

K G DENIM LIMITED



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**Thirteenth Annual Report
2004 - 2005**



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 A Velusamy
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

Bankers Indian Bank
Bank of India
State Bank of India
Allahabad Bank
Dena Bank

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K G DENIM LIMITED

NOTICE

Notice is hereby given that the THIRTEENTH ANNUAL GENERAL MEETING of the Members of K G DENIM LIMITED will be held on Thursday, the 15th September 2005 at 10.30 a.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 31st March 2005, the Profit and Loss Account for the year ended 31st March 2005 (Nine Months) 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 V Jagadisan, who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint a Director in place of Shri K N V Ramani, 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 an ORDINARY RESOLUTION:

"RESOLVED that the consent of the Company be and is hereby accorded in terms of the provisions of Section 293 (1) (a) and other applicable provisions, if any, of the Companies Act, 1956 and the Memorandum and Articles of Association of the Company and subject to the approval of Financial Institutions / Banks, to mortgaging and/or charging, by the Board of Directors of the Company, of all immovable and movable properties of the Company, present and future, acquired for the Expansion cum Diversification Scheme at Karamadai and Jadayampalayam villages at Coimbatore to or in favour of Indian Bank, Bank of India, State Bank of Hyderabad and State Bank of Indore (hereinafter referred to as the "Banks") on first pari passu charge basis as security for term loans of Rs. 1976 lakhs, Rs. 1907 lakhs, Rs. 1500 lakhs and Rs. 1500 lakhs respectively obtained/to be obtained from the aforesaid Banks together with interest thereon at the respective agreed rates, compound interest, additional interest, liquidated damages, charges, expenses and other monies, if any, as per the stipulations in the letters of sanction and terms and conditions mentioned, if any, in other documents entered into/to be entered into by the Company, with the said Banks in respect of the aforesaid term loan of Rs. 6883 lakhs."

"RESOLVED FURTHER that the Board of Directors of the Company be and is hereby authorized to finalize with the Banks the documents for creating the aforesaid mortgage and/or charges and generally to do all such acts and things as may be necessary for giving effect to the above resolution."

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

"RESOLVED THAT Shri A Velusamy in respect of whom the Company has received a notice in writing from a member proposing him as a candidate for the office of a Director under the provisions of Section 257 of the Companies Act, 1956 and who is eligible for appointment to the office of a Director, be and is hereby appointed as a Director of the Company."

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

"RESOLVED that in respect of Shri A Velusamy who having been appointed as a Whole-time Director of the Company with effect from 01.04.2005, approval be and is hereby accorded pursuant to the provisions of Sections 198, 269, 309, 314 read with Schedule XIII and other applicable provisions of the Companies Act, 1956



to his appointment as a Whole-time Director with effect from 01.04.2005 for a period of 5 years from the said date on the following terms as to remuneration and perquisites and for entering into an Agreement with him incorporating the applicable terms and conditions of the appointment as per the draft agreement approved by the Board of Directors for being entered into with him.

1. Salary : Rs. 5,34,000 per annum
2. Perquisites : In addition to the above salary

Expenditure for medical treatment, leave travel concession, Personal accident insurance premium, Company's contribution to Provident Fund to the extent it is not taxable under the Income Tax Act, 1961. Gratuity and Encashment of leave at the end of tenure as per the rules of the Company.

3. a. The Director shall be entitled to reimbursement of all actual expenses including entertainment and travelling incurred in the course of the Company's business.
- b. The Company shall provide a car with driver and telephone facility at the residence of the Director. Provision of car with driver for use on the company's business and telephone facility at the residence will not be considered as perquisites. Personal long distance calls on the telephone and use of car for private purposes shall be billed by the Company to the Director."
9. To consider and, if thought fit, to pass, with or without modification, the following resolution as a SPECIAL RESOLUTION:

"RESOLVED that in respect of Shri S Muthuswamy, Director and Company Secretary, whose remuneration has been approved in the Annual General Meeting held on 27th March 2003, as recommended by the Remuneration Committee at its meeting held on 31.07.2005 and the Board of Directors at its meeting held on 31.07.2005, his remuneration is re-fixed with effect from 01.04.2005 as follows.

