

30th

Annual Report

2005-06

report  junction.com



MALWA™

Malwa Cotton Spinning Mills Ltd.



MALWA COTTON SPINNING MILLS LIMITED

THE MANAGEMENT

| | | |
|--------------------|---|---|
| BOARD OF DIRECTORS | : | MR. JANGI LAL OSWAL Chairman-cum-Managing Director MR. R.C. PANDEY (Nominee of IFCI) MR. J.P. LEELRAIN (Nominee of IDBI) MR. K.C. SALOTA (Nominee of PNB) MR. RISHI OSWAL MR. RAHUL OSWAL MR. G.BANSAL MR. B.S.MANN |
| AUDITORS | : | S.C.Vasudeva & Co., New Delhi |
| BANKERS | : | Punjab National Bank State Bank of India Vijaya Bank The Jammu & Kashmir Bank Ltd. |
| REGISTERED OFFICE | : | Industrial Area - 'A' Ludhiana - 141 003 |
| WORKS | : | i) Village Harigarh, Raikot Road, Barnala (Punjab) ii) Village Patlian, Paonta Sahib (Himachal Pradesh) iii) Village Harian, Kohara-Machhiwara Road, Distt. Ludhiana (Punjab) |

| CONTENTS | PAGE |
|---|-------------|
| Directors' Report | 4 |
| Management Discussion & Analysis Report | 8 |
| Corporate Governance Report | 9 |
| Auditors' Report | 14 |
| Balance Sheet | 16 |
| Profit and Loss Account | 17 |
| Cash Flow Statement | 18 |
| Schedules to the Accounts | 19 |
| Subsidiary's Statement | 32 |



MALWA COTTON SPINNING MILLS LIMITED

NOTICE

Notice is hereby given that the Thirtieth Annual General Meeting of the Members of Malwa Cotton Spinning Mills Limited will be held in the premises of Mohan Dai Oswal Cancer Treatment & Research Foundation, Sherpur, Ludhiana on Saturday, the 30th September, 2006 at 9.30 AM to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2006, Profit and Loss Account for the year ended on that date together with the report of Auditors and Directors thereon.
2. To appoint a director in place of Mr. Rishi Oswal, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a director in place of Mr. Rahul Oswal, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint Auditors for the year 2006-2007 and fix their remuneration.

SPECIAL BUSINESS:

5. To consider and, if thought fit, to pass with or without modification(s) the following resolution as an ordinary resolution.

"RESOLVED THAT in partial modification of the Resolution already passed by the members of the Company in accordance with the provisions of section 81(1A) and all other applicable provisions, if any, of the Companies Act, 1956, and in accordance with the Guidelines issued by the Securities and Exchange Board of India (SEBI) and clarifications thereon issued from time to time and subject to the approval of financial institutions (FIs) and other concerned authorities, if any, and all such approvals, permissions and sanctions as may be necessary and subject to such conditions and modifications as may be prescribed or imposed by any of them while granting such approvals, permissions and sanctions, which may be agreed to, by the Board of directors of the company (hereinafter referred to as "the Board" which term shall be deemed to include any duly authorized committee thereof for the time being exercising the powers conferred on the Board by this resolution), whereby consent of the company was accorded to "the Board" to issue equity shares of Rs.10/- each at a premium as per pricing of the issue under SEBI guidelines aggregating Rs.280.34 lacs including premium by conversion of loan/interest to IDBI to the extent that full disclosures, in the Explanatory Statement to the Notice for the Annual General Meeting held on 30th September, 2004, was not made earlier, which is now being made by way of full disclosure in the Explanatory Statement appended here to this notice in terms of Clause 13.1A of SEBI (DIP) Guidelines, 2000, the consent of the Company be and is hereby accorded to the modification/passing of the earlier Resolution.

