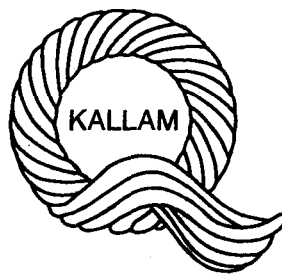


ANNUAL REPORT 2002 - 2003

For Kallam Spinning Mills Limited

[Signature]
Managing Director



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KALLAM SPINNING MILLS LIMITED

NH 5, CHOWDAVARAM
GUNTUR, A.P. - 522 019

KALLAM SPINNING MILLS LTD.**BOARD OF DIRECTORS**

K. Haranadha Reddy	Chairman
P. Venkateswara Reddy	Managing Director
G.V. Krishna Reddy	Joint Managing Director
L. Sreerama Murthy	Director
M.R.Naik	Director
M.V.Subba Reddy	Director
N. Prabhakara Rao	Director
V.S.N. Murthy	Nominee Director of IREDA

BANKERS

Andhra Bank
Main Branch, Kothapet
Guntur - 522 001.

AUDITORS

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

COST AUDITORS

M/s. Narasimha Murthy & Co.,
3-6-365, 104, Pavani Estates
Y.V. Rao Mansion, Himayat Nagar,
HYDERABAD - 500 029

**REGISTRARS &
SHARE TRANSFER AGENTS**

IKON VISIONS PRIVATE LIMITED,
33, Sanali Heavens, Ameerpet,
HYDERABAD - 500 073,
Telephone: 23744138.

REGISTERED OFFICE & FACTORY

N.H.5, Chowdavaram.
Guntur - 522 019.
Phones: 2512001, 2512005, 2512006.
Grams: "GOLDENYARN".

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KALLAM SPINNING MILLS LTD.**NOTICE OF ANNUAL GENERAL MEETING**

NOTICE is hereby given that the Eleventh Annual General Meeting of **Kallam Spinning Mills Limited** will be held on Saturday, the 27th day of September 2003 at 3.00 P.M. at the registered office of the Company situated at N.H.5, Chowdavaram, Guntur 522 019, Andhra Pradesh, 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 2003 and the Balance Sheet as at that date together with the reports of the Board of Directors and Auditors.
2. To appoint a Director in place of Mr. K. Haranadha Reddy, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Mr. L. Sreerama Murthy, who retires by rotation and being eligible, offers himself for re-appointment.
4. To re-appoint 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.

Place: Guntur
Date: 15th May 2003

By order of the Board of Directors
P.VENKATESWARA REDDY
Managing Director

NOTES:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend, and vote on a poll, instead of himself / herself and such proxy need not be Member. The proxy form is enclosed which should be deposited at the Registered Office of the Company duly completed and signed, not later than 48 hours before the commencement of the Meeting.
2. The Register of Members and Share Transfer Books of the Company will remain closed from 16th September 2003 to 27th September 2003 (both days inclusive).
3. Members are requested to intimate any change in the address registered with the Company. Members holding shares in dematerialised form are requested to notify any change in address to their respective Depository Participants (DPs).

ADDITIONAL INFORMATION ON DIRECTORS SEEKING RE-ELECTION AT THE ENSUING ANNUAL GENERAL MEETING

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

Mr. K. Haranadha Reddy

Mr. K.Haranadha Reddy, aged 67, is a businessman and holds a Masters Degree in Arts and degree in Law. Mr. K.Haranadha Reddy is a founder and promoter of the company. He has about 38 years of experience in cotton and spinning business.

Mr.K.Haranadha Reddy is a director on the Board of M/s Kallam Brothers Cotton Pvt. Ltd. He is not a member of any committee within the meaning of clause 49 of the listing agreement with the stock exchanges.

