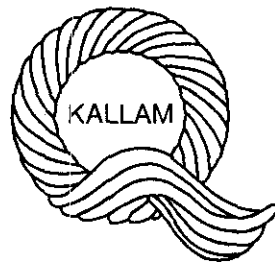


ANNUAL REPORT 1998 - 1999



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KALLAM SPINNING MILLS LIMITED

**NH5, CHOWDAVARAM,
GUNTUR - 522 019.**

KALLAM SPINNING MILLS LTD.

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KALLAM SPINNING MILLS LTD.

BOARD OF DIRECTORS

T.R. Dhinakaran	Chairman
K. Haranadha Reddy	Managing Director
G.V. Krishna Reddy	Whole Time Director
L.S. Manivannan	Director
K. Nagi Reddy	Director
T. Venkateswarlu	Director
L. Sreerama Murthy	Director
M.R. Naik	Addl. Director
M.V. Subba Reddy	Addl. Director

BANKERS

Andhra Bank
Main Branch, Kothapet
Guntur – 522001.

AUDITORS

M/s. BRAHMAYYA & CO.,
Chartered Accountants,
Sambasivapet,
Guntur – 522001.

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REGISTERED OFFICE & FACTORY

10th K.M, N.H.5.
Chowdavaram.
Guntur – 522 019.
Phones: 512001, 512005, 512006.
Grams: "Golden yarn"

KALLAM SPINNING MILLS LTD.

NOTICE TO THE SHARE HOLDERS

NOTICE is hereby given that the seventh Annual General Meeting of the Shareholders of KALLAM SPINNING MILLS LTD will be held on Saturday, the 25th September, 1999 at 3.00 P.M. at the Registered Office of the Company at 10th K.M., N.H.5, Chowdavaram, Guntur – 522 019, Andhra Pradesh, to transact the following business.

ORDINARY BUSINESS:

1. To receive, consider and adopt the audited Balance Sheet as at 31st March, 1999 and Profit and Loss Account for the year ended 31st March, 1999 and the report of Directors and Auditors thereon.
2. To elect a Director in place of Sri T.R.Dhinakaran, who retires by rotation and being eligible, offers himself for re-election.
3. To elect a Director in place of Sri L.S.Manivannan, who retires by rotation and being eligible, offers himself for re-election.
4. To elect a Director in place of Sri K.Nagi Reddy, who retires by rotation and being eligible, offers for re-election
5. To appoint Auditors to hold office from the conclusion of this Annual General Meeting until the conclusion of next Annual General Meeting and to fix their remuneration.

SPECIAL BUSINESS:

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

“RESOLVED that Shri M.V.Subba Reddy who was appointed as an additional director of the company with effect from 1.11.98 and who holds office upto the date of this Annual General Meeting, be and is hereby appointed as a director of the company, for the remuneration specified below, liable to retire by rotation”.

“FURTHER RESOLVED that subject to the provisions of the sections 198,269,309,310,314, and applicable provisions, if any of the companies act 1956, read with schedules, XIII thereof, the remuneration of Shri M.V.Subba Reddy be and is hereby determined as follows which shall take effect from 1.10.99 as per the details given below:

A) Salary: Rs.8000 p.m (with a annual increment of Rs.1000 p.a.)

B) Perquisites:

Housing: The expenditure incurred by the company on hiring unfurnished accommodation will be subject to a maximum 30% of the salary

Vehicle: Reimbursement of fuel expenses for the vehicle

Telephone: Company telephone at residence.

KALLAM SPINNING MILLS LTD.

Children Educational allowance: Incase of children's studying Rs.50 per children per month subject to a maximum of two children.

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

"RESOLVED that Shri N.Prabhakara Rao who was appointed as an additional director of the company with effect from 01.06.99 and who holds office upto the date of this Annual General Meeting, be and is hereby appointed as a director of the company, liable to retire by rotation".

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

"RESOLVED that Shri M.R.Naik who was appointed as an additional director of the company with effect from 01.11.98 and who holds office upto the date of this Annual General Meeting, be and is hereby appointed as a director of the company, liable to retire by rotation".

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

"RESOLVED that consent of the company be and is hereby accorded for taking up Mini Hydel Power Projects on Nandigama branch canal (16th & 17th branch canal) of Nagarjuna Sagar left canal at Nelakondapalli village. The board of directors be authorised to take up the project and approach for all necessary sanctions from Government authorities and to avail financial assistance from Banks, Financial Institutions, IREDA, Foreign Financial Institutions, Foreign Banks, ADB, World Bank, and NRI's.

