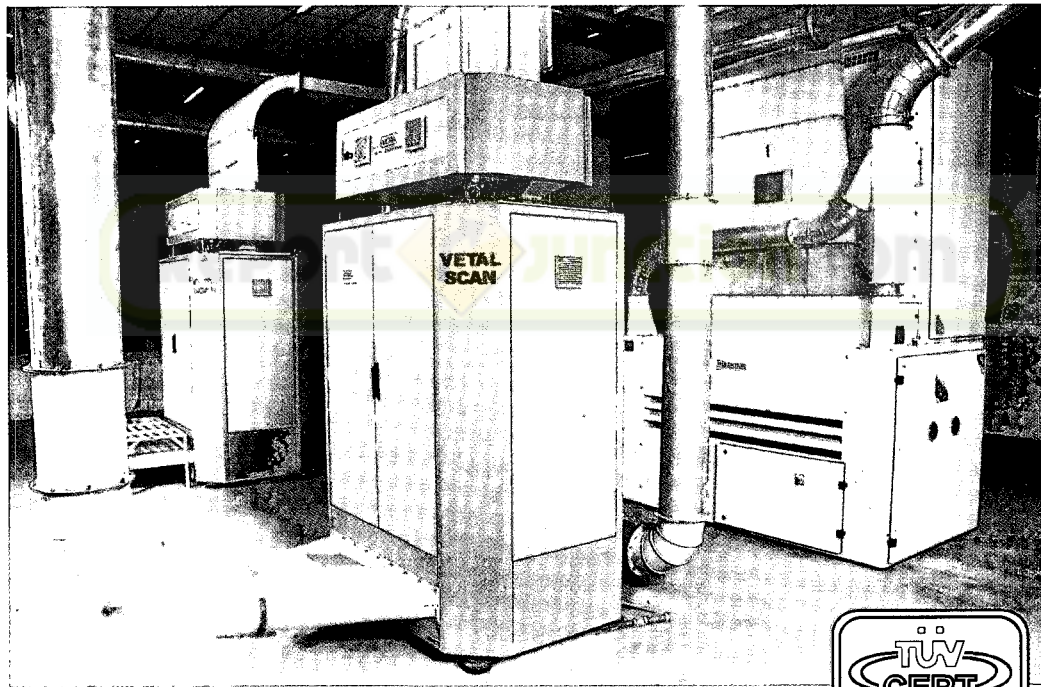


ANNUAL REPORT

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KALLAM SPINNING MILLS LIMITED

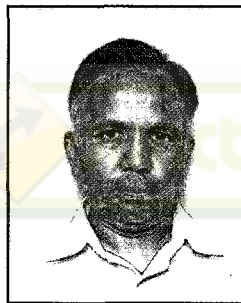
NH 5, CHOWDAVARAM, GUNTUR. AP - 522 019



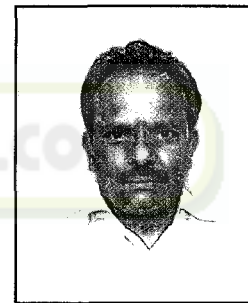
Sri K. HARANADHA REDDY
Chairman



Sri P.VENKATESWARA REDDY
Managing Director



Sri G.V. KRISHNA REDDY
Joint Managing Director



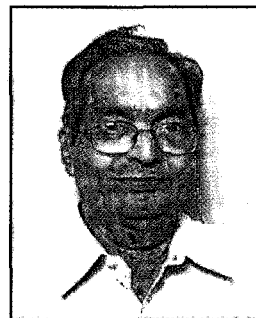
Sri M.V. SUBBA REDDY
Whole Time Director



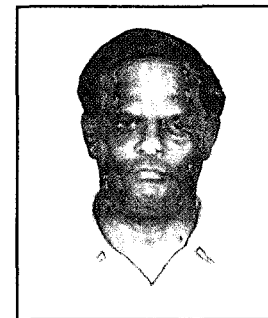
Sri M.R.NAIK
Director



Sri N.PRABHAKARA RAO
Director



Sri V.S.N.MURTHY
Nominee Director
of IREDA



Sri A.KRISHNA MURTHY
Director

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KALLAM SPINNING MILLS LTD.