Mr. L. Sreerama Murthy

Born on 16-01-1924 Mr.L.Sreerama Murthy is a retired Andhra Bank employee. He joined the Andhra

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Bank as clerk in 1945. He rose to the position of **Regional Manager** in 1978 and continues to hold the position till 1984. He has rich experience and expertise and knowledge in areas such as Banking, Finance etc.

Mr.L.Sreerama Murthy is not a director on any other Boards. He is not a member of any committee within the meaning of clause 49 of the listing agreement with the stock exchanges.

By order of the Board of Directors

Place: Guntur
Date: 15th May 2003

P.VENKATESWARA REDDY
Managing Director.

DIRECTOR'S REPORT

Your directors have pleasure in presenting the Eleventh Annual Report together with the Audited accounts for the year ended 31st March 2003.

I. FINANCIAL RESULTS:

The financial results for the year ended 31st March 2003 are summarized below:

S.No.	Particulars	2002-2003 (Rs. in lacs)	2001-2002 (Rs. in lacs)
01	Sales	2524.85	2438.14
02	Other income	10.15	55.98
03	Expenditure	1967.34	2064.34
04	Profit before Interest, Depreciation & Tax	567.66	429.78
05	Depreciation	164.09	121.36
06	Interest	316.35	240.00
07	Profit before tax	87.22	68.42
08	Provision for income tax		
	i) Current Tax	7.50	5.23
	ii) Deferred Tax	28.90	24.43
09	Profit after tax	50.82	38.76

II. REVIEW OF OPERATIONS:

The company has recorded positive result. The raw material prices were at reasonable levels. During the year the company achieved a turnover of Rs.2525 lacs as against the turnover of Rs.2438 lacs achieved in 2001-2002 registering moderate increase of 4% over the previous year. The management has made every effort in procurement of quality raw material, utilization of plant at optimum level for bringing down the cost of production.

The company successfully completed its "value addition" programme during the year by adding 4 Ring frames, one Comber and one Auto Coner Machinery with the assistance of Andhra bank by getting Rs.184 lacs Loan facility under TUF scheme.

The company was sanctioned Rs.150 lacs of Term Loan for increasing working capital margin money of the company for day-to-day operations.

Due to severe drought conditions prevailing during the current year the hydel projects were unable to produce power even to the break-even level. IREDA has rescheduled the loan facility together with interest in reply to our request for reshedulement of instalments.

KALLAM SPINNING MILLS LTD.

During the year your company started merchant exports division with a view to improve export sales and improve its profitability on export sales.

Your directors are of the view that in the best interest of the company it would be desirable to conserve the resources for utilization in business, and therefore, and do not recommend any dividend for the year under review.

III. FUTURE OUTLOOK:

The yarn market is showing signs of recovery in both domestic and international market and your company is expected to perform good results for this current year.

To keep pace with technological advancements, your company decided to undertake modernization cum equipping balance equipment. Under this programme, your company wants to replace five ring frames and one auto cone winder and one comber under balancing equipment scheme with an outlay of Rs.210 lacs.

Your company is expecting that this year the hydel project will achieve the desired production and turnaround from losses to profits.

IV. EXPORTS:

Your company has made reasonable direct exports during year under review. Your company is concentrating to improve exports this year as exporting markets are seems to be recovering.

V. DIRECTORS:

In accordance with the Articles of Association of your Company Mr.K.Haranadha Reddy and Mr.L.Sreerama Murthy will retire by rotation at the ensuing Annual General Meeting and being eligible offers themselves for re-appointment.

Mr.K.Nagi Reddy, Director resigned with effect from 31.03.2003.

VI. ENERGY, TECHNOLOGY AND FOREIGN EXCHANGE:

Additional information on conservation of energy, technology absorption, foreign exchange earnings and outgoings as required to be disclosed in terms of 217(10) (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.

VII. PARTICULARS OF EMPLOYEES:

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

VIII. FIXED DEPOSITS:

Your company has not accepted any deposits from the public during the year under report.

