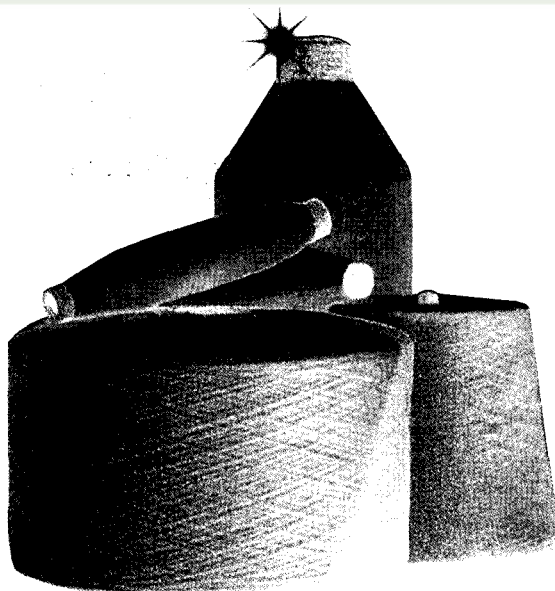


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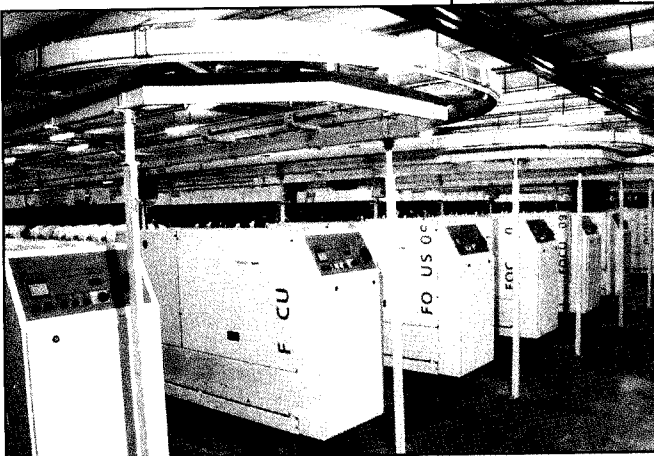