Resolved further that all the acts, deeds and things as already done and deemed fit to be done by the Board with regard to the allotment of Equity Shares to IDBI in terms of the earlier Resolution be and are hereby ratified and approved "

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 A MEMBER OF THE COMPANY. THE PROXY IN ORDER TO BE EFFECTIVE, MUST BE RECEIVED BY THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE MEETING, THE BLANK PROXY FORM IS ENCLOSED.
2. The Register of Members and the Share Transfer Books of the Company shall remain closed from 29th September, 2006 to 30th September, 2006 (both days inclusive).
3. The members holding shares in physical form are requested to notify the change in their addresses, if any, to the Registrar & Transfer Agent/Company immediately quoting their Folio Number(s). However, members holding shares in dematerialised mode are requested to intimate the change in address, if any, to their respective Depository Participant.
4. Member(s) desiring any information as regards Accounts are requested to write to the Company at its Registered Office at least 10 days before the date of Annual General Meeting so as to enable the Management to keep the information ready.
5. The copies of relevant documents can be inspected at the Registered Office of the company on any working day between 10.30 A.M. to 12.30 P.M.
6. Members are requested to bring their copy of Annual Report along with them at the Annual General Meeting.
7. INFORMATION REQUIRED PURSUANT TO CORPORATE GOVERNANCE CLAUSE OF THE LISTING AGREEMENT(S) REGARDING THE DIRECTORS RE-APPOINTMENT IN THE ANNUAL GENERAL MEETING AS PROPOSED IN ITEM NO.2 AND 3 OF THE NOTICE IS AS UNDER :

Mr. Rishi Oswal

Mr. Rishi Oswal is the Director of our Company since 1994. He has experience of over 12 years in the textile and apparel industry. He is a commerce graduate. He is Managing Director of Malwa Industries Limited and involved with the company since its incorporation and involved in strategy planning and mapping the future growth of Malwa Industries Ltd. He is also the Chairman of Indo Turkish Business Council. His date of birth is 26.11.1972 and date of appointment is 29.07.1994. He hold the position of Managing Director/Director on the board of the following companies.



MALWA COTTON SPINNING MILLS LIMITED

Malwa Industries Limited
 Oswal Multimedia K.I.D. Limited
 Malwa Capital and Finance Limited
 Jangi Growth Fund Private Limited
 Neelam Growth Fund Private Limited
 Rishi Growth Fund Private Limited
 Oswal Dreamz Limited
 Malwa Corp. Limited
 Oswal Corp. Limited
 Sunnycroft Holdings Limited, Cyprus
 Third Dimension Apparels LLC, Jordan
 Emmetre Tintolavanderie Industriali S.r.l., Italy

Mr. Rahul Oswal

Mr. Rahul Oswal is the Director of our Company since 1994. He has experience of over 10 years in the textile and apparel industry. He is a commerce graduate. His date of birth is 07.01.1974 and date of appointment is 29.07.1994. He holds the position of Executive Director/Director on the board of the following companies.

Malwa Industries Limited
 Oswal Multimedia K.I.D. Limited
 Malwa Corp. Limited
 Oswal Corp. Limited
 Oswal Exim Trade Limited
 Oswal Dreamz Limited

By order of the Board

Regd. Office
 Industrial Area 'A'
 Ludhiana.

Dated : 25th August, 2006

DINESH GUPTA
 Company Secretary

ANNEXURE TO THE NOTICE

EXPLANATORY STATEMENT UNDER SECTION 173(2) OF THE COMPANIES ACT, 1956

Item No. 5

The consent of the company was accorded under clause (a) of section 81(1A) of the Companies Act, 1956 by approving of special resolution by the members in Annual General Meeting held on 30th September, 2004 to "the Board" to issue equity shares of Rs.10/- each at a premium as per pricing of the issue under SEBI guidelines aggregating Rs.280.34 lacs including premium by conversion of loan/interest as per restructuring package granted by Industrial Development Bank of India (IDBI) vide their letter No.DA3.(231)/76 dated 16th August, 2004. Accordingly, 584032 equity shares of Rs 10/- each were issued at a premium of Rs 38/- per share to IDBI on 14.10.2004. The company applied for listing of shares to NSE and BSE, but both the stock exchanges pointed out that the company had not made full disclosure as required under clause 13.1A in the Notice dated 20th August, 2004 of the Annual General Meeting held on 30th September, 2004. Therefore, necessary disclosures as per Clause 13.1A of SEBI (DIP) Guidelines, 2000, in terms of Section 173 of the Companies Act, 1956 for the explanatory statement for material facts relating to the business under item No.5 of the Notice dated 20th August, 2004 are made as under:

- i) The objects of the issue The conversion of simple interest and compound interest over dues aggregating Rs.280.34 lac into Equity shares as per SEBI Guidelines.
- ii) Intention of promoters/directors/key management persons to subscribe to the offer The promoter/directors/key persons are not entitled for subscription to this offer.
- iii) Shareholding pattern before and after the issue

| Category | Before issue | | After issue | |
|---|--------------------|----------------------------|--------------------|----------------------------|
| | No. of Shares held | Percentage of shareholding | No. of Shares held | Percentage of shareholding |
| A. Promoter's holding | | | | |
| 1 Promoters | | | | |
| - Indian Promoters | 3118765 | 55.83 | 3118765 | 50.55 |
| - Foreign Promoters | NIL | NIL | NIL | NIL |
| 2. Persons acting in Concert | NIL | NIL | NIL | NIL |
| Sub total | 3118765 | 55.83 | 3118765 | 50.55 |
| B. Non-Promoters Holding | | | | |
| 3. Institutional investors | | | | |
| a Mutual Funds and UTI | 876914 | 15.70 | 876914 | 14.21 |
| b i) Banks, Financial Institutions, Insurance Companies | | | | |
| (Central/State Govt. Institutions/ Non-government Institutions) | 47081 | 0.84 | 47081 | 0.76 |
| ii) IDBI (Proposed allottee) | - | - | 584032 | 9.47 |
| c FIs (including FDR, GDR & foreign shareholding)* | NIL | NIL | NIL | NIL |
| Sub total | 923995 | 16.54 | 1508027 | 24.44 |
| 4. Others | | | | |
| a Private Corporate Bodies | 606112 | 10.85 | 606112 | 9.82 |
| b Indian Public | 934653 | 16.73 | 934653 | 15.15 |
| c NRIs/OCBs | 2551 | 0.05 | 2551 | 0.04 |
| d Any other (please specify) | NIL | NIL | NIL | NIL |
| Sub total | 1543316 | 27.63 | 1543316 | 25.01 |
| Grand total | 5586076 | 100.00 | 6170108 | 100.00 |

- iv) Proposed time within which the allotment shall be complete The allotment was completed in 15 days. The shares were allotted to IDBI on 14.10.2004.
- v) The identify of the proposed allottees and percentage of post preferential issue capital that may be held by them The proposed allottee is IDBI and post issue capital to be held by IDBI is 9.47%

In view of the full disclosure now being made, as above, your directors solicit approval of the members to the modification and ratification of the said resolution.

Memorandum of Interest

None of the directors of the Company is in any way concerned or interested in the resolution

Regd. Office
 Industrial Area 'A'
 Ludhiana.
 Dated : 25th August, 2006

By order of the Board

DINESH GUPTA
 Company Secretary



MALWA COTTON SPINNING MILLS LIMITED

FINANCIAL HIGHLIGHTS

(Rs. in Lac)