1. Salary : Rs. 5,34,000 per annum
2. Perquisites : In addition to the above salary

Expenditure for medical treatment, leave travel concession, Personal accident insurance premium, Company's contribution to Provident Fund to the extent it is not taxable under the Income Tax Act, 1961. Gratuity and Encashment of leave at the end of tenure as per the rules of the Company.

3. a. The Director shall be entitled to reimbursement of all actual expenses including entertainment and travelling incurred in the course of the Company's business.
- b. The Company shall provide a car with driver and telephone facility at the residence of the Director. Provision of car with driver for use on the company's business and telephone facility at the residence will not be considered as perquisites. Personal long distance calls on the telephone and use of car for private purposes shall be billed by the Company to the Director."
10. To consider and, if thought fit, to pass, with or without modification, the following resolution as a SPECIAL RESOLUTION:

"RESOLVED that pursuant to Regulation 5 of Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003 and all other applicable laws, rules, regulation, etc., and subject to approvals / permissions, if any, from the regulatory authorities and/or government departments, as may be required for this purpose, approval be and is hereby given for delisting of equity shares (including equity shares that may be issued and listed in future) of the company with immediate effect from the Delhi, Calcutta and Madras Stock Exchange Limited."

"RESOLVED that the Board of Director be and is hereby authorized to give necessary approvals, take appropriate steps, give necessary authority to any director/officer of the Company for purpose of delisting of shares as mentioned hereinabove and also to delegate such powers to the Committee or Sub-Committee of Directors."

By Order of the Board

K G Baalakrishnan
Executive Chairman

Coimbatore
31.07.2005

K G DENIM LIMITED

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 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 01.09.2005 to 15.09.2005 (both days inclusive).
5. Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956 in respect of the special business Item Nos. 6 to 10 is enclosed.
6. Re-appointment of Directors:

At the ensuing Annual General Meeting Shri V Jagadisan and Shri K N V Ramani, 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

Company had approached Indian Bank, Bank of India, State Bank of Hyderabad and State Bank of Indore (hereinafter referred to as the said "Banks") for sanction of term loans for its Expansion cum Diversification Scheme (ECDS) involving addition of fixed assets for Denim Fabric Division and setting up new Dyed Fabric and Apparel Divisions. The said Banks had sanctioned term loans aggregating to Rs. 6883 lakhs and in terms of the sanction the loans are to be secured by pari passu first charge on the assets acquired or to be acquired for the said ECDS, both present and future.

Section 293 (1) (a) of the Companies Act, 1956 stipulates that the Board of Directors of a public limited company shall not except with the consent of the Company at a general meeting, sell, lease or otherwise dispose of the whole or substantially the whole of the undertaking of the Company, or where the Company owns more than one undertaking of the whole or substantially the whole of any such undertaking.

Since the mortgage and/or charging of the movable and immovable properties of the Company in favour of the said Banks may be regarded as disposal of the Company's properties, it is desirable for the Members to pass a resolution in terms of Section 293 (1) (a) of the Companies Act, 1956 as set out in Item 6 of the notice convening the meeting.

None of the Directors of the Company is interested in the proposed resolution.

ITEM Nos. 7 & 8

Shri A Velusamy is professionally qualified as B.Sc., B.L. He is 49 years old and has over 20 years experience in the associates in managing commercial, finance and administration function.

On 27.01.2005, he was appointed as an Additional Director of the Company. He was since appointed as Whole-time Director with effect from 01.04.2005. His reappointment as a Director is proposed at the Annual General Meeting.

Shri A Velusamy satisfies the requirements of Part – I of Schedule XIII to the Companies Act, 1956. The remuneration will be paid with effect from 01.04.2005.