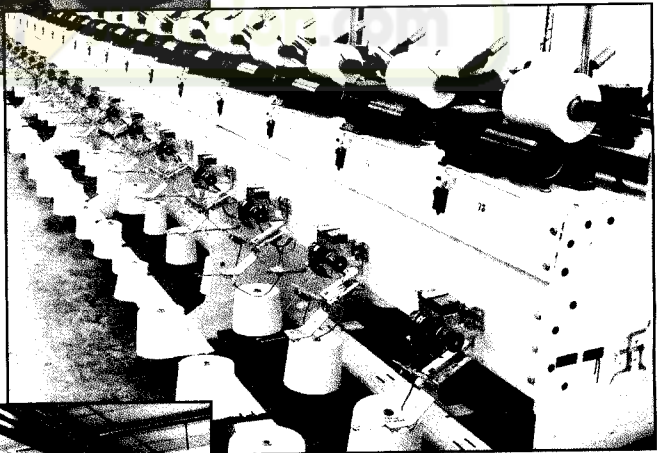
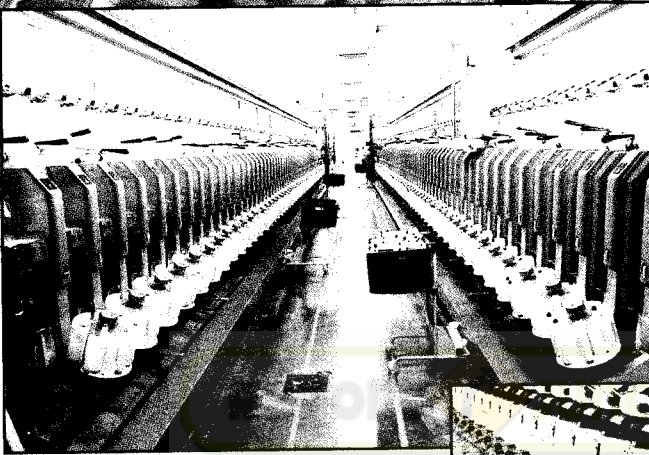
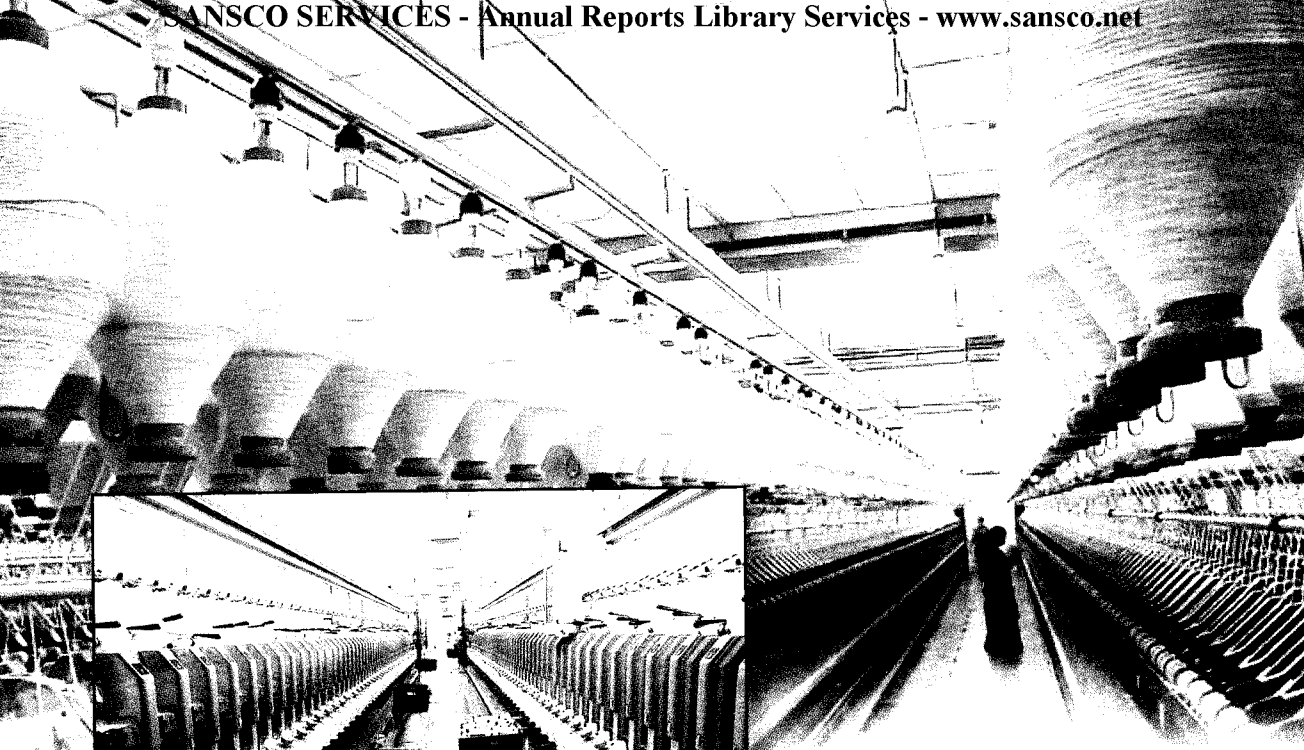
ANNUAL REPORT

