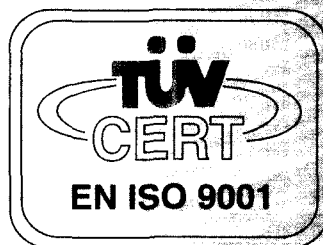




ANNUAL REPORT

2004 - 2005



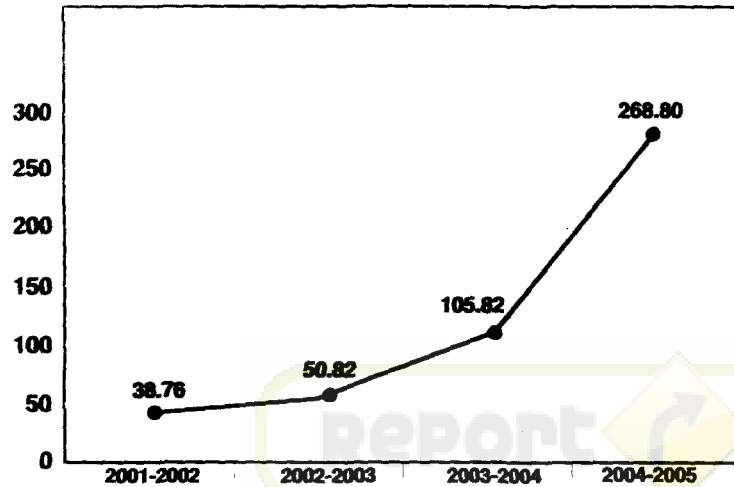
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KALLAM SPINNING MILLS LIMITED

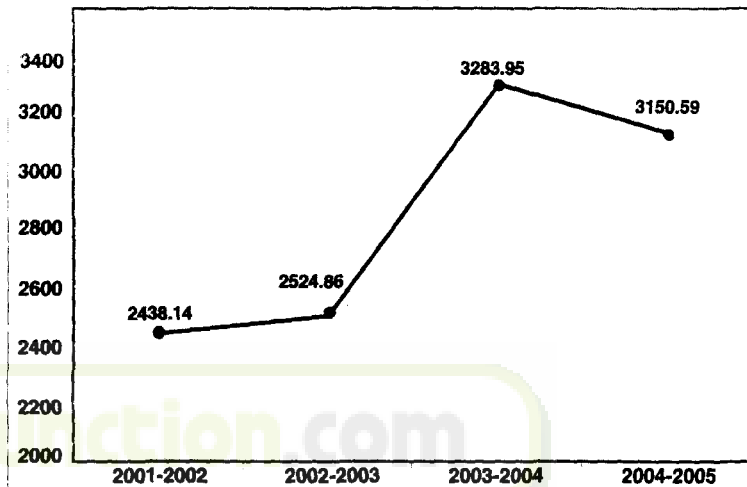
NH 5, CHOWDAVARAM, GUNTUR. AP - 522 019

Performance at a Glance

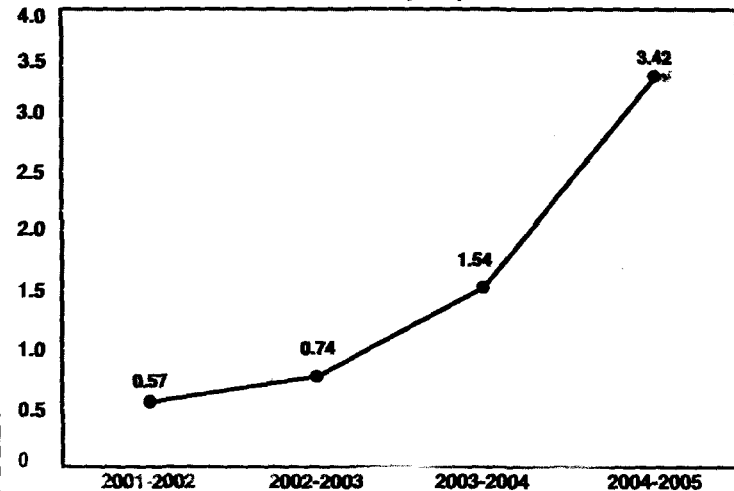
PROFIT AFTER TAX (Rs. In Lakhs)



