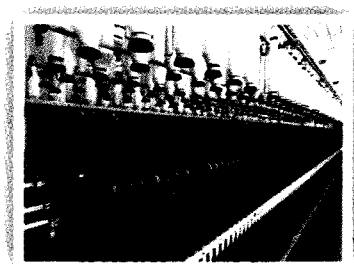


26th



Annual Report

2005-06



Nahar SPINNING MILLS LIMITED

MANAGEMENT

BOARD OF DIRECTORS	:	Sh. Jawahar Lal Oswal	Chairman
		Sh. Dinesh Oswal	Managing Director
		Sh. Kamal Oswal	Director
		Sh. Dinesh Gogna	Director
		Sh. S. K. Sharma	Director
		Dr. (Mrs.) H. K. Bal	Director
		Sh. Amarjeet Singh	Director
		Dr. O. P. Sahni	Director
		Prof. K. S. Maini	Director
FINANCE CONTROLLERS	:	Sh. Hans Raj Kapoor & Sh. Anil Garg	
COMPANY SECRETARY	:	Sh. Brij Sharma	
AUDITORS	:	M/s Gupta Vigg & Co. Chartered Accountants 101, Kismat Complex, G. T. Road, Miller Ganj, Ludhiana-141 003.	

BANKERS	:	Punjab National Bank State Bank of India ICICI Bank Ltd.
REGD. OFFICE	:	373, Industrial Area- 'A', Ludhiana-141 003
WORKS	:	Industrial Area-'A', Ludhiana (Punjab) Dhandari Kalan, G. T. Road, Ludhiana (Punjab) Village Simrai, Mandideep, Distt. Raisen (M.P.) Village Lalru, Distt. Patiala (Punjab) Village Jalalpur, Distt. Patiala, (Punjab)

26th ANNUAL GENERAL MEETING

Day	:	Saturday
Date	:	30th September, 2006
Time	:	10.00 A.M.
Place	:	At the Premises of Nahar Industrial Enterprises Limited, Focal Point, Ludhiana

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NAHAR SPINNING MILLS LIMITED

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NOTICE

Notice is hereby given that the **Twenty sixth Annual General Meeting** of the members of NAHAR SPINNING MILLS LIMITED will be held on **Saturday the 30th day of Sept., 2006 at 10.00 A.M.** at the premises of M/s Nahar Industrial Enterprises Limited, Focal Point, Ludhiana to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2006 and the Profit and Loss Account for the year ended on that date and the Reports of the Directors and Auditors thereon.
2. To declare dividend on Equity Shares.
3. To appoint a Director in place of Sh. Kamal Oswal, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Sh. S.K.Sharma, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint a Director in place of Sh. Amarjeet Singh, who retires by rotation and being eligible, offers himself for re-appointment.
6. To appoint Auditors who shall hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting and to fix their remuneration. M/s Gupta Vigg & Co., Chartered Accountants, the retiring Auditors of the company being eligible, offer themselves for re-appointment.

SPECIAL BUSINESS

7. To consider and if thought fit, to pass, with or without modification(s), the following resolution as an ORDINARY RESOLUTION:

"RESOLVED THAT pursuant to provisions of Section 198, 269, 309 and 310 and other applicable provisions of the Companies Act, 1956, read with and in accordance with the conditions specified in Schedule XIII (including any statutory modification or re-enactment thereof, for the time being in force), consent and approval of the Company be and is hereby accorded for the re-appointment of Sh. Dinesh Oswal, as Managing Director of the company, for a period of 5 years w.e.f. 1st Jan., 2007 on the remuneration and perquisites set out below:

Salary	:	In the scale Rs.15,00,000-1,00,000-20,00,000/-.
Commission	:	1% of the net profit, subject to maximum of Annual Salary. The total remuneration being within the limits as prescribed in part II of Schedule XIII of the Act.