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SURYALATA SPINNING MILLS LIMITED

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GLIMPSES OF THE
FACTORY

SURYALATA SPINNING MILLS LIMITED

BOARD OF DIRECTORS

Sri R. Surender Reddy	Chairman
Sri K.S. Purohit	Director
Sri K. Srinivas Reddy	Director
Sri K. Lakshmikanth Reddy	Director
Sri R.S. Agarwal	Director
Sri Vithaldas Agarwal	Managing Director
Sri Mahender Kumar Agarwal	Joint Managing Director
Sri Veerender Kumar Agarwal	Executive Director

GENERAL MANAGER (Finance)

Sri V.K. Chakravarthy

AUDITORS

M/s. Brahmayya & Co.,
Flat No.403 & 404, Golden Green Apartments,
Irramanzil Colony, Hyderabad - 500 082.

REGISTERED OFFICE

Surya Towers, 1st Floor,
105, Sardar Patel Road
Secunderabad - 500 003.

REGISTRAR & TRANSFER AGENTS

Sathguru Management Consultants Pvt. Ltd.,
Plot No.15, Hindi Nagar,
Punjabgutta, Hyderabad - 500 034.

BANKERS

State Bank of India
Industrial Finance Branch,
Somajiguda,
Hyderabad.

UTI Bank Limited
Begumpet,
Hyderabad.

FACTORIES

Marchala Village,
Kalwakurthy Mandal,
Mahaboobnagar District,
Andhra Pradesh.

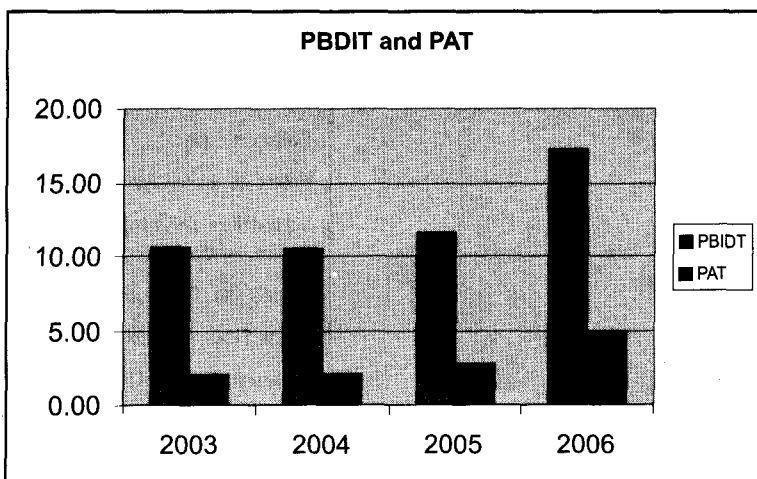
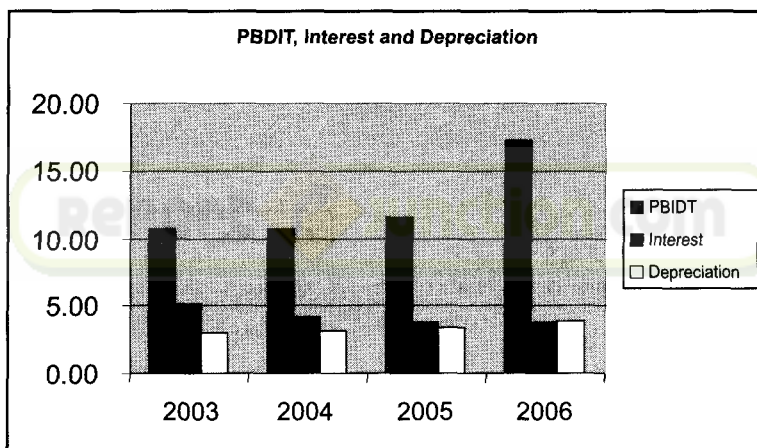
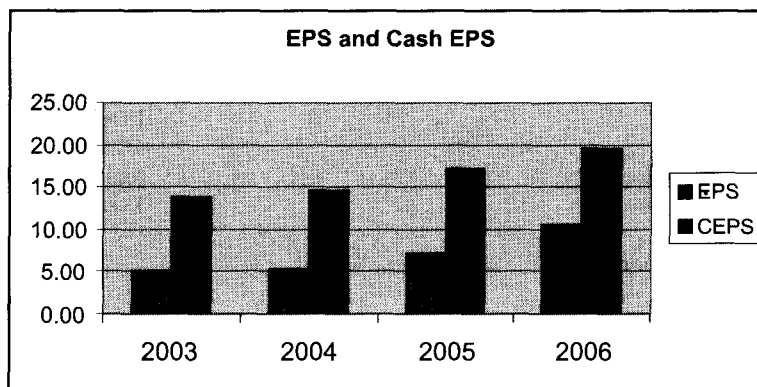
Mouza-Nayakund,
Near Ramtek,
Nagpur District,
Maharashtra.

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SURYALATA SPINNING MILLS LIMITED

Performance Indicators



SURYALATA SPINNING MILLS LIMITED

NOTICE OF THE 23RD ANNUAL GENERAL MEETING

NOTICE is hereby given that the Twenty Third Annual General Meeting of the Members of **SURYALATA SPINNING MILLS LIMITED** will be held on Friday, the 8th September, 2006, at 11:00 A.M. at Padmashali Kalyana Mandapam, 2-12-66, Nehru Nagar, West Marredpally, Secunderabad - 500 026 to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Profit and Loss Account for the year ended 31st March, 2006 and the Balance Sheet as on that date and the reports of the Directors and Auditors thereon.
2. To declare dividend on Equity Share for the year ended 31st March, 2006.
3. To declare dividend on Cumulative Redeemable Preference Shares for the year ended 31st March, 2006.
4. To appoint a Director in place of Sri K. Lakshmikanth Reddy, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint a Director in place of Sri R.S. Agarwal, who retires by rotation and being eligible, offers himself for re-appointment.
6. To appoint M/s. Brahmayya & Co., Chartered Accountants, as Auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to authorise the Board of Directors to fix their remuneration.