| | 2005-2006 | 2004-2005 | 2003-2004 | 2002-2003 | 2001-2002 | 2000-2001 | 1999-2000 | 1998-99 | 1997-98 | 1996-97 |
|--------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|------------|----------|
| Share Capital | 3341.41 | 3341.41 | 3283.00 | 3283.00 | 3283.00 | 1558.39 | 1558.39 | 1556.04 | 489.89 | 489.89 |
| Reserves | 5432.85 | 4244.98 | 3267.46 | 6037.44 | 6602.91 | 8515.35 | 10666.37 | 10244.22 | 9561.81 | 8138.55 |
| Net Worth | 8774.26 | 7586.39 | 6550.46 | 9320.44 | 9885.91 | 10713.74 | 12224.76 | *11825.91 | **10117.85 | 8628.44 |
| Fixed Assets (Gross) | 27966.00 | 27545.99 | 27386.15 | 27229.28 | 26765.86 | 25950.52 | 24708.51 | 23170.15 | 19915.08 | 16305.26 |
| Depreciation | 18914.98 | 17672.65 | 16383.02 | 14988.16 | 13606.14 | 12120.44 | 10559.11 | 9063.38 | 7685.69 | 6457.37 |
| Net Block | 9051.02 | 9873.34 | 11003.13 | 12241.12 | 13159.72 | 13830.08 | 14149.40 | 14106.77 | 12229.39 | 9847.89 |
| Investments | 1093.83 | 1205.91 | 1205.91 | 2599.76 | 2599.76 | 2718.76 | 2627.04 | 2627.04 | 2279.04 | 1033.27 |
| Net Current Assets | 18732.16 | 16152.74 | 14595.87 | 13809.89 | 12734.80 | 12696.10 | 14313.20 | 14356.70 | 13218.12 | 11191.36 |
| Net Assets Employed | 29038.08 | 27771.94 | 27060.62 | 28697.18 | 28570.35 | 29350.68 | 31116.71 | 31293.55 | 27733.56 | 22072.52 |
| Book Value Per Equity Share (Rs.) | 142.21 | 122.96 | 117.26 | 166.85 | 176.98 | 191.80 | 218.84 | 212.58 | 206.44 | 176.05 |
| Gross Income | 38059.29 | 36452.81 | 36285.74 | 35993.80 | 36860.69 | 39001.73 | 37101.60 | 35176.23 | 37053.60 | 31956.50 |
| Export Sales (FOB) | 7133.26 | 7383.20 | 11573.78 | 13618.63 | 12339.88 | 14671.15 | 13334.27 | 11904.82 | 13197.20 | 11688.41 |
| Gross Profit/(Loss) | 2862.96 | 1760.41 | (1574.52) | 806.44 | (254.01) | 8.18 | 2175.00 | 1735.69 | 3081.05 | 2478.80 |
| Depreciation | 1260.46 | 1318.17 | 1442.45 | 1382.02 | 1539.31 | 1618.86 | 1522.85 | 1413.68 | 1317.87 | 1166.71 |
| Profit/(Loss) Before Tax | 1602.50 | 442.24 | (3016.97) | (575.58) | (1793.32) | (1610.68) | 652.15 | 322.01 | 1763.18 | 1312.09 |
| Profit/(Loss) After Tax | 1188.62 | 748.15 | (1108.03) | (335.35) | (1761.29) | (1611.28) | 552.15 | 286.01 | 1563.18 | 1112.09 |
| Equity Dividend (%) | — | — | — | — | — | — | — | 15 | 40 | 40 |
| Earning Per Share (Rs.) | 13.51 | 6.90 | (25.88) | (11.58) | (36.48) | (31.11) | 9.89 | 5.14 | 31.89 | 22.69 |
| Cash Earning Per Share (Rs.) | 33.94 | 29.42 | (0.06) | 13.16 | (8.92) | (2.14) | 37.14 | 30.55 | 58.78 | 46.50 |

* Includes Application money for shares and warrants Rs. 25.65 Lacs.

** Includes Application money for warrants Rs. 66.15 Lacs.

Reserves include deferred tax liability.



MALWA COTTON SPINNING MILLS LIMITED

DIRECTORS' REPORT

The Directors are pleased to present their Thirtieth Annual Report on the business of the Company and the Audited Statement of Accounts of the Company for the year ended 31st March, 2006.

(Rs. in Lac)

| FINANCIAL RESULTS | 2005-06 | 2004-05 |
|--|------------------|----------------|
| Profit before financial expenses & depreciation | 5159.62 | 4135.53 |
| Financial expenses | 2296.66 | 2375.12 |
| Depreciation | 1260.46 | 1318.17 |
| Profit before tax | 1602.50 | 442.24 |
| Provision for taxation | | |
| - Fringe Benefit Tax | 35.00 | - |
| - Deferred Tax | (77.42) | (883.35) |
| - Deferred Tax Adjustments | 456.30 | 577.44 |
| Wealth Tax for earlier year written back | 0.19 | 0.30 |
| Income Tax for earlier year written back | - | 7.14 |
| Income Tax for earlier year | 0.94 | - |
| Profit for the year after tax adjustments | 1187.87 | 755.59 |
| Balance brought forward | (2658.14) | (3413.73) |
| Transferred to Reserve for Bad and Doubtful debts & Advances | 100.00 | - |
| Balance Carried to Balance Sheet | (1570.27) | (2658.14) |

YEAR IN RETROSPECT

The country has achieved cotton output of 23.5 million bales in the current year. Good cotton yield this year has resulted in softening the raw material prices and improving the performance of the textile industry. India is one of the world's largest producers of raw cotton and also has largest acreage under cultivation.

India has gained significantly over other competitors like Bangladesh, Sri Lanka, Pakistan & China, in the value added segments, which require higher skill and design capability. India has been successful in carving a niche for itself as a strong player in the middle and high value segment of the textile market. India is on the right track and affirm its position as a preferred global supplier of textile and clothing. Textile sector is likely to continue its march on the growth path buoyed by improving utilization and various positive steps and schemes initiated by the Govt.