Perquisites :

Following perquisites shall be allowed in addition to salary and commission.

i) Housing

- a) The expenditure by the company on hiring furnished accommodation will be subject to the ceilings of 60% of the salary over and above, 10% payable by Sh. Dinesh Oswal.
- b) If the company does not provide accommodation to Sh. Dinesh Oswal, he shall be entitled to House Rent Allowance @60% of salary.
- c) If accommodation in the company owned house is provided to Sh. Dinesh Oswal, a deduction @10% shall be made from his salary.

Explanation

The expenditure incurred by the company on gas, electricity, water and furnishings shall be valued as per Income Tax Rules, 1962. This shall, however, be subject to a ceiling of 10% of the salary of Sh. Dinesh Oswal.

- ii) **Medical Reimbursement:** Reimbursement of expenses incurred for self and family subject to a ceiling of one month's salary in a year or five months salary over a period of five years.

- iii) **Leave travel concession:** Leave travel concession for self and family twice in a year incurred by him.

- iv) **Club Fees:** Fees of clubs subject to a maximum of four clubs. No admission and life membership fees will be paid.

- v) **Personal Accident Insurance:** Personal Accident Insurance of an amount, the annual premium of which shall not exceed Rs.4000/-.

- vi) **Provident Fund and Super-annuation fund :** Contribution to Provident fund, Super annuation fund or Annuity fund in accordance with the rules specified by the company.

- vii) **Gratuity :** Gratuity payable shall not exceed half month's salary for each completed year of service.

- viii) **Leave Encashment:** Encashment of leave at the end of the tenure, as per rules of the company.

- ix) **Car and Telephone:** Free use of company's car for official work and telephone at residence.

Note : For the purpose of perquisites stated herein above, family means the spouse, the dependent children and dependent parents of the appointee.

"RESOLVED FURTHER THAT wherein any financial year, the company has no profits or its profits are inadequate, the company may pay Sh. Dinesh Oswal, remuneration by way of salary, perquisites and other allowances not exceeding the ceiling limit of Rs.24 lacs per annum or Rs.2.00 lacs per month in addition thereto the perquisites



NAHAR SPINNING MILLS LIMITED

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not exceeding the limits, specified under Section II of the Part II of Schedule XIII of the Companies Act, 1956."

"RESOLVED FURTHER THAT the Board of Directors of the company be and is hereby authorised to take all such steps as may be necessary to give effect to above resolution."

8. 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 passed at the Annual General Meeting held on 9th February 1987, the consent and approval of the company be and is hereby accorded in terms of section 293(1)(e) and other applicable provisions, if any, of the Companies Act, 1956, to the Board of Directors, to contribute to charitable and other funds not directly relating to the business of the company or the welfare of its employees in excess of Rs. 50000/- or 5% of the company's average net profits as determined in accordance with the provisions of the sections 349 & 350 of the said Act, during the three financial years immediately preceeding subject to maximum of Rs. 1.00 Crore or 5% of the company's average net profits determined as aforesaid, whichever is greater, in any financial year."

9. To consider and if thought fit, to pass, with or without modification(s), the following resolution as a SPECIAL RESOLUTION:

"RESOLVED THAT pursuant to Section 149(2A) and other applicable provisions, if any, of the Companies Act, 1956, consent and approval of the company be and is hereby accorded for commencing and undertaking the real estate business as enumerated in clause 12 (a & b) of Clause -III-C of the object clause of the Memorandum of Association of the company namely:

12. a) To purchase, sell, develop, take in exchange, or on lease, hire or otherwise acquire, whether for investment or sale or working the same, any real or personal estate, including lands mines, houses, cottages shops, deposits and ware-houses, in consideration for a gross sum or rent or partly in one way and partly in the other or for any other consideration.
- b) To carry on the business as proprietors of flats and building and to let on lease or otherwise apartments therein and to provide for the convenience commonly provided in flats, suites and residential quarters."