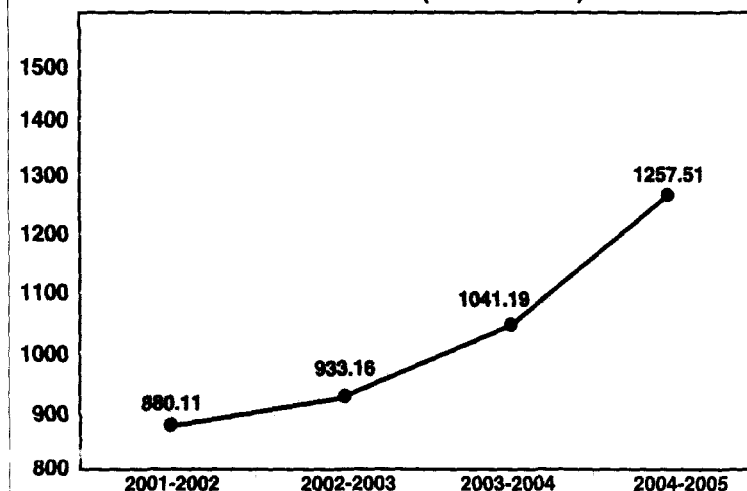
TURNOVER (Rs. In Lakhs)



EPS (Rs.)



NET WORTH (Rs. In Lakhs)



KALLAM SPINNING MILLS LTD.**Consistent Growth**

(Rs.in Lakhs)

	2004-05	2003-04	2002-03	2001-02
Operating Results				
Turnover	3150.59	3283.95	2524.86	2438.14
Other Income	44.20	454.08	10.15	55.99
Total Income	3194.79	3738.03	2535.01	2494.13
Earnings before Depreciation				
Interest and Tax (EBIT)	759.12	674.43	567.67	429.78
Depreciation	176.22	171.35	164.10	121.36
Interest	240.65	319.42	316.35	240.00
Provision for Taxation (Including Deferred Tax)	73.45	77.84	36.40	29.66
Profit after Tax	268.80	105.82	50.82	38.76
Cash Profit	445.02	277.17	214.92	160.12
Sources of Funds				
Equity Share Capital	685.11	685.11	685.11	685.11
Reserves & Surplus	572.40	356.08	248.05	195.00
Net Worth	1257.51	1041.19	933.16	880.11
Borrowings	2783.20	3235.03	3414.29	3278.12
Net Capital Employed	4040.71	4276.22	4347.45	4158.23
Application of Funds				
Gross Fixed Assets	4002.07	3780.32	3732.41	3446.40
Depreciation	1057.94	914.00	753.14	611.23
Net Fixed Assets	2944.13	2866.32	2979.27	2835.17
Net Current Assets & Investments	1096.58	1409.90	1368.18	1323.06
Net Assets Employed	4040.71	4276.22	4347.45	4158.23
Key Financial Indicators				
Earning per share -Rs.	3.42	1.54	0.74	0.57
Cash Earning per share - Rs.	6.50	4.05	3.14	2.34
Book Value per share - Rs.	18.35	15.20	13.62	12.85
EBDIT / Turnover %	24.09	20.54	22.48	17.63
Net Profit Margin %	8.53	3.22	2.01	1.59
Return on Net Worth %	21.38	10.16	5.45	4.40

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KALLAM SPINNING MILLS LTD.

COMPANY INFORMATION

BOARD OF DIRECTORS

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 IPEDA
Sri A. Krishna Murthy, Addl. Director

LISTED WITH

The Stock Exchange, Mumbai
The Hyderabad Stock Exchange Ltd.,

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

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

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**

IKON VISIONS PRIVATE LIMITED,
33, Sanali Heavens, Ameerpet,
HYDERABAD - 500 073,
Telephone: 040-23744138, 23744356, 55615699
E-mail : ikonvisions@yahoo.com.