The company has recorded profit before depreciation, interest & tax of Rs.5160 lac as compared to previous year Rs.4136 lac. The performance of the company has been improved mainly due to increase in production of value added products, soft cotton prices, reduction in financial expenses on account of restructuring of high cost debts resulting in reduction of interest rates etc.

PRODUCTION

During the year, the company has achieved total production of 239 lac kgs for all types of yarns compared to previous year's production of 233 lac kgs. The cotton yarn production was 144 lac kgs. against 137 lac kgs. in the previous year and

other yarns production was 95 lac kgs. against 96 lac kgs. in the previous year. Thread production of 38 lac kgs. was also achieved by the company against 29 lac kgs. in the previous year. The value added yarn production was increased by 31%

TURNOVER

During the year, your company has recorded gross sales of Rs.37365 lac against Rs.35738 lac in the previous year. The company has achieved yarn sale of Rs.24245 lac, Thread sale of Rs. 11015 lac and others of Rs.2105 lac in the current year ending 31st March, 2006 against sale of yarn Rs.26032 lac, Thread Rs. 8111 lac and others Rs.1595 lac in the previous year. Thread sale has increased by Rs.2904 lac (36%) in the current year. Export of yarn was at Rs.7428 lac (CIF) against Rs.7635 lac (CIF) in the previous year. The export sale decreased due to better realization in the domestic markets.

BARNALA UNIT

The Barnala unit has achieved production of 86 lac kgs of Yarn and capacity utilization of 95% in the current year. Part of the capacity for production of conventional yarn is shifted for production of finer count of value added yarns/threads.

The EOU unit was operating at 95% capacity utilization and production of 47 lac kgs of yarn recorded during the year. The plant is equipped with the machinery of latest technology to meet the demand for high quality yarn in the international market.

PAONTA SAHIB UNIT

The Paonta Sahib unit was also operating at optimum capacity utilization of 95% and has production of 95 lac kgs of yarns. Ring Doubling Frame, Cheese Winder & Cone Winders were added for manufacturing of high value added yarns. The Company has partly shifted its existing capacity for production of Cotton & Synthetic Yarn towards finer count of value added yarn.

Your company has started to set up Thread unit at Paonta Sahib (H.P.) with a capacity of 2 TPD. The production of thread at this unit will cater to the markets of Northern India.

MACHHIWARA UNIT

The company's strength lies in value added products. At present, the focus is on the production of value added products. The company has increased its capacity of thread, specialized yarns and value added products to 10 TPD. Dyeing machines, Soft Packaging Winder, Wet Scrubber, Tube Winding machines, Polishing machines, Cop Banding machines etc. are installed at Machhiwara. The unit had achieved production of 38 lac kgs of value added products during the year, showing an increase of 31% over the previous year production.

The capacity utilisation of Worsted unit, with installed capacity of 5,040 spindles, was 68% and was not up to the mark. The unit had achieved production of 11 lac kgs of yarn. The company has changed its product-mix for increasing the capacity utilisation and also introducing new products with better realisation.



MALWA COTTON SPINNING MILLS LIMITED

SUBSIDIARY COMPANIES

We have not received the audited accounts of M/s Oswal Chartak, Uzbekistan. However, there were no operations in the Company during the year. Therefore, the same are not annexed. However, statement under section 212 of the Companies Act, 1956 is annexed.

FIXED DEPOSITS

The Company has not accepted/renewed any deposits from the public during the year under review under section 58A of the Companies Act, 1956.

INDUSTRIAL RELATIONS

Your company has cordial relations with employees and no man-day was lost during the year. The company is very thankful to its employees for the wholehearted support in achieving optimum level of efficiency.

COMPLIANCE OF LISTING AGREEMENT

The equity shares of the Company are listed at The Bombay Stock Exchange and National Stock Exchange. The Company has paid annual listing fee up to 31st March, 2007. The company has applied for delisting of equity shares to Ludhiana Stock Exchange and Delhi Stock Exchange.

CORPORATE GOVERNANCE

As per Clause 49 of the Listing agreement, a separate Report on Corporate Governance together with Management Discussion and Analysis and certificate from Company's Auditors is annexed and forms part of the report.

AUDITORS

M/s. S.C.Vasudeva & Co., auditors of the Company hold office until the conclusion of the ensuing Annual General Meeting and being eligible, offered themselves for re-appointment.

AUDITORS' REPORT

The Auditors' Report on the Accounts is self-explanatory and required no comments.