BY ORDER OF THE BOARD

PLACE: LUDHIANA
DATED : 4th Sept., 2006

BRIJ SHARMA
(Company Secretary)

NOTES

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF/HERSELF AND SUCH PROXY NEED NOT BE A MEMBER OF THE COMPANY. PROXY IN ORDER TO BE EFFECTIVE MUST BE DELIVERED AT THE REGISTERED OFFICE OF THE COMPANY, NOT LESS THAN FORTY EIGHT HOURS BEFORE THE TIME OF THE MEETING.
2. The Explanatory statement pursuant to Section 173 (2) of the Companies Act, 1956 in respect of special business under item no. 7 to 9 are annexed hereto and form part of the notice:
3. The Register of Members and Share Transfer Books of the Company shall remain closed from 20th September, 2006 to 30th September, 2006 (both days inclusive).
4. The dividend on equity shares as recommended by the Board of Directors, if approved at the Annual General Meeting will be paid to the members, whose names appear in the Register of members as on 30th Sept., 2006 or Register of beneficial owners, maintained by the Depositories at the close of 19th Sept., 2006.
5. Pursuant to Section 205 A of the Companies Act, 1956 all unclaimed dividends upto the financial year 1997-98 have been transferred to Investor Education and Protection Fund. Further unpaid dividend for the year 1998-99 is to be transferred to Investor Education and Protection Fund pursuant to section 205-C of the Companies Act, 1956 on or before November, 2006. Shareholders who have not encashed their dividend warrants relating to the said period are requested to claim the amount from the company at the earliest.

Further we may also inform that once the amount is deposited with Central Government, it cannot be claimed later on as per the Companies (Amendment) Act, 1999.

6. The Bond holders who have not surrendered the Letter of Allotment/Bond Certificates for conversion/redemption till date are requested to surrender the Letter of Allotment/Bond Certificates immediately to enable the Company to send share certificate(s)/Redemption Warrant to them.
7. The bank account particulars of the members will be printed on the dividend warrants. Members holding shares in physical form are requested to immediately notify change in their address/Bank details to the Company's Share Transfer Agent M/s Alankit Assignments Limited or to the Company's Registered Office at 373, Industrial Area-A, Ludhiana - 141 003.

Members holding shares in electronic form are requested



NAHAR SPINNING MILLS LIMITED

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- to notify change in their address/Bank details to their Depository Participants before 19th Sept., 2006.
8. Since the Company's shares are in compulsory demat trading, to ensure better service and elimination of risk of holding shares in physical form. Shareholders holding shares in physical form are requested to go in for dematerialisation of their shares at the earliest.
 9. To avail the facility of nomination, Members are requested to send us duly filled and signed Nomination Form (Form 2B)
 10. The documents referred to in the accompanying Explanatory Statement are open for inspection at the Registered Office of the company on any working day (except Sunday & holiday) between 10.00 A.M. to 12.00 Noon up to the date of Annual General Meeting.
 11. Members seeking any information with regard to Annual Accounts at the time of meeting are requested to send their queries to the Company at least 7 days before the date of meeting so as to enable the management to keep the relevant information ready.
 12. Members are requested to bring the copy of Annual Report alongwith them, at the meeting.
 13. The information required to be provided under clause 49 of the Listing Agreement entered into with the Stock Exchanges, regarding the Directors who are proposed to be appointed/re-appointed is given hereunder and form part of the notice.

Information pursuant to Corporate Governance Clause of the Listing Agreement regarding Director seeking appointment/re-appointment.

As required under the listing agreement, the particulars of Directors who are proposed to be appointed/re-appointed are given below:

- | | | | |
|----|---------------|---|---|
| I. | Name | : | Sh. Kamal Oswal |
| | Age | : | 44 years |
| | Qualification | : | B.Com |
| | Expertise | : | Having business experience of more than 23 years in the Industry. |

Directorships/membership in the committee of the Board in other Companies

Name of the company	Committee	Status
1. Nahar Indl. Enterprises Ltd.	---	---
2. Nahar Exports Limited	---	---
3. Nahar Indl. Infrastructure Corp'n. Ltd.	---	---
4. Oswal Woollen Mills Ltd.	---	---
5. Oswal Leasing Ltd.	---	---