KALLAM SPINNING MILLS LTD.**NOTICE TO SHAREHOLDERS**

NOTICE is hereby given that the Thirteenth Annual General Meeting of the Members of **KALLAM SPINNING MILLS LIMITED** will be held on Wednesday the 28th September, 2005 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 2005 and the Balance Sheet as at that date together with the reports of the Board of Directors and Auditors thereon.
2. To declare dividend on Equity Shares for the Year ended 31st March 2005.
3. To appoint a Director in place of Sri N. Prabhakara Rao, who retires by rotation and being eligible, offers himself for re-appointment.
4. To re-appoint M/s. Brahmaya & 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 and fix their remuneration.

Special Business

5. To consider and, if thought fit, to pass with or without modifications, the following resolution as an Ordinary Resolution.

"RESOLVED THAT Sri A. Krishna Murthy who was appointed as an additional director of the Company pursuant to Section 260 of the Companies Act, 1956 and holds office up to the date of this Annual General Meeting and in respect of whom the Company has received a notice under Section 257 of the Companies Act, 1956, in writing, proposing his candidature for the office of the Director of the Company subject to retirement by rotation under the Articles of Association of the Company."

6. To consider and, if thought fit, to pass with or without modification, the following resolution as an Ordinary Resolution: -

"RESOLVED THAT Sri K. Harandha Reddy who was appointed as an additional director of the Company pursuant to Section 260 of the Companies Act, 1956 and holds office up to the date of this Annual General Meeting and in respect of whom the Company has received a notice under Section 257 of the Companies Act, 1956, in writing, proposing his candidature for the office of the Director of the Company subject to retirement by rotation under the Articles of Association of the Company"

7. To consider and, if thought fit, to pass with or without modifications, the following resolution as an Ordinary Resolution.

"RESOLVED THAT" pursuant to provisions of section 293 (1) (d) of the companies Act, 1956 and Articles of Association of the Company, the Board of Directors be and is hereby authorized to raise or borrow funds from time to time, such sums of money or moneys from any individuals, firms, association of persons, financial institutions or from the Company's bankers (not including the loans obtained in the ordinary course of business) or from elsewhere on such terms and conditions as to repayment, interest or otherwise or it think fit and necessary for the purpose of the company, which may exceed the aggregate of the paid share capital of the company and its free reserves not set apart for any specific purpose, provided that the total amount borrowed by the Board of Directors shall not exceed Rs. 70,00,00,000/- (Rupees Seventy crores only)".

KALLAM SPINNING MILLS LTD.

8. To consider and, if thought fit, to pass with or without modifications, the following resolution as an Ordinary Resolution.

"RESOLVED THAT consent of the company be and is hereby accorded in terms of Section 293 (1) (a) and other applicable provisions, if any, of the Companies Act, 1956, to the mortgage / hypothecation of all the existing immovable and movable properties and other equipments to be acquired in future as a security to the loans up to Rs. 70,00,00,000/- (Seventy Crores) in aggregate togetherwith interest, cost, charges, expenses and other moneys etc., pursuant to section 293 (1) (d) of the companies Act, 1956 and that the Board of Directors of the company be and is hereby authorized to finalize the documents for the aforesaid mortgage / hypothecation charge on the assets and do all such acts and things as may be necessary to give effect to the resolution".

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

Place: Chowdavaram
 Date: 25th May,2005

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. 5 to 8 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 1st September 2005 to 28th September 2005 (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 5th October 2005 to those members whose names appear on the Register of Members as on 28th September 2005. In respect of shares held in electronic form, the dividend will be payable on the basis of beneficial ownership as at the close of 20th September 2005 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 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 : IKON Visions Private Limited, 33, Sanali Heavens, Ameerpet, Hyderabad - 500 073 at the earliest not later than 1st September 2005.
 - any change in their address / mandate / Bank details; and
 - Particular of their Bank Account, in case the same has not been sent earlier.

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., NGDL and CDSL will be printed on the dividend warrant.

KALLAM SPINNING MILLS LTD.