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 the Company do hereby approve in terms of Section 293(1)(a) and other applicable provisions, if any, of the Companies Act, 1956, creating mortgage or charge by the Board of Directors of the Company (hereinafter referred as "the Board") of all the immovable and movable

properties of the Company, wheresoever situate, both present and future, of the whole of the undertaking of the Company together with power to takeover the management of the business and concern of the Company in certain events:

On First Charge basis to

- Industrial Development Bank of India Limited (IDBI Limited) to secure the term loan of Rs. 3040 lakhs.
- State Bank of India (SBI) to secure the term loan of Rs.425 Lakhs.

On Second Charge basis to

- UTI Bank Ltd., to secure the enhanced working capital limits of Rs. 90 lakhs

together with the interest thereon at the respective agreed rates, compound interest, additional interest, liquidated damages, premia on prepayment, costs, charges, expenses and other moneys payable by the Company to IDBI Limited, State Bank of India and UTI Bank Limited, in terms of the Loan agreement(s) entered/to be entered into by the Company in respect of the said financial assistance.

Provided however that the above mortgage/charge in favour of IDBI Limited (for its term loan of Rs 3040 Lakhs) and State Bank of India (for its term loan of Rs.425 Lakhs) shall rank pari-passu on first charge basis with the mortgages and / or charges already created or to be created by the Company to secure the term loans sanctioned/to be sanctioned by IDBI Ltd. and State Bank of India and the mortgage/charge on second charge basis in favour of UTI Bank Limited (for its additional working capital facilities of Rs. 90 Lakhs) shall rank second and subservient to the charges created/to be created by the Company in favour of IDBI Limited, SBI and UCO Bank (for its term loan of Rs.135 Lakhs) to secure the term loans sanctioned/to be sanctioned by them.

RESOLVED FURTHER THAT the Board of Directors of the Company be and are hereby authorized to do all such acts, deeds and

SURYALATA SPINNING MILLS LIMITED

things as may be necessary for giving effect to the 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 subject to the approval of members in general meeting and in modification of the resolution passed by the Company at the 21st Annual General Meeting held on 31st August, 2004 and pursuant to the provisions of Section 293(1)(d) of the Companies Act, 1956, the consent of the Company in terms of the aforesaid Section of the Act be and is hereby accorded to the Board of Directors of the Company, to borrow money from time to time, in such terms and conditions as the Board may deem fit, for the purpose of Company's business, notwithstanding that the money to be borrowed together with the monies already borrowed by the Company (apart from temporary loans obtained from the Company's Bankers in the ordinary course of business) will exceed the aggregate of the paid up share capital and free reserves of the Company, i.e. to say, reserve not set apart for any specific purpose so that the total amount of monies so borrowed and outstanding at any time shall not exceed the sum of Rs. 200 Crores."

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

"RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309 and other applicable provisions, if any of the Companies Act, 1956, read with Schedule XIII thereof as amended up to the date and subject to the approval of financial institutions, if required, the re-appointment of Sri Mahender Kumar Agarwal as the Joint Managing Director of the Company made by the Board of Directors in their meeting held on 27th October, 2005 for a further period of 5 years with effect from 1st January, 2006 to 31st December, 2010 on the following existing terms and conditions be and is hereby approved and ratified:

- 1) Salary: 80,000/- per month.

- 2) Commission: At the rate of 1% of the net profits of the Company or 50% of the annual salary whichever is less.
- 3) Perquisites: In addition to the salary and commission as stated above Sri Mahender Kumar Agarwal shall be entitled to the following perquisites:

CATEGORY - A

- Housing: Rent-free furnished residential accommodation with all facilities and amenities including such services as gas, electricity, water etc., or HRA to the extent of 40% of the salary.
- Medical Reimbursement: Expenses incurred for self and his family subject to a ceiling of one month's salary per year or three month's salary in a period of three years.
- Leave Travel Concession: For self and family once in a year incurred in accordance with the rules of the Company.
- Club Fee: Fees of clubs subject to a maximum of two clubs, admission and life membership fees not being allowed.
- Personal Accident Insurance: Of an amount, the Premium of which not to exceed Rs.4,000/- per annum.