- | | | |
|---|-------|----------|
| 6. Sankeshwar Holding Co. Ltd. | --- | --- |
| 7. Vardhman Investment Ltd. | --- | --- |
| 8. Girnar Investment Ltd. | --- | --- |
| 9. Palam Motels Ltd. | --- | --- |
| 10. J.L. Growth Fund Pvt. Ltd. | --- | --- |
| 11. Abhilash Growth Fund Pvt. Ltd. | --- | --- |
| 12. Neha Credit & Invest. Pvt. Ltd. | --- | --- |
| 13. Ogden Trading & Inv. Co. Ltd. | --- | --- |
| 14. Kulu Investment Trdg. Pvt. Ltd. | --- | --- |
| 15. Nahar Growth Fund Pvt. Ltd. | --- | --- |
| 16. Nagdevi Trdg. & Invest. Co. Ltd. | Audit | Chairman |
| 17. Nahar Capital & Financial services Ltd. | --- | --- |

- | | | | |
|-----|---------------|---|--|
| II. | Name | : | Sh. S.K. Sharma |
| | Age | : | 53 years |
| | Qualification | : | M.B.A. |
| | Expertise | : | Having experience of more than 25 in Textile Industry. |

Directorships/membership in the committee of the Board in other Companies: NIL

- | | | | |
|------|---------------|---|--|
| III. | Name | : | Sh. Amarjeet Singh |
| | Age | : | 79 years |
| | Qualification | : | LL.B |
| | Expertise | : | Having 52 years experience in Taxation and Legal work. |

Directorships/membership in the committee of the Board in other Companies

Name of the Company	Committee	Status
1. Vanaik Investors Ltd.	---	---
2. Oswal Woollen Mills Ltd.	Audit	Member
3. Oswal Leasing Ltd.	---	---
4. Nagdevi Trading & Investment Co. Ltd.	---	---
5. Kulu Investment & Trading Co. Pvt. Ltd.	---	---
6. Palam Motels Limited	---	---
7. J.L. Growth Fund Pvt. Ltd.	---	---
8. Abhilash Growth Fund Pvt. Ltd.	---	---
9. Nahar Growth Fund Pvt. Ltd.	---	---
10. Monica Growth Fund Pvt. Ltd.	---	---
11. Ruchika Growth Fund Pvt. Ltd.	---	---
12. Neha Credit & Investment Pvt. Ltd.	---	---
13. Nahar Exports Limited	Audit	Chairman
	Remuneration	Chairman
	Shareholders	Member
	Grievance	



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

ITEM NO.7

Sh. Dinesh Oswal was appointed as Managing Director of the company on 1st January, 2002 for a period of 5 years. His period of office shall expire on 31st Dec., 2006. Sh. Dinesh Oswal is 41 years of age. He is a Commerce graduate and is having more than 21 years business experience in Textile Industry. The Board, keeping in view the overall growth of the company under his able and dynamic leadership, has decided (subject to the approval of the shareholders), to re-appoint him as Managing Director for a further period 5 years commencing from 1st January, 2007. Sh. Dinesh Oswal, is eligible for re-appointment as Managing Director and his remuneration and perquisites as set out in the resolution are in accordance with the Provisions of schedule XIII of the Companies Act, 1956.

Sh. Dinesh Oswal is having Directorship/Membership in the Committees of the Board in following companies:

Name of the Company	Committee	Status
Nahar Exports Limited	---	---
Nahar Industrial Infrastructure Corpn. Ltd.	---	---
Oswal Wollen Mills Limited	---	---
Sankheshwar Holding Co. Ltd.	---	---
Palam Motels Limited.	---	---
Atam Vallabh Financiers Ltd.	---	---
Ludhiana Holdings Ltd.	---	---
Vanaik Investors Ltd.	---	---
Nahar Industrial Enterprises Ltd.	---	---
Ogden trading & Inv. Co. Pvt. Ltd.	---	---
Kulu Investment & Trading Pvt. Ltd.	---	---
Vardhman Investments Ltd.	---	---
J.L. Growth Fund Ltd.	---	---
Abhilash Growth Fund Pvt. Ltd.	---	---
Nahar Capital & Financial Services Ltd.	---	---

Your Directors recommend the resolution for your approval.