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

Sri N. Prabhakara Rao, aged about 72 years, is an Electrical Engineer. He was retired as Superintendent 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.

Sri N. Prabhakara Rao is a Director in Janapadu Hydro Prower Projects Private Limited. He is Chairman of Shareholders' / Investors' Grievance Committee and member in Audit Committee constituted by the Company.

Your Directors, therefore, recommend the resolution for your approval.

None of the Directors except Shri N. Prabhakar Rao is interested or concerned in the resolution.

Item No. 5.

Shri A. Krishna Murthy was appointed as an Additional Director of the Company during the year. Pursuant to Section 260 of the Companies Act, 1956 Shri A. Krishna Murthy, holds office as an Additional Director up to the date of this Annual General Meeting. The Company has received a notice under Section 257 of the Companies Act, 1956, in writing, from a shareholder signifying his intention to propose the candidature of Shri A. Krishna Murthy for appointment as Director of the Company under the provisions of Section 257 of the Companies Act, 1956.

Your Directors, therefore, recommend the resolution for your approval.

None of the Directors except Shri A. Krishna Murthy is interested or concerned in the resolution.

Item No. 6

Shri K. Haranadha Reddy was appointed as an Additional Director of the Company by the Board of Directors at their meeting held on 25th May, 2005. Pursuant to Section 260 of the Companies Act, 1956 Shri K. Haranadha Reddy, holds office as an Additional Director up to the date of this Annual General Meeting. The Company has received a notice under Section 257 of the Companies Act, 1956, in writing, from a shareholder signifying his intention to propose the candidature of Shri K. Haranadha Reddy for appointment as Director of the Company under the provisions of Section 257 of the Companies Act, 1956.

Your Directors, therefore, recommend the resolution for your approval.

None of the Directors except Shri K. Haranadha Reddy and Shri G.V. Krishna Reddy is interested or concerned in the resolution.

Item No. 7

The company has been expanding its spinning capacity from the present 22608 spindles to the proposed 33648 spindles. In view of this, it is necessitated to increase the borrowing powers of the board of directors of the company from the existing limit of Rs. 40.00 crores to Rs. 70.00 crores.

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

None of the Directors of the company are interested in the resolution.

Item No. 8

The company has recommended a resolution under section 293(1) (d) for increasing the borrowing powers up to Rs. 70.00 crores for the approval in this meeting. Simultaneously, in order to give effect to the said resolution after approval by this Annual General Meeting, the Company is required to attach necessary security to the lending institutions / banks / other body corporate and hence said resolution.

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

None of the directors of the company are interested in the resolution.

Place: Chowdavaram
Date: 25th May, 2005

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

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

Your directors have pleasure in presenting the Thirteenth Annual Report of the Company together with the Audited accounts for the year ended 31st March 2005.

I. FINANCIAL RESULTS:

The financial results for the year ended 31st March 2005 are summarized below:

S.No.	Particulars	2004-2005 (Rs.in lacs)	2003-2004 (Rs. in lacs)
01	Sales	3150.59	3283.95
02	Other income	44.20	454.08
03	Expenditure	2435.67	3063.61
04	Profit before Interest, Depreciation & Tax	759.12	674.43
05	Depreciation	176.22	171.35
06	Interest	240.65	319.42
07	Profit before tax	342.25	183.66
08	Provision for income tax		
	i) Current Year Tax	29.00	15.50
	ii) Deferred Tax	45.31	66.78
09	Profit after tax	267.94	101.38
10	Earning per share	3.92	1.54

Transfers from the profit are as detailed below:

11	Profit After Tax	267.94	101.38
12	Excess provision made for Income Tax in earlier years	0.86	4.43
13	Balance brought forward from previous Year	339.74	233.93
14	Profit for appropriations	608.54	339.74

Appropriations from the profit are as detailed below

15	Proposed Equity Dividend	47.96	---
16	Tax on Proposed Equity Dividend	6.73	---
17	Balance carried forward	553.85	339.74
	Total	608.54	339.74

During the year under review, Profit before tax and after tax have surged ahead by 86.36% and 164.32% to Rs. 342.25 lakhs and Rs. 267.94 lakhs respectively.