10. To consider and if thought fit, to pass, with or without modification, 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 authorised to raise or borrow from time to time, such sums of money or moneys from any individual, firm, 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 as it think fit and necessary for the purpose of the company, which may exceed the aggregate of the paid-up share capital of the company and its free reserves (not set apart for any specific purpose.) However, the same shall not at any time in aggregate, exceed Rs.30,00,00,000/- (Rupees thirty crores only)

11. To Consider and if thought fit, to pass, with or without modification, 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 equipment's to be acquired in future as a security to the loans upto 30,00,00,000/- (Rupees thirty crores) in aggregate together with 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 authorised to finalise the documents for the aforesaid mortgage/hypothecation charge on the assets and to do all such acts and things as may be necessary to give effect to the resolution.

KALLAM SPINNING MILLS LTD.

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

"RESOLVED THAT authorised capital of the company be increased from Rs.7,20,00,000/- (Rupees seven crores twenty lakhs) consisting of 72,00,000 shares of Rs.10 each to 10,00,00,000/- (ten crores) consisting of 1,00,00,000 shares of Rs.10 each by creating 28,00,000 shares of Rs.10 each ranking pari passu with the existing equity shares"

"RESOLVED that clause V of Memorandum of Association be amended accordingly"

Resolved that the Board be and is hereby authorised pursuant to section 81(1A) of the companies Act, 1956 to issue 20,00,000 equity shares of Rs.10 each to be offered to the persons who are the holders of the existing equity shares of the company and whose shares will appear on register of members on such date as the board may hereafter fix for the purpose, in the proportion as determined by Board of directors for this purpose.

"FURTHER RESOLVED that the aforesaid issue shall be subject to the following principal terms and conditions:

- a) The said equity shares shall be offered for subscription in cash only.
- b) No coupons for fractional rights shall be issued. Such consolidated fractional rights shall be sold by directors at the best available market price.
- c) The members shall have the option to renounce their right to such right shares either in whole or in part
- d) If the offer is not accepted by the member on or before the stipulated date, the shares left over would be disposed off in such a manner as the directors think most beneficial to the company."

By order of the Board Directors

PLACE : GUNTUR.
DATE : 27.05.1999.

(K.HARANADHA 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 and the proxy need not be a member of the company.
2. An Explanatory statement pursuant to Section 173 (2) of the companies Act, 1956, in respect of Special business at item 6 to 12 of the above Notice is annexed.
3. In case the members wish to seek any information about the accounts and operations of Company, they are requested to send their queries in writing at least ten days before the date of the meeting so that the information can be made available at the time of meeting.
4. Members are requested to notify immediately any change in their address to the Company's Registered Office.

KALLAM SPINNING MILLS LTD.

5. All communications relating to shares are to be addressed to the companies transfer agents, SRG INFOTEC (INDIA) LTD., P.B.NO: 1255 FIRST FLOOR, M.J.APTS, BARKATPURA, HYDERABAD-27.
6. The register of members and share transfer books of the company will remain closed from 19th September 1999 to 25th September 1999. (Both days inclusive)

ANNEXURE TO THE NOTICE

Explanatory statement pursuant to section 173(2) of the companies Act, 1956.

ITEM No.6:

Shri M.V. Subbba Reddy is associated with the company since its inception as purchase incharge (raw materials). He is a post graduate in commerce having experience in cotton purchases for the last 4 years with the company, gained excellent knowledge in procurement of raw material. Considering his experience in relevant field the Board of directors appointed him as an Additional Director (purchases) at their meeting held on 30th October 1998, with effect from 01.11.98.

Notice as required under Section 257 of the companies Act, 1956 together with requisite deposit has been received from a member proposing the appointment as a director of the company.

None of the Directors except sri M.V.Subba Reddy may be considered to be concerned or interested in the resolution.

ITEM NO.7:

Sri N.Prabhakar Rao a retired Superintendent Engineer of APSEB having served in various capacities and used to provide his valuable suggestions in areas of Mechanical & Civil Engineering etc in times of need. Considering his vast experience and expertise knowledge, the board of directors appointed him as an additional director at their board meeting held on 27th may 1999 with effect from 01.06.1999.

Notice as required under Section 257 of the companies Act, 1956 together with requisite deposit has been received from a member proposing the appointment of as a director of the company.

None of the Directors except Shri N.Prabhakar Rao considered to be concerned or interested in the resolution.