COMPANY INFORMATION

BOARD OF DIRECTORS

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

LISTED WITH

Bombay Stock Exchange Limited
 The Hyderabad Stock Exchange Ltd.,

BANKERS

Andhra Bank, Main Branch, Kothapet, Guntur - 1.
 Indian Bank, Main Branch, Guntur - 522 001.

AUDITORS

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

COST AUDITORS

P. Srinivas,
 Cost Accountant
 97/2rt, Vijaya Nagar Colony,
 Besides Masab Tank,
 Hyderabad - 500057.

REGISTERED OFFICE & FACTORY

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

**REGISTRARS &
 SHARE TRANSFER AGENTS**

BIGSHARE SERVICES PVT. LTD.,
 G-10, Left Wing, Amruthaville,
 Opp. Yasodha Hospital, Rajbhavan Road,
 Somajiguda, HYDERABAD - 500082.
 Ph.: 040 - 23374967, Fax : 040-23370295.

KALLAM SPINNING MILLS LTD.**NOTICE**

NOTICE is hereby given that the Fifteenth Annual General Meeting of the Members of **KALLAM SPINNING MILLS LIMITED** will be held on Monday the 10th day of September, 2007 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, 31st 2007 and the Balance Sheet as at that date together with the reports of the Board of Directors and Auditors.
2. To declare dividend on equity shares.
3. To appoint a Director in place of Sri K. Haranadha Reddy, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Sri A. Krishna Murthy, who retires by rotation and being eligible, offers himself for re-appointment.
5. To re-appoint M/s. Brahmayya & Co., a firm of Chartered Accountants, as Statutory Auditors of the Company, for the period commencing from conclusion of this meeting till the conclusion of the next Annual General Meeting on such remuneration as may be fixed by the board of Directors plus out of pocket expenses.

Special Business

6. To consider and, if thought fit, to pass with or without modifications, the following resolution as an Ordinary Resolution
 "RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309, 310, Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, Mr. P. Venkateswara Reddy, be and is hereby re-appointed as Managing Director of the Company for a period of 5 years with effect from and including 29th June, 2007 upon the terms and conditions set out in the agreement entered into with him, which agreement is hereby specifically approved with liberty to the Board of Directors to alter and vary the terms and conditions of the said appointment and / or Agreement in such manner as may be agreed to between the Board of Directors and Mr. P. Venkateswara Reddy".
7. To consider and, if thought fit, to pass with or without modifications, the following resolution as an Ordinary Resolution.
 "RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309, 310, Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, Mr. G.V. Krishna Reddy, be and is hereby re-appointed as Joint Managing Director of the Company for a period of 5 years with effect from and including 29th June, 2007 upon the terms and conditions set out in the agreement entered into with him, which agreement is hereby specifically approved with liberty to the Board of Directors to alter and vary the terms and conditions of the said appointment and / or Agreement in such manner as may be agreed to between the Board of Directors and Mr. G.V. Krishna Reddy".
8. To consider and if thought fit, to pass with or without modification(s), the following resolution as an Ordinary Resolution.
 "RESOLVED THAT in supersession of the Resolution No.5 passed at the Twelfth Annual General Meeting of the company held on 30th September, 2004 and in accordance with the provisions of Sections 198, 268, 269, 309, 310 and other applicable provisions, if any, of the Companies Act, 1956, read with Schedule XIII of the Act, Mr. M.V.Subba Reddy, be and is hereby reappointed as Whole time director of the company for a period of 5 years with effect from 1st July 2007 and including upon the terms and conditions set out in the agreement entered into with him, which agreement is hereby specifically approved with liberty to the board of directors to alter and vary the terms and conditions of the said appointment and / or agreement in such manner as may be agreed to between the Boar of Directors and Mr. M.V. Subba Reddy".
9. To consider and if thought fit, to pass with or without modification(s), the following resolution as an Ordinary Resolution
 "RESOLVED THAT pursuant to the provisions of Section 293(1)(d) and other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modifications or re-enactment's thereof) the Board of Directors of the Company be and is hereby authorised to borrow money, from time to time, at its discretion

KALLAM SPINNING MILLS LTD.

either from the Company's bank or any other bank, financial institution or any other lending institutions or persons on such terms and conditions as may be considered suitable by the Board of Directors up to a limit not exceeding in the aggregate Rs. 150.00 crores (Rupees One Hundred and Fifty Crores only) not withstanding that the money to be borrowed together with the moneys already borrowed by the Company (apart from temporary loans obtained from the Company's bankers in the ordinary course of business), will exceed the aggregate of the paid-up capital of the Company and its free reserves that is to say, reserves not set apart for any specific purpose."