No Director of the Company is concerned or interested in the resolution except Shri A Velusamy as the proposed appointee. The explanation together with the accompanying notice may be treated as an abstract of the terms of appointment of the Whole-time Director pursuant to the provisions of Section 302 of the Companies Act, 1956.

ITEM No.9

Shri S Muthuswamy is professionally qualified as FCA, AICWA and ACS. He is 48 years old and has been in the service of the Company from 30.05.2002 as a Director. He was appointed as a Director and a Company Secretary from 20.12.2003.

Shri S Muthuswamy satisfies the requirements of Part – I of Schedule XIII to the Companies Act, 1956. The remuneration will be paid with effect from 01.04.2005.

No Director of the Company is concerned or interested in the resolution except Shri S Muthuswamy as the proposed appointee. The explanation together with the accompanying notice may be treated as an abstract of the terms of variation of appointment of the Whole-time Director pursuant to the provisions of Section 302 of the Companies Act, 1956.

ITEM No.10

The shares of the Company are listed in the Stock Exchanges of Coimbatore and Mumbai of which the Mumbai Stock Exchange is recognised as a Stock Exchange having nation wide terminals under paragraph 5.2 of Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003.

There has been no trading activity in respect of the shares of the Company in the Stock Exchanges of Calcutta, Delhi and Chennai and it is hence considered appropriate to complete the formalities of delisting in respect of these stock exchanges as per Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003.

The necessary special resolution is proposed in terms of para 6.1. of Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003.

By Order of the Board

Coimbatore
31.07.2005

K G Baalakrishnan
Executive Chairman

K G DENIM LIMITED

DIRECTORS' REPORT

Dear Shareholders,

We have pleasure in presenting the Thirteenth Annual Report of the Company together with the Audited Statement of Accounts for the year ended 31st March 2005.

FINANCIAL RESULTS

(Rs. in lakhs)

PARTICULARS	For the year ended 31 st March 2005 9 Months	For the year ended 30 th June 2004 12 Months
Gross Profit	2014	4452
Less: Interest	684	1114
Profit prior to Depreciation and write off	1330	3338
Less: Depreciation	532	654
Deferred Revenue Exp./other write off	14	19
Add : Prior Year Expenditure/Income (Net)	15	-186
Net Profit	769	2479
Current & Deferred Tax & earlier year tax	244	1433
Net Profit for the year	525	1046
Balance Brought forward	265	232
Appropriations:		
Dividend on Preference Shares	Nil	800
Proposed dividend on Preference shares	75	100
Tax on Dividend	10	112
Balance carried forward	705	265

REVIEW OF OPERATIONS

During the 9 months ended 31.3.2005, the Company achieved production of 166 lakh meters of fabrics against the previous years (12 months) production of 195 lakh meters. The sales for the 9 months 2004-05 was Rs. 19845 lakhs as against sales of Rs.21692 lakhs during the previous year. On an annualised basis the sales have increased by 12%.

The Company achieved its highest export performance of Rs.9622 lakhs during the 9 months of 2004-05. This was achieved by focussing on production of special fabrics.

In spite of increase in fabric turnover, the profitability was mainly affected by higher cotton cost and additional processing costs. The cost of other inputs also increased. The sale of apparel had improved during the year. Though there was increase in the turnover, the performance of apparel division was affected by higher marketing costs.

PROSPECTS FOR THE NEXT YEAR

With the abolition of quotas, the textile industry in India is witnessing a fast growth spree in madeups and ready made goods apart from the traditional fabrics. The company is augmenting its existing production of denim fabrics and apparels by adding new machinery. The company is also embarking on an expansion programme for production of dyed fabrics including sheetings and shirtings. The demand for dyed fabrics in the domestic and international markets is high and this sector has been identified as a high growth potential area for assistance by the Government of India.

The company is also taking steps to rejuvenate its Apparel division. Exports of apparels is expected to grow rapidly in absence of quotas and contribute to improve the profitability of the division significantly.

FINANCE

The Board of Directors have recommended payment of dividend at the rate of 10% p.a., on the cumulative preference shares for the year ended 31.03.2005.



