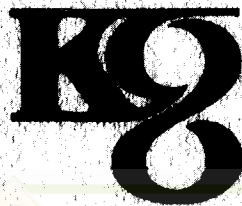


K G DENIM LIMITED



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**Twelfth Annual Report
2003- 2004**



K G DENIM LIMITED

BOARD OF DIRECTORS

Executive Chairman Shri K G Baalakrishnan

Managing Directors Shri B Sriramulu
Shri B Srihari

Directors Shri Jack O' Neill
Shri S R Rajasekaran
Shri G V S Desikan
Shri K N V Ramani
Shri V Jagadisan
Smt T Anandhi
Shri S Rajagopalan
Director & VP (Operations)
Shri S Muthuswamy
Director & Company Secretary

Registered Office
Then Thirumalai
Coimbatore - 641 302
Internet : <http://www.kgdenim.com>
E-mail: cskgdl@kgdenim.com

Registrar and Share Transfer Agent
Cameo Corporate Services Ltd
"Subramanian Building"
No.1 Club House Road
Chennai - 600 002
Phone : (044) 28460390 (6 lines)

Auditors M/s Gopalaier and Subramanian
Chartered Accountants
Coimbatore

Legal Adviser M/s Ramani & Shankar
Coimbatore

Bankers Indian Bank
Bank of India
State Bank of India
Allahabad Bank
Dena Bank
The South Indian Bank Limited

CONTENTS	Page
Notice	2
Directors' Report	4
Auditors' Report	14
Balance Sheet	17
Profit & Loss Account	18
Cash Flow Statement	19
Schedules	20

K G DENIM LIMITED

NOTICE

Notice is hereby given that the TWELFTH ANNUAL GENERAL MEETING of the Members of K G DENIM LIMITED will be held on Wednesday, the 15th December 2004 at 4.15 p.m. at the Registered Office Premises, Then Thirumalai, Jadayampalayam, Coimbatore 641 302 to transact the following business:

ORDINARY BUSINESS

1. To consider and adopt the Balance Sheet as at 30th June 2004, the Profit and Loss Account for the year ended 30th June 2004 and the Reports of the Directors and Auditors thereon.
2. To declare Dividend to Preference Shareholders.
3. To appoint a Director in place of Shri Jack O' Neill, who retires by rotation and being eligible offers himself for reappointment.
4. To appoint a Director in place of Shri G V S Desikan, who retires by rotation and being eligible offers himself for reappointment.
5. To consider and if thought fit to pass with or without modification, the following Resolution relating to the appointment of the Auditors of the Company.

RESOLVED that M/s Gopalaiyer and Subramanian, Chartered Accountants, the retiring Auditors of the Company, be and are hereby re-appointed as Auditors of the Company, from the conclusion of this meeting until the conclusion of the next Annual General Meeting on such remuneration as shall be fixed by the Board of Directors of the Company.

SPECIAL BUSINESS

6. To consider and if thought fit, to pass with or without modification, the following Resolution as a SPECIAL RESOLUTION:

RESOLVED THAT pursuant to the provisions of Section 198, 309 (4) and other applicable provisions, if any, of the Companies Act, 1956, and subject to such approvals, as may be necessary, the remuneration of Smt T Anandhi as a Director of the Company be fixed at 1% share of net profits of the Company calculated in accordance with Section 349 of the Companies Act, 1956.

Excepting Smt T Anandhi, Director, Shri K G Baalakrishnan, Executive Chairman, Shri B Sriramulu, Managing Director and Shri B Srihari, Managing Director who are all related to each other as per Section 6 (c) of the Companies Act, 1956, no other Director of the Company is interested in the said resolution.

Coimbatore
31.07.2004

By Order of the Board
K G Baalakrishnan
Executive Chairman

NOTES:

1. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a member.
2. Proxies in order to be effective must be deposited at the Registered Office of Then Thirumalai, Coimbatore 641 302 not less than 48 hours before the time for holding the meeting.
3. Members holding shares in physical form are requested to intimate the Change of Address and their Bank Account details such as Bank name, Branch with address and Account number for incorporating the same in the Register maintain by M/s Cameo Corporate Services Ltd, "Subramanian Building", No.1 Club House Road, Chennai 600 002 quoting their respective folio number and members holding shares in demat form shall intimate the above details to their Depository Participant with whom they have Demat Account.
4. The Register of Members of the Company and the Share Transfer Books will remain closed from 01.12.2004 to 15.12.2004 (both days inclusive).
5. Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956 in respect of the special business Item No.6 is enclosed.
6. Re-appointment of Directors:

At the ensuing Annual General Meeting Shri Jack O'Neill and Shri G V S Desikan retire by rotation and being eligible offer themselves for re-appointment. The information or details pertaining to these Directors to be provided in terms of Clause 49 of the Listing Agreement with the Stock Exchanges are furnished in the Statement on Corporate Governance annexed in this Annual Report.