Sh. Dinesh Oswal is deemed to be concerned or interested in the resolution. Further Sh. Jawahar Lal Oswal and Sh. Kamal Oswal being relatives of Sh. Dinesh Oswal may also be deemed to be concerned or interested in the said Resolution.

The resolution as given in the notice may also be treated as an abstract of the terms of contract of appointment under the provision of Section 302 of the Companies Act, 1956.

The terms and conditions of appointment as set out in the draft agreement to be entered into between the company and Sh. Dinesh Oswal, is available for inspection at the Registered Office of the company.

ITEM NO.8

Your company has joined hands with other group companies in the promotion of Oswal Foundation with the object of promoting any Art, Science and other field of education, to promote spiritual, physical, mental, educational development and uplift of adults and children of all ages without any distinction of caste, creed or religion and in the interest of the mankind in general and other welfare activities as specified in the aims and objectives of the foundation. The company is authorised by its Memorandum of Association to make donation, however the provisions of Section 293(1)(e) of the Companies Act, 1956 limits the amount of donation which can be contributed in any financial year, to Rs. 50000/- or 5% of the company's average net profit as determined in accordance with sections 349 and 350 of the said Act during the three immediately preceeding financial years, which ever is greater. Your company wants to make donation to Oswal Foundation subject to the maximum of Rs. 1.00 Crores or 5% of the company's average net profits determined as aforesaid, which ever is greater.

Hence your directors propose and recommend the resolution for your approval.

None of the Directors of the company is anyway concerned or interested in the said resolution.

ITEM NO.9

The Board of Directors of your company has been considering proposals for quite sometime for diversifying the activities of the company into real estate business. They feel that present boom in real estate business is useful and beneficial for the company to diversify its activities into real estate business. The company is authorised to undertake the proposed business under sub clause 12 (a & b) of Clause -III-C of the object clause of the Memorandum of Association of the company. The company's Memorandum and Association is open for inspection at the company's Registered Office.

The Section 149(2A) of the Companies Act, 1956, requires that the members of the company should approve, by a special resolution, the commencement of new business by the company which is not germane to the business which it was carrying on as on that date. Hence your directors propose and recommend the resolution for your approval.

None of the Directors of the company is anyway concerned or interested in the said resolution.

BY ORDER OF THE BOARD

PLACE: LUDHIANA

BRIJ SHARMA

DATED : 4th Sept., 2006

(Company Secretary)



NAHAR SPINNING MILLS LIMITED

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DIRECTORS REPORT

Dear Members,

Your Directors have pleasure in presenting the **TWENTY SIXTH ANNUAL REPORT** on the affairs of the company for the year ended 31st March, 2006.

FINANCIAL PERFORMANCE

The Company's Financial Performance during the year is summarised below:

PARTICULARS	(Rs. in Lacs)	
	Current Year	Previous year
PROFIT FOR THE YEAR BEFORE TAX & DEPRECIATION	6751.27	5460.62
Less : Depreciation	3719.07	3367.94
Provision for Taxation	400.00	500.00
Provision for Deferred Tax	(+) 425.00	(+)75.00
PROFIT AFTER TAX	2207.20	1667.68
Adjustment of Income Tax of earlier years	-179.82	-64.01
Depreciation of earlier years written back	+796.42	-
Amount available for appropriation	2823.80	1603.67
APPROPRIATION		
Proposed Dividend	837.83	834.26
Tax on Distributed profits	117.50	117.01
Transfer to General Reserve	1868.39	652.38
Adjustment of Dividend of earlier year including dividend tax	0.08	0.02
	2823.80	1603.67

SEGMENT PERFORMANCE

Before reviewing the overall performance of the company, we would like to report segment wise performance of the company. The company's activities can be classified under two segments namely Yarn Segment and Garment Segment as per the Accounting Standard 17 issued by the Institute of Chartered Accountants of India. The working performance of each segment is as under:-

YARN SEGMENT

We are pleased to inform that during the year under review, spinning project of 24000 spindles and 720 rotors at Village Lalru, Distt. Patiala has been fully commissioned and thus company's spindlage capacity stand increased to 1,17,408 spindles and 720 rotors. Yarn Segment performed reasonably well and contributed Rs.285.11

cores towards company's turnover out of which Rs.136.48 crores was export turnover. The profit before tax and interest from Yarn segment has risen to Rs.19.94 crores as against Rs.13.23 crores in the previous year showing an impressive increase of 50.72% over the previous year.