CATEGORY - B

- Contribution by the Company to Provident Fund, Superannuation Fund or Annuity Fund as per the rules of the Company.
- Payment of Gratuity subject to an amount equal to half a month's salary for each completed year of service.

CATEGORY - C

The Company shall provide a car with driver and a telephone at the residence. Car for use on Company's business and telephone and other communication facilities at residence will not be considered as perquisites.

RESOLVED FURTHER THAT in the absence of or inadequacy of profits in any financial year the

SURYALATA SPINNING MILLS LIMITED

above remuneration will be paid as minimum remuneration in terms of Section II of Part II of Schedule XIII of the Companies Act, 1956."

For and on behalf of the Board
for **Suryalata Spinning Mills Limited**

Place : Secunderabad **Vithaldas Agarwal**
Date : 29.06.2006 Managing Director

NOTES

1. **A member entitled to attend and vote is entitled to appoint a proxy or proxies to attend and on a poll to vote instead of himself and such proxy need not be a member. The instrument appointing a proxy should however be deposited at the Registered Office of the Company not less than 48 hours before the meeting.**
2. The Register of Members and Share Transfer Books of the Company will remain closed from 01-09-2006 to 08-09-2006 (both days inclusive).
3. Dividend on Equity Shares and Preference Shares as recommended by the Directors for the Financial Year ended on 31st March, 2006 when declared at the Meeting, will be paid on or after 9th September, 2006. The Final Dividend on Equity shares, if declared will be paid as follows:
 - a. To all the beneficial owners in respect of shares held in electronic form as per the data as may be made available by the National Securities Depository Limited and the Central Depository (India) Limited as of the close of the business hours on 31st August, 2006;
 - b. To all the Shareholders in respect of shares held in physical form after giving effect to valid transfers in respect of transfer requests lodged with the Company on or before the close of the business hours on 31st August, 2006.
4. The Company has already transferred all unclaimed dividends declared up to the financial year ended 31st March, 1998 to the General Revenue Account of the Central Government as required by the Companies Unpaid Dividend (Transfer to the General

Revenue Account of the Central Government) Rules, 1978.

5. Pursuant to the provisions of Section 205A(5) of the Companies Act, 1956, dividend for the financial year ended 31st March, 2000 and thereafter, which remain unclaimed for a period of 7 years will be transferred by the Company to the Investor Education and Protection Fund (IEPF) established by the Central Government pursuant to Section 205C of the Companies Act, 1956.

Information in respect of such unclaimed dividend when due for transfer to the said fund is given below:

For the Financial year	Date of declaration	Due for transfer on
1999-2000	29.05.2000	05.07.2007
2000-2001	20.07.2001	26.08.2008
2003-2004	31.08.2004	07.10.2011
2004-2005	29.09.2005	05.11.2012

Members who have not encashed the dividend warrant(s) so far for the financial year ended 31st March, 2000 or any subsequent financial years are requested to make their claim to the Company at its Registered Office. It may also be noted that once the unclaimed dividend is transferred to the Investor Education and Protection Fund (IEPF) no claim shall lie in respect thereof.

6. The Company's Equity shares are listed at The Hyderabad Stock Exchange Limited, 6-3-654, Somajiguda, Hyderabad and Bombay Stock Exchange Ltd., Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai-400 001 and the Company has paid the Listing Fees to the said Stock Exchanges.
7. Particulars of Directors seeking re-appointment is given at the Report on Corporate Governance.
8. An explanatory statement pursuant to Section 173 (2) of the Companies Act, 1956 in respect of the business set out under item nos. 7 to 9 is annexed.
9. Members are requested to bring their copy of the Annual Report to the meeting.