10. (*) To consider and if thought fit, to pass with or without modification(s), the following resolution as an Ordinary Resolution.

"RESOLVED THAT pursuant to the provisions of Section 293(1) (a) and other applicable provisions, if any, of the Companies, Act, 1956 (including any statutory modifications or re-enactment's thereof) the Company hereby accords its consent to the Board of Directors to mortgage and / or charge, in addition to the mortgages / charges created or to be created by the Company in such form and manner and with such ranking and at such time and on such terms as the Board may determine, on all or any of the movable and / or immovable properties of the Company, both present and future and / or the whole or any part of the undertaking(s) of the Company together with the to take over the management of business and concern of the Company in certain events of default, in favor of the lender(s), agent(s), trustee(s), for securing the borrowing of the Company availed / to be availed by way of loan(s) up to an aggregate limit of Rs. 150.00 Crore (Rupees One Hundred and Fifty Crore only) as approved under section 293 (1) (d) of the Companies Act, 1956 together with interest at the respective agreed rates, additional interest in case of default, accumulated interest, liquidated damages, commitment charges, premia on pre-payment, and all other costs, charges and expenses, including any increase as a result of devaluation / revaluation / fluctuation in the rates of exchange and all other monies payable by Company in terms of agreement(s), loan agreement(s) or any other document entered into / to be entered into between the Company and lenders in respect of the said loans / borrowing and continuing such specific terms and conditions and covenants in respect of enforcement of security as may be stipulated in that behalf and agreed to between the Board of Directors or any committees thereof and the lender(s), agent(s), and / or trustee(s).

RESOLVED FURTHER that the Board of Directors of the Company be and is hereby authorised to finalise the documents and such other agreements for creation of charge as aforesaid and to do all such acts, deeds, matters and things as may be necessary and expedient for giving effect to the above resolution".

By order of the Board of Directors

P. Venkateswara Reddy

Managing Director

Place: Chowdavaram

Date: 21st June, 2007

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. An explanatory statement pursuant to Section 173 of the Companies Act, 1956 in respect of item no. 6 & 10 of the notice as set out above is annexed herewith.
3. The Register of Members and Share Transfer Books of the Company will remain closed from 6th September 2007 to 10th September 2007 (both days inclusive).
4. 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.
5. Dividend recommended by Directors, if approved by the Members at the Annual General Meeting, will be paid on or after 15th September 2007 to those members whose names appear on the Register of Members as on 10th September 2007. In respect of shares held in electronic form, the dividend will be payable on the basis of beneficial ownership as at the close of 6th September 2006 as per the details furnished by National Securities Depository Limited / Central Depository Service (India) Limited for the purpose as on that date.
6. Members desiring to seek any information on the Annual Accounts to be explained at the meeting are

KALLAM SPINNING MILLS LTD.

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.

7. 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, Amruthaville, Opp. Yashoda Hospital, Rajbhavan Road, Somajiguda, HYDERABAD - 500 082 at the earliest not later than 6th September 2007.
 - any change in their address / mandate / Bank details; and
 - Particular of their Bank Account, in case the same has not been sent earlier.
8. 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.
9. (*) As per Section 192A of the Companies Act, 1956 read with The Companies (passing of resolution by postal ballot) Rules, 2001, a resolution under item No. 10 of the Notice requires approval of members by Postal Ballot. The resolution together with explanatory statement stating the reasons for adoption is given in the notice. The draft resolution and postal ballot form have been enclosed herewith separately. Members are requested to kindly accord their assent or dissent to the aforesaid respective resolution in the postal ballot form. The assent must be accorded in the box "For" and dissent in the box "Against" by way of placing the tick (✓) After according your vote please sign the postal ballot form and forward it to the scrutinizer in the enclosed prepaid self addressed envelope within 30 days from the date of issue of this notice.

