 1 to 22 and the Notes forming part of the Accounts.		
As per our report of even date For <b>BRAHMAYYA &amp; CO.</b> , Chartered Accountants Firm Regn No. 000513S		For and on behalf of the Board <b>P.VENKATESWARA RRDY</b> Managing Director
<b>P. LAKSHMANA RAO</b> Partner ICAI Membership No: 13254.		<b>G.V. KRISHNA REDDY</b> Joint Managing Director
Place : Guntur Date : 29.05.2010		Place : Guntur Date : 29.05.2010

**STATEMENT ON ACCOUNTING POLICIES**

**1. GENERAL**

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

**2. FIXED ASSETS**

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

**3. BORROWING COSTS**

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

**4. DEPRECIATION**

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

**5. INVESTMENTS**

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

**6. INVENTORIES**

Inventories are valued as follows :

**I. Spinning Division :**

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

**II. Power Division :**

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

**7. SALES :**

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

**8. DEFERRED GOVT. GRANTS**

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

**9. RETIREMENT BENEFITS**

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

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

## **KALLAM SPINNING MILLS LTD.**

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

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

### **11. PLANTATION DIVISION**

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

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

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

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

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

### **13. SEGMENT REPORTING**

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

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

### **14. CONTINGENT LIABILITIES**

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

### **15. DIVIDENDS**

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

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

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

Place : Guntur  
Date : 29.05.2010



**KALLAM SPINNING MILLS LTD.**

<b>CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH,2010</b> (Pursuant to clause 32 of the Listing Agreement )		
	Year 2009-10 Rs.	Year 2008-09 Rs.
<b>A CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Net Profit before tax	7,89,64,269	4,52,95,186
<b>Adjustments for:</b>		
Depreciation	4,86,55,735	4,00,62,351
Loss on sale of fixed assets/expenses on Teak plants written off (Net)	35,99,204	1,08,555
Interest paid	6,01,75,441	5,38,11,015
Govt.Grants credited	(30,548)	(30,548)
Interest received	(7,20,955)	(11,08,657)
Operating Profit before working capital changes	19,06,43,146	13,81,37,902
<b>Adjustments for:</b>		
Trade and other receivables	(3,46,13,150)	90,86,067
Inventories	(11,67,04,806)	6,22,13,591
Trade payables	64,76,636	(3,11,46,549)
<b>Cash Generated from operations</b>	<b>4,58,01,826</b>	<b>17,82,91,011</b>
Less: Income Tax paid	83,80,826	51,33,784
<b>Net Cash from/(Used in) Operating Activities (A)</b>	<b>3,74,21,000</b>	<b>17,31,57,227</b>
<b>B CASH FLOW FROM INVESTING ACTIVITIES:</b>		
Purchase of fixed assets/Capital works under progress	(21,31,63,162)	(21,74,26,353)
Sale of /adjustments to fixed assets	37,27,836	23,46,977
Increase in investments	--	--
Interest received	7,20,955	11,08,657
<b>Net Cash used in Investing Activities (B)</b>	<b>(20,87,14,371)</b>	<b>(21,39,70,719)</b>
<b>C CASH FLOW FROM FINANCING ACTIVITIES:</b>		
Proceedings from borrowings	22,59,72,627	11,18,20,672
Interest paid	(6,01,75,441)	(5,38,11,015)
Payment of Dividend	(72,13,900)	(96,18,533)
<b>Net Cash from Financing Activities (C)</b>	<b>15,85,83,286</b>	<b>4,83,91,124</b>
<b>Net increase in Cash and Cash Equivalents (A+B+C)</b>	<b>1,27,10,085</b>	<b>75,77,632</b>
Cash and Cash Equivalents at the beginning of the year	2,11,39,763	1,35,62,131
Cash and Cash Equivalents at the closing of the year	84,29,678	2,11,39,763
	<b>1,27,10,085</b>	<b>75,77,632</b>
<p><b>For BRAHMAYYA &amp; CO.,</b> Chartered Accounts Firm Regn No. 000513S <b>P. LAKSHMANA RAO</b> Partner ICAI Membership No. 13254 Place : Guntur Date : 29.05.2010</p>		
<p align="right">For and on Behalf of the Board <b>P.VENKATESWARA REDDY</b> Managing Director</p>		

**KALLAM SPINNING MILLS LTD.****BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE**

	<b>(Rs. in'000s)</b>
<b>1. Registration Details :</b>	
a) Registration No.	13860
b) State Code	01
c) Balance Sheet Date	31.3.2010
<b>2. Capital raised during the year</b>	
a) Public Issue	NIL
b) Rights Issue	NIL
c) Bonus Issue	NIL
d) Private Placement	NIL
<b>3. Position of Mobilization &amp; Deployment of Funds :</b>	
a) Total Assets	14,32,963
b) Total Liabilities	14,32,963
<b>Sources of Funds :</b>	
a) Paid-up Capital	68,511
b) Reserves & Surplus	1,98,308
c) Deferred Government Grants	203
d) Secured Loans	9,94,606
e) Unsecured Loans	22,472
f) Deferred tax liability	96,689
<b>Total</b>	<b>13,80,789</b>
<b>Application of Funds :</b>	
a) Net Fixed Assets	9,87,212
b) Investments	3
c) Net Current Assts	3,93,574
d) Misc. Expenditure	-
<b>Total</b>	<b>13,80,789</b>
<b>4. Performance of Company :</b>	
a) Turnover	8,30,556
b) Other Income	10,310
c) Total Expenditure	7,61,902
d) Profit Before Tax	78,964
e) Pfofit After Tax	60,646
f) Earning per share in Rs.	8.85
g) Dividend Rate (%)	14%
<b>5. Generic Name of there Principal Products / Services of Company (as per monetary terms)</b>	
(i) Item Code No. (ITC Code)	520511
Product Description	Cotton yarn
(ii) Item Code No. (ITC Code)	NIL
Product Description	Energy

As per our report of even data  
**For BRAHMAYYA & CO.,**  
Chartered Accounts  
Firm Regn No. 000513S

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

Place : Guntur  
Date : 29.05.2010

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

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

Place : Guntur  
Date : 29.05.2010