II. DIVIDEND :

With satisfactory growth in profit during the year, your Directors at their meeting held on May, 25th 2005 were pleased to recommended a maiden dividend of 7% (Seven percent) on Equity shares of Rs. 10/- each and the same will be paid when declared by the shareholders in accordance with the law. The dividend when received by the Shareholders will be free of tax in their hands and the Company will pay dividend distribution tax @ 14.025% (including surcharge and education cess) on the dividend amount subject to relevant laws at the appropriate time.

III. EXPANSION & MODERNISATION :

Your Directors have pleasure to inform you that the spinning division of the company is going to expand from 22608 spindles to 33648 spindles. The total cost of the proposed expansion is going to be Rs. 18.00 crores. Out of the total project cost of Rs. 18.00 crores, Bankers are financing Rs. 14.40 crores and balance of Rs. 3.60 is from internal accruals. The expansion project is going to be commissioned by the end March 2006. There are good prospects for expansion of the spinning capacity to any extent because of greater demand for the cotton yarn in post quota resume.

Thrust on modernization and technological upgradation programme continues to face competition and ensure better quality of our products.

KALLAM SPINNING MILLS LTD.**IV. FINANCE :**

During the year under review, your Company has achieved a major breakthrough in finance front. The Andhra Bank has sanctioned a Term Loan of Rs. 1440 lakhs under TUF for the expansion of the capacity of the spinning division. Andhra Bank has also taken over two outstanding terms loans of ICICI Bank of Rs. 52.50 lakhs and Rs. 68.00 lakhs. The Andhra Bank has reset the interest rates to 9.50% p.a. for all the existing term loans and working capital loans. This will reduce the cost of debt of your company substantially in coming years. The Company is regular in payment of the installments of principal and interest on various terms loans from Banks and Financial Institutions.

V. FIXED DEPOSITS :

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

VI. FUTURE OUTLOOK:

Your Company is looking for increasing the size and scale and thereby proposed to increase the spindles capacity from current 22608 spindles to 33632 spindles. Your company is upgrading its technology from time to time, which is very essential to meet the global competition. the company will continue to produce high quality cotton yarn. Your company will continue to optimum utilize its material, machines, men and money there by increase the productivity.

Your Company is using the power generated by Hydel Power Projects for captive consumption. There by saving the power cost considerably. Your company is looking for all round saving in the costs and producing high quality products with lower costs.

Your company is expanding the customer base with high quality products and competitive prices. With the increased volume of sales and reduced costs, your company can get the huge margins.

Your company's primary objective is to increase the shareholders value as well as stakeholders value.

VII. EXPORTS:

Your company has made reasonable direct exports during year under review. Your company has partially shifted thrust from the export market to the domestic market as there is better price parity. Your company is concentrating to improve exports this year since the quotas are abolished from 01-01-2005 and the export trade will be freed from these quantitative restrictions under the World Trade Organization regulations.

VIII. DIRECTORS:

In accordance with the provisions of the Companies Act, 1956 and Articles of Association of the Company your Company, Mr. N.Prabhakara Rao will retire by rotation at the ensuing Annual General Meeting and being eligible offers himself for re-appointment.

Mr. K. Haranadha Reddy was appointed as an additional director of your company, with effect from 25th May 2005. He holds the office upto the ensuing Annual General Meeting and is eligible for reappointment, the company has received notice under section 257 of the companies Act, 1956 proposing his appointment as a Director, subject to retirement by rotation.

Mr. A. Krishna Murthy was appointed as an additional director of your company, with effect from 29th October 2004 He holds the office upto the ensuing Annual General Meeting and is eligible for reappointment, the company has received notice under section 257 of the companies Act, 1956 proposing his appointment as a Director, subject to retirement by rotation.

None of the Directors of the Company are disqualified for being appointed as Directors as specified in Section 274 of the Companies Act, 1956.

IX. ENERGY, TECHNOLOGY AND FOREIGN EXCHANGE:

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

X. PARTICULARS OF EMPLOYEES:

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