EXPLANATORY STATEMENT AS REQUIRED UNDER SECTION 173 (2) OF THE COMPANIES ACT, 1956.**ITEM No. 6**

Smt T Anandhi is the daughter of Shri K G Baalakrishnan, Executive Chairman. She has basic Textile Engineering Education and has over 11 years experience in Textile fields such as cotton, spinning and garments. She is also on the Board of Textile Companies. As a Director her services are being initialized by the company on a non-whole-time basis in the area of Textile Marketing and hence the Board of Directors have considered it appropriate to suitably remunerate her as proposed in the text of the Special Resolution.

None of the Directors excepting Shri K G Baalakrishnan, Shri B Sriramulu and Shri B Srihari are concerned or interested in the resolution.

The explanation together with the accompanying notice may be treated as an abstract of the terms of appointment of the Director pursuant to Section 302 of the Companies Act, 1956.

Coimbatore
31.07.2004

By Order of the Board

K G Baalakrishnan
Executive Chairman

K G DENIM LIMITED**DIRECTORS' REPORT**

Dear Shareholders,

We have pleasure in presenting the Twelfth Annual Report of the Company together with the Audited Statement of Accounts for the year ended 30th June 2004.

FINANCIAL RESULTS

Particulars	(Rs. in lakhs)	
	For the year ended 30 th June 2004	For the year ended 30 th June 2003
Gross Profit	4452	5395
Less: Interest	1114	963
Profit prior to Depreciation and write off	3338	4432
Less: Depreciation	654	531
Deferred Revenue Exp./other write off	19	1306
Add : Prior Year Expenditure/Income	-186	548
Net Profit	2479	3143
Current & Deferred Tax	1433	1287
Net Profit for the year	1046	1856
Balance Brought forward	232	-1324
Appropriations:		
Transfer to Debenture Redemption Reserve	-	300
Dividend on Preference Shares (Interim paid)	800	-
Proposed dividend on Preference shares	100	-
Tax on Dividend	112	-
Balance carried forward	265	232

REVIEW OF OPERATIONS

During the 12 months, the Company had achieved production of 195 lakh meters of fabrics against the previous year production of 192 lakh meters. The sales for the year was Rs.21692 lakhs as against sales of Rs.22380 lakhs during the previous year. The drop in sales was mainly due to sluggish demand for export in the second half of the year. The profitability was mainly affected by the adversely fluctuating cotton prices in the international and domestic markets. The cost of other inputs also increased but the company was able to cut down its cost on power and fuel. The sale of garments has improved during the year.

PROSPECTS FOR THE NEXT YEAR

The demand in the export market has picked up and in the coming years, the company is expected to do well in this front.

The Company is also planning to augment its activities with processing facilities to take advantage of the high demand in this sector.

Garments Division performance is expected to be better than the preceding year due to better realization and change in the product mix. Its operations are expected to improve and it is expected to nominal profit during the next year.

FINANCE

During the year company has raised Rs.36 crores of Term Loan from Indian Bank Consortium Bankers namely, Indian Bank, State Bank of India, Bank of India, The South Indian Bank Limited, Dena Bank and Allahabad Bank to repay debt to UTI and IDBI.

The Company has redeemed the debentures alongwith the interest thereon in full during the year.

The Board of Directors have also paid the entire arrears of dividend on cumulative preference shares till 30.6.2003 and have recommended payment of dividend at the rate of 10% on the cumulative preference shares for the year ended 30.6.2004.

Your Directors acknowledge with gratitude, the valuable assistance and support extended by our Consortium Bankers, Indian Bank, State Bank of India, Bank of India, The South Indian Bank Limited, Dena Bank and Allahabad Bank to strengthen the financial position.

PERSONNEL

The Directors wish to place on record their appreciation for the co-operation extended by all sections of the employees.

