

K G DENIM LIMITED



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**Fourteenth Annual Report
2005 - 2006**



K G DENIM LIMITED

BOARD OF DIRECTORS

Executive Chairman Shri KG Baalakrishnan

Managing Directors Shri B Sriramulu
Shri B Srihari

Directors Shri G V S Desikan
Shri K N V Ramani
Shri V Jagadisan
Smt T Anandhi
Shri S R Rajasekaran
Shri M J Vijayaraaghavan
Shri Surinder Chhibber
Shri A Velusamy
Shri S Muthuswamy
Director & Company Secretary

Registered Office

Then Thirumalai
Coimbatore - 641 302
Website : 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 Gopalaiyer and Subramanian
Chartered Accountants
Coimbatore

Bankers Indian Bank
Bank of India
State Bank of India
Allahabad Bank
Indian Overseas Bank
State Bank of Indore
State Bank of Hyderabad
Dena Bank

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K G DENIM LIMITED

NOTICE

Notice is hereby given that the FOURTEENTH ANNUAL GENERAL MEETING of the Members of K G DENIM LIMITED will be held on Thursday, the 28th day of September 2006 at 4.00 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 31st March 2006, the Profit and Loss Account for the year ended 31st March 2006 and the Reports of the Directors and Auditors thereon.
2. To appoint a Director in place of Smt T Anandhi, who retires by rotation and being eligible, offers herself for reappointment.
3. To appoint a Director in place of Shri S R Rajasekaran, who retires by rotation and being eligible, offers himself for reappointment.
4. 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 Gopalaier 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

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

"RESOLVED that Shri M J Vijayaraaghavan in respect of whom the Company has received a notice in writing from a member proposing his candidature for the office of the Director under the provisions of Section 257 of the Companies Act, 1956 and who is also eligible for appointment to the office of a Director be and is hereby appointed as a Director of the Company."

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

"RESOLVED that Shri Surinder Chhibber in respect of whom the Company has received a notice in writing from a member proposing his candidature for the office of the Director under the provisions of Section 257 of the Companies Act, 1956 and who is also eligible for appointment to the office of a Director be and is hereby appointed as a Director of the Company."

7. 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, to or in favour of Indian Overseas Bank by way of first charge on pari passu basis as security for term loans of Rs.1500 lakhs obtained/to be obtained from the aforesaid Bank 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 Bank in respect of the aforesaid term loan of Rs.1500 lakhs."

"RESOLVED FURTHER that the Board of Directors of the Company be and is hereby authorized to finalize with the Bank 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."

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

"RESOLVED that in accordance with Schedule XIII and other applicable provisions of the Companies Act, 1956 the existing salary and perquisites be fixed as the Minimum remuneration payable in case of inadequacy of profits to Shri A Velusamy and Shri S Muthuswamy, Directors."



9. 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, regulations 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 Coimbatore Stock Exchange Limited."

"RESOLVED FURTHER 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

Coimbatore
25.06.2006

KG 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 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 maintained 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 16.09.2006 to 28.09.2006 (both days inclusive).
5. Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956 in respect of the special business Item Nos. 5 to 9 is enclosed.
6. Re-appointment of Directors:

At the ensuing Annual General Meeting Smt T Anandhi and Shri S R Rajasekaran, 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. 5

The Board at its meeting held on 26.12.2005 appointed Shri M J Vijayaraaghavan as Additional Director of the Company. In terms of the provision of Sec 260 of the Companies Act, 1956 he holds office as a Director upto the next general meeting. A notice has been received proposing the candidature of Shri M J Vijayaraaghavan to the office of Director.

Shri M J Vijayaraaghavan, aged 73 is a practicing Chartered Accountant and a fellow member of the Institute of Chartered Accountants of India having over 4 decades of rich and varied experience in Auditing, Taxation and Finance.

None of the Directors except Shri M J Vijayaraaghavan is concerned or interested in the resolution.

K G DENIM LIMITED**ITEM No.6**

The Board at its meeting held on 25.06.2006 appointed Shri Surinder Chhibber as Additional Director of the Company. In terms of the provision of Sec 260 of the Companies Act, 1956 he holds office as a Director upto the next general meeting. A notice has been received proposing the candidature of Shri Surinder Chhibber to the office of Director.