DIRECTORS' RESPONSIBILITY STATEMENT

Directors' Responsibility Statement pursuant to the provision of section 217(2AA) of the Companies Act, 1956 is attached as per Annexure 'B' and forms part of the report.

DIRECTORS

S/Shri Rishi Oswal and Rahul Oswal retire at the ensuing Annual General Meeting and are eligible for appointment as Directors subject to retirement by rotation. They offer themselves for the re-appointment.

Sh. Y.P.Gupta, nominee of IFCI and Sh. Jagat Ram, nominee of PNB ceased to be Director of the company. The Board places on records its appreciation for the services rendered during their tenure as Directors of the Company.

Sh. R.C.Pandey, nominee of IFCI and Sh. K.C.Salota, nominee of PNB were appointed as Directors on the Board of the company. They are welcome on the board.

ACKNOWLEDGEMENT

The Board of Directors place on record its appreciation for the valuable assistance, support and guidance extended to the company by the Financial Institutions and Banks. The company also acknowledges the support and co-operation received from dealers, retailers and agents for promoting various products of the company. The Board also wish to express its deep gratitude for the continued support from its shareholders and employees and appreciate the co-operation and unstinted support extended to the company.

DISCLOSURE OF PARTICULARS

Statement of particulars of employees pursuant to Section 217(2A) of the Companies Act, 1956 is attached as per Annexure 'A'.

Information as per the Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earning and outgo is given in Annexure 'B' forming part of this Report.

Directors responsibility Statement pursuant to Section 217(2AA) of the Companies Act, 1956 is attached as per Annexure 'C'.

For and on behalf of the Board

Place : Ludhiana
Dated : 30.06.2006

JANGI LAL OSWAL
Chairman-cum-Managing Director



MALWA COTTON SPINNING MILLS LIMITED

ANNEXURE 'A' TO THE DIRECTORS' REPORT

PARTICULARS OF EMPLOYEES

Statement of Particulars of Employees under Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 and Forming Part of Directors' Report for the year ended 31.03.2006.

| Name | Age | Date of Employment | Qualification | No. of years Experience | Designation & Nature of Duties | Remuneration (Rs. In Lac) | Last Employment held | Designation with last employer | Period of Service with last employer (Years) |
|---------------------|-----|--------------------|---------------|-------------------------|------------------------------------|---------------------------|-----------------------------|--------------------------------|--|
| Mr. Jangi Lal Oswal | 55 | 09.04.1980 | B.A. II Year | 35 | Chairman-cum- Managing Director | 25.82 | Oswal Woollen Mills Limited | Commercial Manager | 9 |

1. The appointment of Mr. Jangi Lal Oswal is on contractual basis.
2. Mr. Jangi Lal Oswal is related to Mr. Rishi Oswal and Mr. Rahul Oswal, Directors of the Company.
3. The remuneration includes salary, cash allowances/and perquisite value of other non cash perquisites.

For and on behalf of the Board

JANGI LAL OSWAL
Chairman-cum-Managing Director

Place : Ludhiana
Dated : 30.06.2006

ANNEXURE 'B' TO THE DIRECTORS' REPORT

INFORMATION AS PER SECTION 217(1)(e) READ WITH COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988.

1. CONSERVATION OF ENERGY

The company continues to accord high priority to energy conservation.

- a) Some of the initiatives undertaken for conservation of energy
 - Use of energy efficient motors and modernization of various machines.
 - Improvement in power factors by providing capacitor on different load centers.
 - Electronic Soft start units with Power Saving features installed at various machines.
 - Installation of flat belt, flat pulley & FRP fans at humidification plant.
 - Energy efficient lighting system and modernize mechanical devices.
- b) Further proposed and investment for reduction of energy consumption.
 - Modernization/replacement of obsolete plant & machinery.
- c) Overall impact of measures of above resulting in energy saving.
 - Not ascertainable precisely.
- d) Total energy consumption and energy consumption per unit of production as per Form A in respect of industries specified in the schedule.