DIRECTORS' RESPONSIBILITY STATEMENT

Yours Directors confirm that:

- a) In the preparation of the annual accounts, the applicable accounting standards had been followed.
- b) The Directors had selected such accounting policies and applied them consistently and made judgements 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.
- c) The Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and irregularities.
- d) The annual accounts have been prepared on a going concern basis.

CORPORATE GOVERNANCE

A separate section on Corporate Governance and a Certificate from the Auditors of the Company regarding compliance of conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreement with the Stock Exchanges, form part of the Annual Report.

LISTING

The Company's shares are listed in the Coimbatore Stock Exchange and The Stock Exchange, Mumbai.

CAPITAL EXPENDITURE

The Company incurred capital expenditure of Rs.734 lakhs during the year.

DIRECTORS

Shri V Ramesh Babu ceased to be the Director of the Company with effect from 24.2.2004, on the withdrawal of his nomination by Industrial Development Bank of India (IDBI). Your Board placed on record its deep appreciation for the valuable advice and guidance given by him to the company during his tenure as Nominee Director of IDBI.

RETIRING BY ROTATION

Shri Jack O'Neill and Shri G V S Desikan, retire by rotations and being eligible, offer themselves for reappointment at the ensuing Annual General Meeting. Brief resume of the above directors, are given in the section on Corporate Governance elsewhere in the Annual Report.

AUDITORS

The present Auditors M/s Gopalaiyer and Subramanian retire at the ensuing Annual General Meeting and are eligible for re-appointment. Cost Audit report for the financial year ending 30th June 2004 will be submitted to the Central Government in accordance with Cost Audit Report Rules, 2001.

INFORMATION PURSUANT TO SECTION 217 OF THE COMPANIES ACT, 1956.

The information required as per Section 217 (1) (e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 is enclosed. The particulars of employees covered under Section 217 (2A) of the Companies Act, 1956 during the period under review is enclosed.

Our humble prayers to **Sri Venkateswaraswamy Varu of Then Thirumalai** for the continued prosperity of the company.

On behalf of the Board

Coimbatore
31.07.2004

K G Baalakrishnan
Executive Chairman

K G DENIM LIMITED**ANNEXURE TO DIRECTORS' REPORT**

Conservation of energy, technology absorption and foreign exchange earnings and outgo required under Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 for the period ended 30th June, 2004.

A. CONSERVATION OF ENERGY :

- a) Energy conservation measures taken : The Company has set up a steam-driven co-generation power unit with use of agricultural waste and coal as fuel.
- b) Additional Investments and proposals, if any, being implemented for reduction of consumption of energy: Energy audit has been done and various proposals are under implementation.
- c) Impact of the measures at (a) & (b) above for reduction of energy consumption and consequent impact on the cost of production of goods : The effect of the measures are to be assessed over the future years.
- d) Total energy consumption and energy consumption per unit of production:

FORM - A**A. POWER AND FUEL CONSUMPTION**

	Year ended 30.06.2004	Year ended 30.06.2003
I Electricity		
(a) Purchased		
Units (Lakhs)	-	25.72
Value (Lakhs Rs.)	-	133.23
Cost/Unit (Rs.)	-	5.18
(b) Diesel Generator		
Units (Lakhs)	5.87	130.94
Units / Ltr.	3.17	3.31
Cost/Units (Rs.)	4.60	4.46
(c) Turbine Generator		
Units (Lakhs)	181.60	10.43
Value (Lakhs Rs.)	610.71	35.20
Cost/Units (Rs.)	3.36	3.38
II Steam		
Generation - Tons	35319.00	32040.00
Value	160.72	129.72
Cost/Ton	455.00	405.00
Power Unit / Mtr.	0.96	0.88

FORM - B**B. TECHNOLOGY ABSORPTION**

- I. Research and Development (R & D) :
 1. Specific areas where R&D is carried out by the Company.
The R&D efforts of the Company are directed towards quality control improvement of existing methods and product developments/diversifications.
 2. Benefits derived as a result of the above R&D :
Cost reduction and improved quality and new product development enhanced performance in Export and Domestic Market.
 3. Future plan of action :
The R&D efforts will continue to meet the present and future needs of the end-users.



4. Expenditure on R & D :

	Rs.Lakhs
a) Capital	0.88
b) Recurring	55.06
c) Total	55.94
d) R & D Expenditure as % of Total Turnover	0.26

II. Technology absorption, adaptation and innovation :

Continuous efforts are made towards technology innovation.