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

K. HARANADHA REDDY

Mr. K. Haranadha Reddy, aged about 71 years, is an industrialist and holds a Master Degree in Arts and graduate in law. Mr.K.Haranadha Reddy is a founder and promoter of the Company. He has about 40 years of rich experience in cotton and spinning business. He has associated with the Company since its inception.

Mr. K. Haranadha Reddy is a director on the Board of M/s. Kallam Agro Products and Oils Private Limited and M/s. Kallam Housing & Real Estates Private Limited. He is not a member of any committee within the meaning of clause 49 of the listing agreement with the stock exchanges.

A. KRISHNA MURTHY

Mr. Krishna Murthy, aged about 66 years, is a post graduate in arts and graduate in law. He was selected as Asst. Labour Officer through Group II-A, conducted by Andhra Pradesh Public Service Commission in 1966. He has retired as Dy. Commissioner of Labour, in Labour, Employment & Training in 1999, after rendering 33 years of service in various capacities. He is practicing as Labour law consultant and Advocate at Guntur for last 6 years. He has rich experience in the fields of Labour law, Industrial law, Human Resources and personal administration.

Item No. 6

Mr. P. Venkateswara Reddy was re-appointed as the Managing Director of the Company for a period of five years with effect from 29th June, 2007 by the Board of Directors at their meeting held on 21st June, 2007 on the terms and conditions and remuneration as mentioned in the agreement entered into by the Board of Directors and the said Mr. P. Venkateswara Reddy. The remuneration of Mr. P. Venkateswara Reddy has been approved by the remuneration committee at their meeting held on 21st June, 2007. The abstract of the terms and conditions and remuneration of the agreement are as detailed below:

I. Remuneration :

- a) Salary : 50,000/- p.m.
- b) Commission : Commission is payable @ 1% on profits computed under section 349 of the Companies Act, 1956.
- c) Perquisites :
 - i) unfurnished accommodation facility at Guntur City.
 - ii) Reimbursement of medical expenses for self and family, one month's Salary in a year or three months salary over a period of three years.

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- d) Car : The Company shall provide a car
- e) Telephone : The Company shall provide a telephone at residence and further agrees to provide one mobile phone.
- f) Accidental insurance premium : The Company agrees to bear the premium to the extent of Rs. 4000/-p.a.
- g) Club Fees : Fees of one club in Guntur city. No admission and membership fees will be paid.

II. Minimum Remuneration :

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

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

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

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

None of the Directors, except Mr. P. Venkateswara Reddy is concerned or interested in the resolution.

Your Directors recommend resolutions for your approval.

Item No.7

Mr. G.V. Krishna Reddy was re-appointed as Joint Managing Director of the Company for a period of five years with effect from 29th June, 2007 by the Board of Directors at their meeting held on 21st June, 2007 on the terms and conditions and remuneration as mentioned in the agreement entered into by the Board of Directors and the said Mr. G.V.Krishna Reddy. The remuneration of Mr. G. V. Krishna Reddy has been approved by the remuneration committee at their meeting held on 21st June, 2007. The abstract of the terms and conditions and remuneration of the agreement are as detailed below:

I. Remuneration :

- a) Salary : 50,000/- p.m.
- b) Commission : Commission is payable @ 1% on profits computed under section 349 of the Companies Act, 1956.
- h) Perquisites :
 - i) unfurnished accommodation facility at Guntur city.
 - ii) Reimbursement of medical expenses for self and family, one month's salary in a year or three months salary over a period of three years.
 - iii) Children's educational and Hostel allowance subject to the ceiling of Maximum of two children.
- i) Car : The Company shall provide a car
- j) Telephone : The Company shall provide a telephone at residence and further agrees to provide one mobile phone.
- k) Accidental insurance premium : The Company agrees to bear the premium to the extent of Rs. 4000/- p.m.
- l) Club Fees : Fees of one club in Guntur city. No admission and membership fees will be paid.

II. Minimum Remuneration :

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

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

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

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

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

Your Directors recommend the resolution for your approval.

Item No.8

Mr. M.V. Subba Reddy was appointed as Whole Time Director of the Company for a period of five years with effect from 1st October, 2004 for a period of 5 years on the terms and conditions as approved by the shareholders at the Annual General Meeting of the Company held on 30th September, 2004.