IX. AUDITORS QUALIFICATIONS:

Attention of members is invited that statutory auditors expressed their opinion (refer point No.15 of annexure for paragraph 3 of Auditor's report) that the company does not have regular internal audit system. The Board is of the opinion that the operation's of the company is being run by professionals whose activities are internally checked by their higher officials in the management hierarchy and it didn't have any materiality affecting the operations of the company.

X. CORPORATE GOVERNANCE:

Securities and Exchange Board of India (SEBI) has recently announced a code of Corporate Governance to be practiced by Corporates. Some of these provisions have been made mandatory through the listing Agreements with the Stock Exchanges. Your company is required to comply with the mandatory provisions within the Financial Year 2002-2003, but not later than March 31st, 2003. Your Board has initiated necessary action to ensure necessary Compliance by the end of the current financial year. Necessary compliances are enclosed to this report. The Negotiations with NSDL and CSDL for Demat of shares has been completed.

KALLAM SPINNING MILLS LTD.**XI. SECRETARIAL COMPLIANCE CERTIFICATE:**

The compliance certificate by practicing Company Secretary under section 383A(1) has been enclosed herewith to this report.

XII. DIRECTORS RESPONSIBILITY STATEMENT:

The Board hereby states that

- (a) in the preparation of the annual accounts, the applicable Accounting standards had been followed along with proper explanation relating to material departures;
- (b) We 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 as at 31st March, 2003 and of the profit of the company for the year ended on that date;
- (c) We 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) We have prepared the annual accounts on a 'going concern' basis.

XIII. ACKNOWLEDGEMENTS:

Your Directors would like to express their grateful appreciation for the assistance and co-operation received from ICICI LTD., Andhra Bank, IREDA and various other Departments of both State and Central Governments. Your directors wish to place on record their appreciation of the devoted and dedicated services rendered by all employees of the company for effective implementation of power projects.

PLACE: GUNTUR
DATE: 15th May 2003.

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

ANNEXURE - I TO DIRECTORS REPORT:

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

A. CONSERVATION OF ENERGY:

Conservation of energy continues to be accorded high priority. Ongoing processes are continuously reviewed by our R & D team.

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)	61,40,801	71,87,244
	Total amount in Rs.	2,54,76,798	2,87,31,494
	Rate per unit Rs.	4.15	4.00
b)	Own Generation		
i)	Through Diesel Generator		
	Units Generated (KWH)	10,09,773	5,79,932
	Total amount Rs.	47,95,130	47,53,384
	Cost per unit Rs.	4.75	8.20
ii)	Through Steam Generation	--	--

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iii)	Through Hydel Generation		
	Units generated KWH	5,52,500	24,48,900
	Units consumed KWH	14,00,140	6,34,461
	Total Cost Rs.	51,37,316	2,79,163
	Cost per KWH Rs.	9.30	0.44
2.	Coal	--	--
3.	Furnace Oil	--	--
4.	Other Internal Generation		
B). CONSUMPTION PER UNIT OF PRODUCTION (NO. OF UNITS/KG.)			
1.	Electricity	5.00	5.41
2.	Coal	---	---
3.	Furnace Oil	---	---
4.	Hydel	---	---

B. TECHNOLOGY ABSORPTION:

Continuous efforts are being made towards technology absorption. Quality being the thrust area, the company has taken effective steps to continue to improve quality to compete with international quality standards.

C. FOREIGN EXCHANGE EARNINGS AND OUTGOINGS:

Foreign exchange earnings during the year under review amounted to Rs.114 lacs. The foreign exchange utilized during the year amounted to Rs.93lacs towards purchase of plant and machinery and traveling expenses with net inflow of Rs.21 lacs.

MANAGEMENT DISCUSSION AND ANALYSIS:**1. INDUSTRY STRUCTURE & DEVELOPMENT:**

Your company is one of the leading quality makers of 100% cotton combed yarn. The company depended mostly on exports for its business. Fortunately the exports of cotton yarn had picked up well during the Financial Year 2002-2003.