SURYALATA SPINNING MILLS LIMITED

EXPLANATORY STATEMENT

[Pursuant to Section 173(2) of the Companies Act, 1956]

ITEM NO. 7

The Company has been sanctioned a rupee Term Loan of Rs.3040 Lakhs by Industrial Development Bank of India Limited (IDBI Limited) under the Technology Upgradation Fund Scheme (TUFS) for the setting up of 20,000 spindles at Urkondpet, Mahabubnagar, Andhra Pradesh. The Company has also been sanctioned a rupee Term Loan of Rs.425 Lakhs by State Bank of India (SBI) under TUF Scheme for modernisation programme to be undertaken at Kalwakurthy and Ramtek Plant. As per the terms and conditions of the Term Loan Agreements the said loans shall be secured by creation of first charge on all the fixed assets of the Company ranking pari passu with the existing Term Loans.

Section 293(1)(a) of the Companies Act, 1956 provides inter-alia that the Board of Directors of a public Company shall not, without the consent of the Company in General Meeting, sell, lease or otherwise dispose off the whole or substantially the whole of the undertaking of the Company. Since, the creation of Mortgage by the Company on its immovable properties as aforesaid in favour of Financial Institutions / Banks may be regarded as disposal of the Company's properties / undertaking in certain events, it is necessary to obtain the approval of the members under Section 293(1)(a) of the Companies Act, 1956. Hence the above resolution is submitted to meeting for members' approval.

The Board recommends the resolution for your approval.

None of the Directors is in any way concerned or interested in the above resolution.

ITEM NO. 8

Keeping in view the proposed Expansion and modernization programme to be undertaken by the Company, it is proposed to increase the borrowing limits of the Company to Rs. 200 Crores from the existing Rs.75 Crores, which

was approved at the 21st Annual General Meeting held on 31st August, 2004. Such proposal will fall within the purview of Section 293 (1) (d) of the Companies Act, 1956 and requires the approval of members in the general meeting by way of an Ordinary Resolution.

Hence the above resolution is submitted to meeting for members' approval.

The Board recommends the resolution for your approval.

None of the Directors is in any way concerned or interested in the above resolution.

ITEM NO. 9

Members of the Company are aware that the tenure of appointment of Sri Mahender Kumar Agarwal as Joint Managing Director of the Company has expired on 31st December, 2005. Keeping in view Sri Mahender Kumar Agarwal's contribution to the Company, his ability to building up a competent team of management and his effective leadership resulting in the profitable growth of the Company's operations, the Board of Directors in their meeting held on 27th October, 2005 approved re-appointment of Sri Mahender Kumar Agarwal as Joint Managing Director of the Company for a further period of 5 years w.e.f.1st January, 2006 on the existing terms and conditions subject to approval of members of the Company.

The Board of Directors recommends the resolution for your approval.

None of the Directors of the Company except Sri Mahender Kumar Agarwal by himself and Sri Vithaldas Agarwal, Managing Director and Sri Veerender Kumar Agarwal, Executive Director, being his relatives, are interested in the said resolution.

For and on behalf of the Board
for **Suryalata Spinning Mills Limited**

Place : Secunderabad
Date : 29.06.2006

Vithaldas Agarwal
Managing Director

SURYALATA SPINNING MILLS LIMITED

DIRECTORS' REPORT

To
The Members,

Your Directors have pleasure in presenting the 23rd Annual Report together with the Audited Accounts for the financial year ended 31st March, 2006.

FINANCIAL RESULTS

The performance during the year has been as under:

(Rs. in Lakhs)

	2005-2006	2004-2005
Gross Sales	18114	16294
Net Sales	16967	15196
Profit before tax	960	435
Less: Provision for tax for the year	251	34
Fringe benefit tax	5	0
Provision for the earlier years	2	2
Deferred Tax Liability	205	118
Profit After Tax	497	281
Add: Profit brought forward from last year	101	109
Amount available for appropriation	598	390
Appropriations:		
1. Provisions for Dividend		
(a) Equity Dividend	109	65
(b) Preference Dividend	36	35
(c) Corporate Dividend Tax	20	14
2. Transfer to		
(a) General Reserve	100	100
(b) Preference Share Redemption Reserve	100	75
Balance Carried forward to Balance Sheet	233	101
	598	390

OPERATIONS

During the year under review, Your Company has achieved gross turnover of Rs. 18114 Lakhs compared to Rs. 16294 Lakhs in the previous

year, indicating a growth of 11.17%. The production during the year was 175 Lakh kgs of yarn as against 158 Lakh kgs in the previous year, an increase of 10.76%. The increase in the production is on account of increase in the Production capacity, Increase in spindle utilization, replacement of old machinery with ultra modern machinery with high productivity and change in the count pattern.