In order to give flexibility to the Board of Directors to decide upon the Tenure, Remuneration, Benefits, Perquisites, and allowances to be granted to the Whole time director from time to time with in the overall ceilings prescribed under the act, it is proposed to revise the terms of his tenure, remuneration relating to Salary, Perquisites and allowances of Mr. M.V. Subba Reddy with effect from 1st July, 2007. The Board of Directors at its meeting held on 21st June, 2007 has pursuant to the recommendation of the Remuneration Committee, approved of the aforesaid proposal of re-appointing Mr. M.V. Subba Reddy for a period of 5 years on revised terms and conditions subject to the approval of the members. The revised clause relating to benefits, perquisites and allowances are as set out below :

I. Remuneration :

- a) Salary : Including dearness and other allowances Rs. 21,000/- p.m.
- b) Perquisites : i) The Expenditure incurred by the company on hiring unfurnished accommodation will be subject to a maximum of Rs. 4,000/- p.m.
- ii) Children's education allowance Rs. 50/- p.m. per child subject to a maximum of two Children.
- iii) Telephone : The Company shall provide a telephone at residence and further agrees to provide one mobile phone

II. Minimum Remuneration :

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

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

In compliance with the provisions of sections 309 and 310 read with Schedule XIII of the Act, the re-appointment of Mr. M.V. Subba Reddy are now being placed before the members in general meeting for their approval.

The Board commends the resolution for acceptance by the Members.

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

Item No.9

The shareholders, at their 13th Annual General Meeting held on 28th September 2005, have accorded their approval and authorised the Board of Directors to raise or borrow funds from time to time from Companies Bankers or Financial Institutions upto Rs. 70.00 crores. However the Company is expanding its spindle age capacity to 44712 to spindles and constructing new open ended plant with a capital outflow of around Rs. 25.00 crores. To execute these projects and meet the future requirements the Company shall be required to borrow additional funds from Companies Bankers / Financial institutions. In view of this, it is

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necessitated to increase the borrowing powers of the Board of Directors of the Company from the existing limit of Rs. 70.00 crores to Rs. 150.00 crores.

The proposed resolution is, therefore, recommended for your consent.

None of the Directors of the Company is concerned or interested in the resolution.

Place: Chowdavaram

Date: 21st June, 2007

By order of the Board of Directors

P. Venkateswara Reddy

Managing Director

DIRECTORS' REPORT**TO THE MEMBERS OF THE KALLAM SPINNING MILLS LIMITED,**

Your directors have pleasure in presenting the Fifteenth Annual Report of the Company together with the Audited statements of accounts for the year ended 31st March 2007.

I. FINANCIAL RESULTS:

The financial results for the year ended 31st March 2007 are summarized below:

S.No.	Particulars	2006-2007 (Rs. in lacs)	2005-2006 (Rs. in lacs)
01	Sales	4985.82	3370.59
02	Other income	37.55	38.87
03	Increase in stock	107.56	28.55
04	Expenditure	4098.24	2596.80
05	Profit before Interest, Depreciation & Tax	1032.69	841.21
06	Depreciation	279.46	184.77
07	Interest	286.53	209.77
08	Profit before tax	466.70	446.67
09	Provision for income tax		
	i) Current Year Tax	56.25	53.70
	ii) Deferred Tax	245.94	61.84
10	Profit after tax	164.51	331.13
11	Earning per share	3.15	4.83

Transfers & appropriation from the profit are as detailed below:

12	Profit After Tax	215.81	331.13
13	Short provision made for Income Tax in earlier years	1.70	0.00
14	Tax credited under MAT	53.00	0.00
15	Balance brought forward from previous Year	806.86	553.85
16	Profit for appropriations	1022.67	884.98

Appropriations

17	Transfer to General Reserve	6.00	0.00
18	Proposed Equity Dividend	82.21	68.51
19	Tax on Proposed Equity Dividend	13.97	9.61
20	Balance carried forward	920.49	806.86

The sales of the Company for the period under review increase to Rs. 4,985.82 Lakhs as compared to Rs. 3,370.59, registering a growth of Rs. 48 percent on annualized basis. The Profit before interest and taxes of the Company has grown by 14.75 percent on annualized basis from Rs. 656.44 lakhs in previous year to Rs. 753.23 lakhs in the period under review