SPINNING DIVISION:

The spindleage of your company had gone up from 18114 to 20040. Your company has also modernized by installing one additional Auto Coner Machinery. Your company has utilized TUF Scheme for replacement of spindles and procurement of Auto Cone Winder.

Your company had manufactured more finer counts, thereby increasing the value addition. The cotton prices were falling down significantly and the cost of raw materials was 58%.

HYDEL DIVISION:

The state of Andhra Pradesh had severe drought during the financial year 2002-2003 and there were very little rains in the Krishna Basin. The hydel generation had significantly gone down due to this. IREDA had rescheduled the interest payments and increased the principle repayment from 7 to 12 years.

2. PERFORMANCE:

Your company continues to maintain its status as one of the best manufacturers of yarn. With a view to establishing itself as a world class supplier of yarn, your company has implemented the ISOSYSTEM successfully and has been awarded the ISO 9001 version 1994 certificate by TUV INDIA.

As a part of its long-term planning, your company has entered into new markets and developed new buyers. Your company's key personnel have also visited new potential markets, developed an understanding of these markets and cultivated relations with new buyers.

KALLAM SPINNING MILLS LTD.**3. EXPORTS:**

Though export turnover constitutes a small percentage of the overall sales, it is likely to increase substantially through the establishment of Merchant Exports Division during the year. Your company is confident of doubling the export turnover.

4. INITIATIVES:

Over the last few years, your company's focus has been on product development and on improvement in business processes to improve quality, efficiency and service levels. To achieve these objectives, the following initiatives have been taken.

Re-engineering:

The manufacturing plants of the company have been re-engineered and have been brought up to the international standards of quality. This re-engineering will be followed by implementation of a new ERP package, which is expected to bring about improvement in processes in staff functions and reduction in costs.

Labour Productivity:

Labour productivity had been an area of great concern for the company in earlier years. Several initiatives have been taken in this regard which have resulted in reduction of manpower and elimination of overtime.

Cost Reduction:

Your company has been successful in reducing material costs and keeping overhead costs including manpower costs constant over the last several years.

Marketing:

Your company is poised to increase its market share even in a stagnant market through several new marketing initiatives. To follow this objective your company has established Merchant Exports Division to improve export sales.

5. INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY:

Your company has a proper, strong, independent and adequate system of internal controls to ensure that all the assets are safeguarded, protected against loss from unauthorized use or disposition and that transactions are authorized, recorded and reported correctly.

The internal control systems are also designed to ensure that the financial and other records are reliable, for preparing financial statements and other data.

6. HUMAN RESOURCE DEVELOPMENT:

The greatest strength of your company on Human Resource Development front has been in linking HRD activities with the business plans of the organization. The whole HRD movement at your company has been evolved on task and people related goals.

Development system at your company focuses on building Technical, Managerial and Social competencies amongst the employees right from the induction stage.

To inculcate the spirit of effectiveness in management styles, your company has moved from the conventional, hierarchial/power oriented culture to participative and performance-oriented culture.

7. MANAGEMENT:

All details relating to financial & Commercial transactions where Directors may have a potential interest are provided to the Board, and the interested Directors neither participate in the discussion nor do they vote on such matters.

8. CAUTIONARY STATEMENT:

Details given herein above relating to various activities and future plans may be "forward looking statements" within the meaning of applicable laws and regulations. Actual performance may differ from those expressed or implied.

KALLAM SPINNING MILLS LTD.**ANNEXURE TO THE DIRECTORS' REPORT
REPORT ON CORPORATE GOVERNANCE**

As required under clause 49 of the Listing agreement with the Stock Exchanges, a report on Corporate Governance practiced in the company is given below:

1. Company's philosophy on code of Governance

Kallam Spinning Mills Limited believes in adopting the best corporate governance practices and protecting the rights and interests of stakeholders. In our view, the stakeholders have the right to know complete information on the Board of Directors and the management, their interests in the organisation as well as governance practices followed by them.