GARMENT SEGMENT

During the year, garment segment performance was excellent on all fronts. The segment contributed Rs.213.98 crores towards the revenue of the company as against 185.50 crores showing an impressive increase of 15.35% over the previous year. Likewise the export at Rs.165.30 crores has also shown an impressive increase of 35.18% over the previous year. The company changed the method of providing depreciation in Garment division, from the rates prescribed under the Income Tax Act to the rates



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prescribed under the Companies Act. Accordingly depreciation amounting to Rs.7.96 crores relating to earlier years has been written back. Thus the profit before tax and interest has also risen to Rs.13.34 crores as against 6.92 crores showing an impressive increase of 92.77% over the previous year.

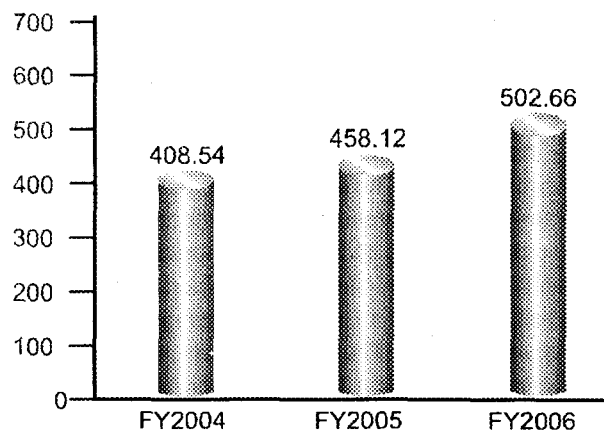
OVERALL PERFORMANCE

From the above, it is evident that company's performance has been excellent on all operational front. The company achieved a net sales/operating income of Rs.485.33 crores as against Rs.444.81 crores showing an increase of 9.10% over the previous year. On export front too, company has improved its performance and achieved export turnover of Rs.301.78 crores as against 271.48 crores showing an impressive increase of 11.16% over the previous year. Because of its excellent export performance, company continues to enjoy the status of EXPORT HOUSE.

The company's profitability has also improved and it earned a net profit of Rs.28.24 crores as against Rs.16.04 crores showing an impressive increase of 76.06% over the previous year. After appropriation of profits as per detail hereinabove, an amount of Rs.18.68 crores has been transferred to General Reserve thereby increasing company's reserves to Rs.578.40 crores as on 31st March, 2006.

We feel that the World Textile scenario is changing for betterment. The depreciation of Rupee against the Dollar coupled with several other factors are going to have positive impact on the Indian Textile Industry. We are quite optimistic that being a Integrated Textile Unit company will be able to meet the challenges ahead and improve its performance in the coming periods.

Total income (Rs. in Crore)



DIVIDEND

Your Directors are pleased to recommend a dividend @50% (i.e. Rs.5/- per share) on paid up equity share capital for the year ended 31st March, 2006.

The dividend, if approved at the forthcoming Annual General Meeting, will be paid out of the profits of the company for the year under reference to all those shareholders whose names shall appear in the Register of Members on 30th Sept., 2006 or Register of beneficial owners, maintained by the Depositories as at the close of 19th Sept., 2006. The dividend distribution as percentage of Net profit after tax is 27.89%.