The Company earned a Profit before tax of Rs.960 Lakhs as against Rs. 435 Lakhs in the previous year, registering a growth of 120.69%. The Profit After Tax stood at Rs.497 Lakhs as against Rs.281 Lakhs in the previous year, an increase of 76.87%. The increase in the profit is mainly because of increase in production and better price realization. Reduction in Interest cost and other cost cutting measures undertaken by the Company also contributed to the increase in the profit.

DIVIDEND

Your Directors have recommended payment of Dividend on Cumulative Redeemable Preference Shares as per the terms and conditions of the issue. The dividend will absorb a sum of Rs. 40.43 Lakhs inclusive of tax on dividend.

Your Directors are also pleased to recommend a dividend of Rs. 2.00 per share (previous year Rs.1.80 per share) on the equity shares of the Company for the financial year ended 31st March, 2006. The dividend will absorb a sum of Rs.124.17 Lakhs (previous year Rs. 74.50 Lakhs) inclusive of tax on dividend.

TRANSFER TO RESERVES

The Company proposes to transfer Rs. 100 Lakhs to General Reserve out of the amount available for appropriations. An amount of Rs. 100 Lakhs is being transfer to Preference Share Redemption Reserve. An amount of Rs. 233 Lakhs is proposed to be retained in the Profit & Loss Account.

SURYALATA SPINNING MILLS LIMITED

ALLOTMENT OF BONUS SHARES

During the year under review, the Company has allotted 18,15,000 Equity Shares of Rs.10/- each as bonus shares by capitalizing a part of the Share Premium Account to the extent of Rs.181.50 Lakhs. The bonus shares shall rank pari passu in all respects with the existing equity shares of the Company, including any dividend that may be declared for the financial year in which the bonus shares are allotted. The Company has obtained listing approval for trading of the new securities from the Bombay Stock Exchange Limited, Mumbai and The Hyderabad Stock Exchange Limited, Hyderabad.

REDEMPTION OF PREFERENCE SHARES

During the year, the Company has redeemed 75,000, 12% Cumulative Redeemable Preference Shares of Rs.100/- each.

MODERNISATION AND EXPANSION

The Company has completed modernization programme in August 2005 at Kalwakurthy plant at a total cost of Rs.860 Lakhs. Under this scheme, old machinery is replaced with new machinery and Two for one twisting machinery was procured to add new products to the current range and to produce export quality Specialised Yarn.

Your Company has also completed expansion program during February 2006 at Ramtek Unit at a total cost of Rs.1100 Lakhs. This has added 7,200 spindles to the existing capacity.

During the year under review, the Company has undertaken to set up a green field project at a cost of Rs 38 Crores at Urkondapet, Mahabubnagar District, Andhra Pradesh. This will add 20,000 spindles to the current capacity. The project is expected to be completed by December 2006. The capacity of the Company will be 84,368 spindles on completion this project.

CAPITAL EXPENDITURE

During the year under review, the Company has incurred Rs.1571.35 Lakhs towards capital expenditure (including Capital work-in-progress).

EXPORTS

The Export turnover of the Company during the year was Rs.2479 Lakhs (including Merchant Exports) as against Rs.3345 Lakhs in the previous year. During the year under review, domestic price realization was better than the exports, hence domestic sales were given priority over exports. The Company is exporting yarn to countries like Turkey, Italy, Taiwan, Iran and Srilanka. The Company continues to explore new markets to improve the performance.

FUTURE OUTLOOK

The future outlook presented in Management Discussion and Analysis forms part of this report.

DEPOSITS

There are no overdue deposits as on 31st March, 2006.

DIRECTORS

Your Directors express their profound grief on the sad demise of Sri C Narsi Reddy, the Chairman of the Company on 15th August 2005. He had served the Company with deep commitment, enthusiasm and dedication. His contribution to the Company cannot be expressed in words. He was extremely sincere and devoted and was always helpful to all. He was on the Board since inception of the Company. Your Directors pray to the almighty to rest his soul in peace and pay respectful and lasting homage to him. Your Directors also convey heart felt condolences to the bereaved family of Sri C Narsi Reddy.

In accordance with the provisions of the Companies Act, 1956 and in terms of Articles of Association of the Company Sri K. Lakshmikanth Reddy and Sri R.S.Agarwal retire by rotation at