C. FOREIGN EXCHANGE EARNINGS AND OUTGO

- a) Efforts : With the implementation of WTO, exports are expected to go up resulting in increase in foreign exchange earnings
- b) Total Foreign exchange used and earned :
- | | |
|--------|-------------------|
| Used | Rs. 2797.00 Lakhs |
| Earned | Rs. 7398.36 Lakhs |

On behalf of the Board

Coimbatore
31.07.2004

K G Baalakrishnan
Executive Chairman

ANNEXURE TO DIRECTORS' REPORT

Statement of pursuant to Section 217 (2A) of the Companies Act, 1956 & Companies (Particulars of Employees) Rules 1975.

Details of Remuneration paid during the year ended 30th June 2004.

Sl. No.	Name & Designation	Age	Remuneration (Rs.in Lacs)	Qualification & Experience	Date of Commencement of Employment
1.	Shri K G Baalakrishnan Executive Chairman	64	50.36	B.Com, B.L 40 Years	03.11.2003
2.	Shri B Sriramulu Managing Director	37	54.36	BE(Tex.Tech), MS(Tex.Tech) 15 Years	03.11.2003
3.	Shri B Srihari Managing Director	35	54.36	BE(Chem.Tech) MS(Chem.Tech) 13 Years	03.11.2003

NOTES :

1. Remuneration represents 3% share of Profits to each. The remuneration to Shri K G Baalakrishnan is restricted to Rs.50.36 lakhs on account of Rs.4.00 lakhs drawn as Managing Director for the above period in M/s Sri Kannapiran Mills Limited.
2. Nature of employment in all cases are contractual. The other terms and conditions are as per Company's Rules.
3. Shri K G Baalakrishnan, Shri B Sriramulu and Shri B Srihari are the Directors of the Company and are related to each other and to Smt T Anandhi, Director.

On behalf of the Board

Coimbatore
31.07.2004

K G Baalakrishnan
Executive Chairman

K G DENIM LIMITED

CORPORATE GOVERNANCE

1. COMPANY'S PHILOSOPHY

Your Company is committed to building long term shareholders' value with full emphasis on Corporate Governance - Your company communicates corporate, financial and product information, on line, on its website - www.kgdenim.com. Your Company believes that all its operations and actions must serve the goal of enhancing overall shareholder value, over a sustained period of time. Company's philosophy envisages transparency, accountability and equitable benefits of highest level in its maximum possible operating fields, interaction with all its related orders including esteemed shareholders, Workmen, Officers, Governments, Banks and other lenders.

2. BOARD OF DIRECTORS

The current financial year of the company covers a period of 12 months from 1st July 2003 to 30th June 2004.

The present strength of the Board is 11 Directors, out of which 6 are non-executive directors.

7 (Seven) Board Meetings were held during the year, as against the minimum requirement of 4 meetings. The dates on which the meetings held were as follows: 17th September 2003, 31st October 2003, 03rd November 2003, 20th December 2003, 31st January 2004, 24th April 2004 and on 23rd June 2004. The Annual General Meeting was held on 20th December 2003.

The table below gives the particulars of attendance of each Director at the Board Meetings held during the financial year and during their respective tenure of Directorship and at the last AGM, as also the number of Directorships in other companies and membership in other Board Committees.

Name of the Director	No. of Board Meetings held during the tenure of Directorship	No. of Board Meetings attended	Attendance of Last AGM	No. of Directorship in other Companies	No. of Membership in Board Committees of other Companies as Chairman / Member
1	2	3	4	5	6
Shri K G Baalakrishnan	5	5	Present	7	1
Shri B Sriramulu	5	4	Present	13	-
Shri B Srihari	5	5	Present	10	-
Shri S R Rajasekaran	7	7	Present	-	-
Shri G V S Desikan	6	5	Present	5	2
Shri V Jagadisan	6	5	Present	3	2
Shri K N V Ramani	6	5	Present	5	5
Shri Jack O'Neill	7	-	-	-	-
Smt T Anandhi	5	2	-	3	-
Shri S Rajagopalan	7	3	Present	-	-
Shri S Muthuswamy	7	7	Present	-	-
Mr V Ramesh Babu (IDBI Nominee)	4 *	2	-	-	-

* Ceased to be a Director with effect from 24.2.2004 on the withdrawal of Nomination by the Industrial Development Bank of India.