COMPOSITE SCHEME OF DEMERGER AND ARRANGEMENT

To make use of the emerging opportunities on the Global Textile scenario and also to have a focused business approach, your management thought desirable and expedient to restructure company's businesses. Accordingly a Composite Scheme of Demerger and Arrangement between your company and Nahar Exports Limited was proposed and the same has been approved by the Board of Directors of both the companies. The Scheme interalia provides for demerger and transfer of company's investment business to Nahar Capital and Financial Services Limited, a new company formed for the purpose of taking over the investment business on its demerger. This would draw a visible line between two segments i.e., One Industrial (Textile) business and Secondly Investment and financial business. The equity Shareholder of the company shall be entitled to receive one equity share of Rs. 5/- each fully paid up in Nahar Capital and Financial Services Limited for every one equity share of Rs.10/- each fully paid up held by them in the company on the record date and simultaneously the nominal/paid up value of each equity shares of Nahar Spinning Mills Limited, which they would continue to hold, shall stand reduced to Rs. 5/- per share. Thus all the existing shareholders shall hold equity shares in both the companies representing two separate business segment in the same proportion as they were holding before demerger of investment business.

Secondly the scheme also provides for the demerger and transfer of textile business of Nahar Exports Limited to your company (post demerger of investment business) in accordance with the terms of the scheme. Upon transfer



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of textile business, equity shareholder of Nahar Exports Limited shall be entitled to receive 55 equity shares of Rs. 5/- each fully paid up, in Nahar Spinning Mills Limited for every 100 equity shares of Rs. 10/- each. After consolidation of the textile business under single umbrella, the company shall emerge as one of the largest integrated textile mill which will further strengthen its leadership in domestic and overseas markets. This will also unlock the value of each business segment on the basis of their individual strength and operational parameters which will help in realising the potential of each business segment to its fullest extent.

The share exchange ratios have been worked out by M/s Aggarwal Jetely and Co., Chartered Accountants, A2/78, Safdarjung Enclave, New Delhi. The Board on the basis of the said independent valuation and judgement also came to the conclusion that the swap ratio as advised by M/s Aggarwal Jetely and Co., Chartered Accountants is reasonable and fair and accordingly approved the same.

The company has already received nod from the National Stock Exchange Ltd and Bombay Stock Exchange Limited under Clause 24(f) of the Listing agreement. The company has filed a joint petition U/s 391 and 394 of the Companies Act, 1956 before the Hon'ble Punjab & Haryana High Court at Chandigarh for the approval/sanction of the scheme. The Hon'ble Court vide its order dated 17th August, 2006 has directed that separate meetings of the equity shareholders, secured & unsecured creditors be held on Saturday the 7th Oct., 2006 to consider and approve the scheme of demerger and arrangement. The detailed scheme shall be sent to you alongwith the notice calling the General Meeting for the approval of the scheme. The scheme is beneficial commercially as well as financially for both these companies and is in the interest of the shareholders, creditors (secured as well as un-secured) employees and all stake holders

EXPANSION PLANS

Having regard to the changing global textile scenario and in line with the company's policy of expansion, your company has decided to add another 28800 spindles with compact attachments, at a capital outlay of Rs. 110 crores. The said expansion will be financed by way of Term loan under the Tuff scheme and the internal accruals of the company. The civil work has already started and the orders for the machinery and other equipments have also been

placed. It is expected that the first phase of the expansion will be operational by March, 2007. On its completion, company's spindlage capacity will increase to 1,46,208 spindles and 720 rotors.

In its onward journey to self sufficiency in power, your management has decided to put up a co-generation power plant at Village Lalru, Distt. Patiala with a capacity of 8.5 MW at a capital outlay of Rs.35 crores. The power plant will not only take care the power requirements of company's three units at Lalru but will also save considerably in electricity cost. On its completion company's total generation capacity will increase to 12 MWs. In garment section too, the company is adding ultra modern machineries so as to make the plant to a world class standards.

We are quite optimistic that the abovesaid expansion and modernisation will help in further improving company's performance in the years ahead.

COMMENCEMENT OF NEW LINE OF BUSINESS

For quite sometimes, the Board of your company has been considering proposals for diversifying company's business activities into some new line of business. Seeing the reality boom, we are of the opinion that Real Estate business shall be useful and beneficial for the company as well as its shareholders. Accordingly it is proposed to diversify company's activities into the said new line of business i.e. Real Estate business. The company is authorised to undertake the proposed business under sub clause 12 (a & b) of Clause -III-C of the object clause of the Memorandum of Association of the company.