FORM A

(Disclosure of particulars with respect to conservation of energy)

A. POWER AND FUEL CONSUMPTION

| | | 2005-2006 | 2004-2005 |
|----------------------------|-----------|-----------|-----------|
| 1. Electricity | | | |
| a) Purchased | | | |
| Unit | Lac unit | 1048.90 | 969.26 |
| Total Amount | Rs. Lacs | 3904.53 | 3246.14 |
| Rate/Unit | Rs. | 3.72 | 3.35 |
| b) Own generation | | | |
| Through diesel generator | | | |
| Unit | Lac unit | 32.81 | 72.44 |
| Unit/Litre | | 3.38 | 3.57 |
| Rate/Unit | Rs. | 7.60 | 6.22 |
| 2. Coal (B & C grade)/Husk | | | |
| Quantity | Tonnes | 16585.03 | 14428.01 |
| Total Cost | Rs.Lacs | 323.78 | 231.52 |
| Average rate | Rs./Tonne | 1952.24 | 1604.68 |



MALWA COTTON SPINNING MILLS LIMITED

B. CONSUMPTION PER UNIT OF PRODUCTION

| | | | |
|-------------|----------------------------|---------|---------|
| Electricity | Per Tonne in unit | 4523.36 | 4467.97 |
| Coal/Husk | Per Kg. of Fibre/Yarn Dyed | 2.67 | 2.54 |

II. TECHNOLOGY ABSORPTION

e) Efforts are being made in Technology Absorption as per Form B.

FORM - B

RESEARCH AND DEVELOPMENT (R&D)

- Continuous efforts are being made for developing new products and to improve the existing products. The company has successfully launched and captured new markets in value added yarn due to its R&D efforts.
- With the ongoing efforts by R&D, benefits derived are -
 - Improvement in quality of its products.
 - Development of specialized yarn
 - Consistency in work performance and reduction in waste.
- Future plan of action
The company is doing R&D on continuous basis to improve the quality of existing products and introduction of new products.
- Expenditure on R & D

| | 2005-2006 | (Rs. in Lac) 2004-2005 |
|--|-----------|---------------------------|
| a) Capital | --- | -- |
| b) Recurring | 40.68 | 36.38 |
| c) Total | 40.68 | 36.38 |
| d) Total R&D Expenditure as a percentage of total turnover | 0.11% | 0.11% |

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

- Efforts in brief, made towards technology absorption, adaptation and innovation.
 - Absorption and adaptation of new indigenous technology are being made.
- Benefit derived as a result of the above efforts, e.g. product improvement, cost reduction, product development, import substitution etc.
 - Not ascertainable
- Information regarding technology imported during the last 5 years : Nil

III. FOREIGN EXCHANGE EARNINGS AND OUTGO

- Activities relating to exports; initiatives taken to increase exports; development of new export market for products and services; and export plans.
- Total Foreign Exchange earned and used :

| | 2005-2006 | (Rs. in Lac) 2004-2005 |
|-------------------------------|-----------|---------------------------|
| Foreign Exchange earned (FOB) | 7133.26 | 7383.20 |
| Foreign Exchange used (CIF) | 105.78 | 82.14 |

ANNEXURE 'C' TO THE DIRECTORS' REPORT

Directors' Responsibility Statement

Pursuant to the provisions of section 217(2AA) of the Companies Act, 1956 it is hereby confirmed:

- That in preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures.
- That the directors had selected such accounting policies and applied them consistently and made judgements 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 of the profit or loss of the company for that period.
- That the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.
- That the directors have prepared the annual accounts on a going concern basis.

For and on behalf of the Board

Place : Ludhiana
Dated : 30.06.2006

JANGI LAL OSWAL
Chairman-cum-Managing Director

MALWA COTTON SPINNING MILLS LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Industry Structure and Developments

The textile industry occupies a unique place in our country. After China, India is the second most preferred textile destination. Our major advantage in Textile, overcoming China, are easy availability of raw material, spinning, weaving and garmenting capabilities. Most fascinating varieties of yarn, fabric, home textiles, home furnishings and much more are seen in the bag of this rich culture. Textile Industry is the second largest employment generator after agriculture. It accounts for 14% of the total industrial production and contributes to around 30% of the total exports. With substantial value-addition at each stage of processing, it gives a major contribution to the country's economy.

The Government has come up with many plans to provide textile manufacturers and exporters with any kind of financial help required by them and has been taking a number of steps from time to time to increase India's share in the international textile market. It has allowed 100% foreign direct investments in the textile sector. Also many fund raising schemes like the Technology Upgradation Fund Scheme to facilitate the modernization and upgradation has been launched. To improve the productivity and quality of cotton, the Govt. has launched the Technology Mission on Cotton (TMC). To provide the industry with world-class infrastructure facility for setting up their textile units, Scheme for Integrated Textile Parks has been launched.