Your Directors acknowledge with gratitude, the valuable assistance and support extended by our Consortium Bankers for working capital i.e., Indian Bank, State Bank of India, Bank of India and Allahabad Bank to strengthen the financial commitments.

PERSONNEL

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

DIRECTORS' RESPONSIBILITY STATEMENT

Your Directors confirm that:

- In the preparation of the annual accounts, the applicable accounting standards had been followed.
- 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.
- The Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and irregularities.
- 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 Exchange, forms 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 a capital expenditure of Rs.1073 lakhs during the year.

DIRECTORS

During the year Shri S Rajagopalan resigned as director with effect from 15.11.2004.

Shri V Jagadisan and Shri K N V Ramani retire by rotation and being eligible offer themselves for reappointment at the ensuing Annual General Meeting.

Shri A Velusamy Inducted in the Board on 27.01.2005 retires and being eligible offer himself for appointment. 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 & Subramanian retire at the ensuing Annual General Meeting and are eligible for re-appointment. Cost Audit report for the financial year ending 31st March 2005 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
31.07.2005

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 year ended 31st March, 2005.

A. CONSERVATION OF ENERGY :

- a) Energy conservation measures taken : The Company has set up a steam-driven co-generation power unit with use of biomass 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 : During the year the fuel input costs had gone up. Hence there is a marginal increase in costs.
- d) Total energy consumption and energy consumption per unit of production:

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

	31.03.2005 9 Months	30.06.2004 12 Months
I Electricity		
(a) Purchased		
Units in lakhs	NA	NA
Value in lakhs (Rs.)	NA	NA
Cost/Unit (Rs.)	NA	NA
(b) Own Generation		
(i) Through Diesel Generator		
Units in lakhs	1.39	5.87
Units / Ltr.	3.60	3.17
Cost/Units (Rs.)	6.87	4.60
(ii) Through steam turbine/generator		
Units in lakhs	145.12	181.60
Units/Ton of fuel mix	421.00	430.00
Cost/Units (Rs.)	3.71	3.36
II Coal		
Quantity (Tonnes)	9097	7595
Total Cost (Rs. in lakhs)	291.12	182.28
Average Rate	3200.00	2400.00
III Saw Dust etc.,		
Quantity (Tonnes)	20288	30246
Total Cost (Rs. in lakhs)	294.18	363.00
Average Rate	1450.00	1200.00

B. CONSUMPTION / UNIT OF PRODUCTION

Electricity Unit/ Mtr. of Fabric	1.01	0.96
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FORM - B**C. 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	-
b) Recurring	44.95
c) Total	44.95
d) R & D Expenditure as % of Total Turnover	0.22

II. Technology absorption, adaptation and innovation :

Continuous efforts are made towards technology innovation.

D. 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 :

Foreign Exchange : Used	Rs. 3528.14	Lakhs
Earned	Rs. 9292.76	Lakhs

On behalf of the Board

Coimbatore
31.07.2005

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 31st March 2005.

Sl. No.	Name & Designation	Age	Remuneration (Rs.in Lacs)	Qualification	Experience in Years	Date of Commencement of Employment
1.	Shri K G Baalakrishnan Executive Chairman	65	21.14	B.Com, B.L	41 Years	03.11.2003
2.	Shri B Sriramulu Managing Director	38	25.63	BE(Tex.Tech), MS(Tex.Tech)	16 Years	03.11.2003
3.	Shri B Srihari Managing Director	36	25.63	BE(Chem.Tech) MS(Chem.Tech)	14 Years	03.11.2003

NOTES :

1. Remuneration represents 9% share of Profits. The remuneration to Shri K G Baalakrishnan is restricted to Rs.21.14 lakhs on account of Rs.4.50 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, Executive Chairman, Shri B Sriramulu, Managing Director and Shri B Srihari, Managing Director of the Company and Smt T Anandhi, Non Executive Director are related to each other

On behalf of the Board

Coimbatore
31.07.2005

K G Baalakrishnan
Executive Chairman