Profile of Directors retiring by rotation and eligible for reappointment

Shri Jack O'Neill, is a Fellow Member of the Institute of Chartered Accountants, UK and has considerable experience in banking, finance and administration. He has more than 33 years experience in the textile industry including setting up and management of denim plant fabric for Burlington Industries Inc., USA. Had also served Dominion Textiles Inc., Montreal, Canada who are the world's largest producers of denim.

Shri G V S Desikan, a BSc, BSc (Tech) graduate and has rich experience in the management of textile industry. He was formerly Technical Advisor for National Textile Corporation, New Delhi, Chairman and Managing Director of Kerala State Textile Corporation Ltd, Trivandrum and Managing Director of Binny Limited.

3. COMMITTEES OF THE BOARD

a. Audit Committee

The Audit Committee comprises of three members, all of whom are independent, non-executive Directors. The Chairman of the Committee is Shri V Jagadisan with Shri G V S Desikan and Shri K N V Ramani as members. The Director and Company Secretary acts as the Secretary to the Committee.

The terms of reference of the Audit Committee include the matters specified in Clause 49 of the Listing Agreement with the Stock Exchanges and in Section 292A of the Companies Act, 1956 as follows:-

Oversight of the Company's financial reporting process and the disclosure of its financial information.

Recommending the appointment and removal of external auditors, fixation of audit fee and also approval for payment for any other services.

Reviewing with management the quarterly, half-yearly and annual financial statements before submission to the Board, focussing primarily on (i) any changes in accounting policies and practices, (ii) major accounting entries based on exercise of judgement by management, (iii) qualifications in draft audit report, (iv) significant adjustments arising out of audit, (v) the going concern assumption, (vi) compliance with Accounting standards, (vii) compliance with Stock Exchange and legal requirements concerning financial statements and (viii) related party transactions ie., transactions of the Company of material nature, with promoters or with the management, their subsidiaries or relatives etc, that may have potential conflict with the interests of company at large.

Reviewing with the management, external and internal auditors, the adequacy and compliance of internal control systems.

Reviewing with adequacy of internal audit functions.

Discussion with internal auditors any significant findings and follow up thereon.

Reviewing the findings of internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.

Discussion with external auditors before the audit commences nature and scope of audit as well as have post-audit discussion to ascertain any area of concern.

Reviewing the Company's financial and risk management policies.

During the year, the Committee has met four times as against the minimum requirement of 3 meetings and the Audit Committee Meetings were held on 03.11.2003, 31.01.2004, 24.04.2004, and 05.06.2004 during the financial year ended 30th June 2004. The head of finance function, head of internal audit and the representatives of the Statutory Auditors were invited to be present at the Audit Committee meetings. The Cost Auditors appointed by the Company under Section 233B of the Companies Act, 1956 were also invited to attend the Audit Committee Meetings.

b. Remuneration Committee

The Board of the Company has constituted a Remuneration Committee, comprising of 3 Independent, Non-Executive Directors viz., Shri K N V Ramani, Chairman, Shri G V S Desikan and Shri V Jagadisan as members.

The Remuneration Committee has been constituted to recommend/review the remuneration package of the Executive Chairman/Managing Director/Whole-Time Directors. During the year the Committee met twice on 03rd November 2003 and 20th December, 2003, who are independent non-executive directors, were present at the meeting.

The detail of remuneration to Directors for the year is furnished in paragraph 7.

c. Shareholders'/Investors Grievance Committee

The Board of the Company has constituted a Shareholders'/Investors' Grievance Committee, comprising of Shri S R Rajasekaran, Chairman with Shri G V S Desikan and Shri K N V Ramani as members. The Committee also looks into redressal of shareholders' complaints like transfer of shares, non-receipt of balance sheet, non-receipt of principal and interest on debentures, etc.

The Committee oversees the performance of the Registrar and Transfer Agents and recommend measures for overall improvement in the quality of investor services.

Shri R K Sridhar, Manager (Accounts) is the Compliance Officer for complying with the requirements of the Securities and Exchange Board of India and requirements of the Listing Agreement with the Stock Exchanges.

The total number of complaints received and replied to the satisfaction of shareholders/debentureholders during the year under review, was 180. Outstanding complaints as on 30th June 2004 were nil.