The recommendations of the Kumar Mangalam Birla Committee on Corporate Governance has been accepted by the Securities and Exchange Board of India (SEBI) in December 1999 and have since formed part of Clause 49 of the Listing Agreement with Stock Exchanges. They are mandatory for the Company from 2002-03 onwards and the Company is compliant with these recommendations, as detailed in this report.

2. Board of Directors

The present strength of the Board is nine, comprising 3 Wholtime Directors (WTD), 5 Non-Executive Directors (NED) including Chairman and 1 Nominee Director, as below:

Name of the Director	Category	Designation
Mr. K. Haranadha Reddy	Promoter and Non Executive	Chairman
Mr. P. Venkateswara Reddy	Promoter and Executive	Managing Director
Mr. G.V. Krishna Reddy	Promoter and Executive	Joint Managing Director
Mr. K. Nagi Reddy(*)	Promoter and Non Executive	Director
Mr. L. Sreerama Murthy	Independent and Non Executive	Director
Mr. M. R. Naik	Independent and Non Executive	Director
Mr. M.V. Subba Reddy	Independent and Executive	Director (Purchase)
Mr. N. Prabhakara Rao	Independent and Non Executive	Director
Mr. V.S.N. Murthy	Independent and Non Executive	Nominee Director (IREDA)

(*) Resigned with effect from 31-03-2003

Directorship on Board and membership in Committees of Companies including Kallam Spinning Mills Limited

Name of the Director	No. of other Companies in which Director#	Membership in Specified Committees*
Mr. K. Haranadha Reddy	1	---
Mr. G.V. Krishna Reddy	---	1
Mr. K. Nagi Reddy	---	1
Mr. L. Sreerama Murthy	---	---
Mr. M. R. Naik	---	1
Mr. M.V. Subba Reddy	---	2
Mr. N. Prabhakara Rao	---	2
Mr. V.S.N. Murthy	1	1
Mr. P. Venkateswara Reddy	---	---

* Specified Committees Audit, Remuneration, Shareholders/Investor Grievance.

Excludes Alternate Directorships.

Number and Dates of Board Meetings held

KALLAM SPINNING MILLS LTD.

Four Board Meetings were held during the year 2002-03 (on 29th June 2002, 30th July 2002, 12th October 2002 and 25th January 2003)

Attendance details of each Director at the Board Meetings and at last AGM:

Name of the Director	No. of Board Meetings attended	Attendance at the last AGM
Mr. K. Haranadha Reddy	4	Yes
Mr. G.V. Krishna Reddy	4	Yes
Mr. K. Nagi Reddy (*)	2	Yes
Mr. L. Sreerama Murthy	4	Yes
Mr. M. R. Naik	4	No
Mr. M.V. Subba Reddy	3	Yes
Mr. N. Prabhakara Rao	4	Yes
Mr. V.S.N.Murthy	3	No
Mr. P. Venkateswara Reddy	4	Yes

(*) Resigned as Director with effect from 31-03-2003

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 six Non Executive Directors have any pecuniary relationship or transactions vis-à-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

To adhere to the principles of transparent governance a qualified and independent Audit Committee has been constituted comprising of three independent non-executive directors to exercise and discharge functions as stipulated in Section 292A of the Companies Act, 1956.

Terms of reference:

The audit committee is empowered to deal with the following functions specified in clause 49 of listing agreement which are subject to change from time to time as may prescribe in the said clause.

- 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.
- Recommending the appointment and removal of external auditor, fixation of audit fee and also approval for payment for any other services.
- Reviewing with management the annual financial statements before submission to the board, focusing primarily on :
 - Any changes in accounting policies and practices
 - Major accounting entries based on exercise of judgment by management
 - Qualifications in draft audit report
 - Significant adjustments arising out of audit
 - The going concern assumption