ITEM NO.8:

Shri M.R. Naik a retired IAS officer was appointed as additional director at the meeting of the board of directors held on 30th October, 1998 with effect from 1.11.1998. He holds office upto the date of the ensuing Annual General Meeting.

Notice as required under Section 257 of the companies Act, 1956 together with requisite deposit has been received from a member proposing the appointment of Shri M.R. Naik, as a director of the company.

None of the Directors except Sri M.R.Naik may be concerned or interested in the resolution.

KALLAM SPINNING MILLS LTD.

ITEM NO.9:

The company is authorised to produce and supply power by conventional and non-conventional sources of energy vide subclause (5) of clause III of Memorandum of Association. Accordingly the company has secured sanction for taking up a Mini Hydel Power Projects. Hence the consent of the company for taking up of the project is sought through this resolution.

ITEM NO.10:

The company has been sanctioned Mini Hydel Power Project by Andhra Pradesh Government. In view of this, it is necessiated to increase the borrowing powers of the board of directors of the company from the existing limit of Rs.20 crores to 30 crores. The proposed resolution is, therefore, recommended for your consent. None of the directors of the company are interested in the resolution.

ITEM NO.11:

The company has recommended a resolution under Section 293(1)(d) for increasing the borrowing powers upto Rs.30 crores for 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 the said resolution.

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

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

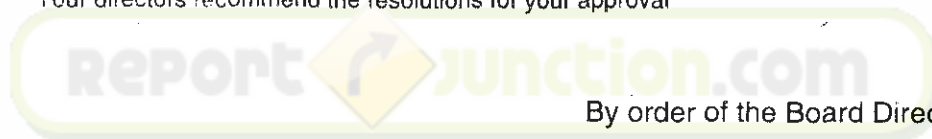
ITEM NO.12:

In view of increase of operations and taking up of Hydel Power Project , it is necessary to increase the authorised equity share capital to meet the project cost.

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

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

Your directors recommend the resolutions for your approval



By order of the Board Directors

PLACE : GUNTUR
DATE : 27.05.1999

(K.HARANADHA REDDY)
MANAGING DIRECTOR

KALLAM SPINNING MILLS LTD.

DIRECTORS ' REPORT

Your Directors have pleasure in presenting the Seventh Annual Report together with the Audited Accounts for the year ended 31st March, 1999.

1. FINANCIAL RESULTS :

The Financial results for the year ended 31st March, 1999 are summarised below :

PARTICULARS	1998 - 99 (Rs. In Lacs)	1997-98 (Rs. In Lacs)
Sales	2,402.11	2,242.14
Other income	15.03	3.76
Expenditure	2131.96	1992.91
Profit before Interest, Depreciation & Tax..	285.18	252.99
Depreciation	100.67	77.68
Interest	236.10	203.61
Profit/(Loss)before tax	(51.59)	28.30
Provision for tax.	--	--
Profit after tax (Loss)	(51.59)	(28.30)
Profit(Loss)brought forward from previous year	(63.51)	(35.21)
Profit/(Loss) carried to Balance sheet	(115.04)	(63.51)

2. REVIEW OF OPERATIONS :

The company has recorded negative result due to several adverse factors effecting the textile industry like high cotton prices, yarn prices not moving in tune with the raw material costs. During the year the Company achieved a turnover of Rs.2402 lacs as against the turnover of Rs.2242 lacs achieved in 1997-98 registering an increase of 7.14% over the previous year. The company made exports of Rs.1736 lacs which is 72.27% of total turnover. The company is expected to reach its installed capacity of 18144 spindles by 30th June this year. The management has made every effort in procurement of quality raw material, utilisation of plant at optimum level for bringing down the cost of production. The product of the Company is moving fast in export front due to quality concept observed at all levels of management, which may stimulate further improvement in export sales.

Out of the Foreign Currency Term Loan (FCTL) USD 11,20,000 sanctioned by Andhra Bank, USD 8,57,178 were utilised. The balance unspent dollars were converted to Rupee Term loan of Rs.70 lacs. Out of term loans two LK 250 Combers and 4032 spindles were added during the financial year under review.

We are pleased to inform you that Andhra Pradesh Govt had sanctioned Mini Hydal Project on 16th & 17th branch canal of NS left canal near Nelakonda Palli, Khammam Dist. The company had entered into MOU with NEDCAP. There are total three power houses with a total capacity of 4.0 MW. The company is planning to take up the project in a phased manner

3. FUTURE OUTLOOK:

The Company will be increased its production capacity to 18144 spindles by June, 1999. Consequently the turnover is expected to touch 30 crores which may provide for positive line of profitability again.