In view of the above, your Directors have proposed the resolution in the accompanying notice of the forthcoming Annual General Meeting, for your approval.

DIRECTORS

Pursuant to article 91 of the Articles of Association of the company Sh. Kamal Oswal, Sh. S.K. Sharma and Sh. Amarjeet Singh will be retiring by rotation at the ensuing Annual General Meeting and being eligible offer themselves for re-appointment.

In terms of clause 49 of the Listing Agreement with the Stock Exchanges, the details of Directors to be appointed/ re-appointed are contained in the accompanying Notice of the forthcoming Annual General Meeting.



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CREDIT RATING

The Credit Rating Information Services of India Ltd. (CRISIL) has reconfirmed the credit rating "P1+" (Pronounced "P one plus") to the Company for short term loan upto Rs.13.5 Crores.

LISTING OF SECURITIES

The securities of the company are presently listed on the following stock exchanges:

- i. The Bombay Stock Exchange Ltd., Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai.
- ii. The National Stock Exchange of India Ltd., Exchange Plaza, 5th Floor, Plot No.C/1, G-Block, Bandra Kurla Complex, Bandra (E), Mumbai

The Company has paid listing fee to both the stock exchanges for the financial year 2006-2007.

DEMATERIALISATION OF SECURITIES

As the members must be aware that company's securities are tradable compulsorily in electronic form w.e.f. 21st March, 2000. Your Company has already established connectivity with both the Depositories i.e. National Securities Depository Limited (NSDL) and Central Depository services (India) Limited (CDSL) to facilitate the holding and trading of securities in electronic form. As on date 94.40% of the share capital of the company has been dematerialised by the members. The members who have not gone in for dematerialisation of shares till date, are requested to opt for dematerialisation of the shares at the earliest.

Further as per SEBI circular no. D&CC/FITTC/CIR-15/2002 dated 27th December, 2002, company has appointed M/s Alankit Assignments Ltd. as Registrar for Share Transfer and Electronic Connectivity. Accordingly all the shareholders, Investors, Members of the Stock Exchanges, Depository Participants and all other concerned are requested to send all communication in respect of Share Transfer, Demat/Remat, Change of Address etc. to our Registrar at below mentioned address:

M/s Alankit Assignments Limited
(Unit: Nahar Spinning Mills Limited)
Alankit House, 2E/21, Jhandewalan Extension
New Delhi – 110 055
Telephone No.: (011) 23541234
Fax No. : (011) 41540064
E-mail address: nahar@alankit.com

In case any query/complaint remains unresolved with our Registrar please write to Company Secretary at the Registered Office of the Company.

AUDIT COMMITTEE

Pursuant to Section 292 A(1) of the Companies Act, 1956, company has already constituted Audit Committee consisting of Sh. Amarjeet Singh as Chairman, Sh. Dinesh Gogna and Dr. O.P. Sahni as members. The committee held four meeting during the year under review.

REPORT ON THE CORPORATE GOVERNANCE

Your Company continues to follow the principles of good Corporate Governance. The company has already constituted several committees of directors to assist the Board in good Corporate Governance. The Corporate Governance Report alongwith the Auditors Certificate regarding compliance of the conditions of the Corporate Governance as stipulated in Clause 49 of the Listing Agreement of the Stock Exchange, is attached herewith as Annexure-III.

DIRECTORS RESPONSIBILITY STATEMENT

The Directors would like to assure the Members that the financial statements for the year under review, conform in their entirety to the requirements of the Companies Act, 1956.

The Directors confirm :

- i) that in preparation of the Annual Accounts, the applicable accounting standards had been followed alongwith proper explanations relating to material departures;
- ii) that they had 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 at the end of the financial year and of the profit or loss of the company for that period;
- iii) that they had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with provisions of this Act, for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- iv) that they had prepared the Annual Accounts on a going concern basis.