Opportunities & Threats

Developing countries like India with both textile and clothing capacity may be able to prosper in the new competitive environment. Low wages and abundance of manpower give India a competitive edge in world market. India has natural advantages which can be capitalized on strong raw material based vast pool of skilled manpower, entrepreneurship, flexibility in production process and long experience with US/EU. At the same time, there are constraints relating to quality of cotton, concerns over power cost, labour reforms and other infrastructure constraints and bottlenecks. For the benefit of exporters there should be a cargo shipping mechanism at par with international standards. Several initiatives have already been taken by the Govt. like rationalization of fiscal duties, technology upgradation through the Technology Upgradation Fund Scheme (TUFS), setting up of integrated textile parks and liberalization of restrictive regulatory practices.

The textile industry is undergoing major reorientation towards non-clothing applications of textiles, known as technical textiles. The process involved in producing technical textiles required expensive equipments and skilled workers are, concentrated in developed countries. India must take adequate measures for capturing share in the technical textiles markets by promoting research and development in this sector.

Segment wise Product wise performance

Detailed performances have already been discussed in Director's Report.

Future Outlook

As the textile industry grows, opportunities for suppliers to the industry are also growing. Manufacturers and suppliers of textile in India are not afraid to invest as India is being seen a growing textile giant. The Indian textile industry is expected to be a tuff competitor to its neighbour China. India is successful in creating niche market in the middle and high value segments of textile market. The technology use in India is being upgraded and import duties have been brought down for industrial supply and are likely to come down further. It is expected that the boom in home textile segment will grow by 8.6% annually. With the right kind of positive approach, improved usage of raw materials,

infrastructure facilities, quality/timely delivery, textile sector is expected to grow favourably towards capturing the world textile market.

Over the last two years, yields in India for cotton increased by 50%. Margins as expected has also improved because of good cotton crop in India. India's cotton output is estimated at 24 million bales compared with 23.5 million bales in the current year on expectation of increase in planting. If achieved, it will be India's fourth consecutive bumper crop. Cotton is likely to be sown over 9 million hectare this years, with nearly half of the sown area under genetically-modified Bt cotton. Cotton consumption during 2006-07 is forecasted at 22.2 million bales, up 8 per cent year-on-year basis in the wake of strong domestic and export demand and lower prices of cotton compared with manmade fibre. India will continue to have exports surplus for next 2 to 5 years.

Risks & Concerns

Major gap in Indian industry is its fragmented industrial structure with dominance of small scale. The small firm size in India is regarded as major drawback. Further, the stringent labour laws in our country are detriment to the growth of the Industry. Not many companies have integrated production facilities. Composite mills accounted for only 3% of the total fabric produced in India. Logistics/supply bottlenecks, high cost of power, inadequate port facilities dilute the cost advantage of abundant availability of raw material and manpower. Yarn processing is a weak segment in India and it mainly produces grey yarn. Globally, share of manmade textile and textile products is increasing, which is having a negative impact on cotton based products. The Govt. has launched number of schemes like TUFS, Technology Mission on Cotton (TMC) etc. Concerted efforts are needed in cotton research, generation & transfer of power, modernization and Upgradation of textile technology and an aggressive marketing strategy.

Internal Control System and their adequacy

The company has a proper and adequate system of internal control commensurate with the size of the Company. The Company is also having Internal Audit Department, which ensures adherence to all internal control policies and procedures.

The Audit Committee of Board of Directors continuously reviews the adequacy of internal controls.

Financial/operation Performance

(Rs. In Lac)

| Particulars | 2005-06 | 2004-05 |
|------------------------------|---------|---------|
| Turnover & Other Income | 37345 | 35189 |
| PBDIT | 5160 | 4135 |
| Interest & Financial Charges | 2297 | 2375 |
| Depreciation | 1260 | 1318 |
| Profit before Tax | 1603 | 442 |
| Profit after Tax | 1188 | 756 |
| Earning Per Share (Rs.) | 13.51 | 6.90 |

Human Resources/Industrial Relations

Human resource is the most significant and valuable asset of the Company. Industrial relations at all units of the company remained cordial and peaceful during the year. Your company has not lost a single man-day during the year and every member of the company contributes to the company's growth and reputation.

For and on behalf of the Board

Place : Ludhiana
Dated : 30.06.2006

JANGI LAL OSWAL
Chairman-cum-Managing Director