Shri Surinder Chhibber, aged 56 is a post graduate in industrial engineering and operations research and has over 29 years work experience in various capacities in foreign and Indian Companies dealing in Textiles and apparels.

None of the Directors except Shri Surinder Chhibber is concerned or interested in the resolution.

ITEM No. 7

Your Company had approached Indian Overseas Bank for long term loan to augment its working capital. The Bank has sanctioned Rs.1500 lakhs and the same is to be secured by *pari passu* first charge on the fixed assets 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 Bank 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 7 of the notice convening the meeting.

ITEM No. 8

In terms of the Remuneration Committee recommendation and the Board resolution dated 25.6.2006, it is proposed to fix the existing remuneration as minimum remuneration to Directors Shri A Velusamy and Shri S Muthuswamy. The earlier approval for fixing of remuneration to the above directors was obtained at the last Annual General Meeting held on 15th September 2005.

Shri A Velusamy and Shri S Muthuswamy, Directors of the Company, are concerned or interested in the proposed resolution to the extent of the remuneration payable to them.

ITEM No. 9

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 Coimbatore and it is hence considered appropriate to complete the formalities of delisting in respect of this stock exchange 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 of the company.

None of the Directors is interested in the proposed resolution.

By Order of the Board

Coimbatore
25.06.2006

KG Baalakrishnan
Executive Chairman

DIRECTORS' REPORT

Dear Shareholders,

We have pleasure in presenting the Fourteenth Annual Report of the Company together with the Audited Statement of Accounts for the year ended 31st March 2006.

FINANCIAL RESULTS

(Rs. in lakhs)

PARTICULARS	For the year ended 31 st March 2006 12 Months	For the year ended 31 st March 2005 9 Months
Gross Profit	4160	2014
Less: Interest	973	684
Profit prior to Depreciation and write off	3187	1330
Less: Depreciation	777	532
Deferred Revenue Exp./other write off	3	14
Add : Prior Year Income / (Expenditure) (Net)	25	(15)
Net Profit	2432	769
Current, Deferred, FBT Tax & earlier year tax	860	244
Net Profit for the year	1572	525
Balance Brought forward	705	265
Appropriations:		
Proposed dividend on Preference shares	-	75
Tax on Dividend	-	10
Balance carried forward	2277	705

REVIEW OF OPERATIONS

During the 12 months ended 31.3.2006, the Company achieved production of 197 lakh meters of fabrics against the previous years (9 months) production of 166 lakh meters. The sales for the 12 months of 2005-06 was Rs.21637 lakhs as against sales of Rs.19845 lakhs during the previous year.

The domestic sales was 51% of the total turnover as compared with 40% for the previous year.

PROSPECTS FOR THE NEXT YEAR

With the commencement of commercial operation of the expansion project the turnover is expected to increase significantly in the current year. At present, the Indian denim industry is adversely affected by surplus capacity and demand is expected to pick up slowly. However, the company's expansion in apparel fabrics and madeups will help its prospects in the long run. The apparel division is also concentrating on exports which has high demand potential. The company's new subsidiary Trigger Apparels Limited will focus on the domestic marketing.

FINANCE

With a view to conserve resources and to meet the obligation of the company arising on the projects implemented and based on letters of consent received from the preference shareholders the Board of directors resolved to defer declaration of preference dividend for the year 2005 - 2006.

Your Directors acknowledge with gratitude, the valuable assistance and support extended by our Bankers for term loans and working capital ie., Indian Bank, State Bank of India, Bank of India, Allahabad Bank, Indian Overseas Bank, State Bank of Indore and State Bank of Hyderabad to strengthen the financial commitments.

K G DENIM LIMITED

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:

- 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 this Act 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.

CONSOLIDATED ACCOUNTS

In accordance with the requirements of Accounting Standard (AS-21) prescribed by The Institute of Chartered Accountants of India, the Consolidated Accounts of the Company and its subsidiaries is annexed to this report.

SUBSIDIARIES

The Annual report of the Subsidiaries of the Company Viz., Trigger Apparels Limited and KG Denim (USA) Inc., is annexed to this report.

CEO/CFO CERTIFICATION

The Managing Directors and Director & Company Secretary of the Company have submitted a certificate to the Board as required under clause 49 of the listing agreement for the year ended 31st March, 2006.

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 Bombay Stock Exchange Ltd., Mumbai.

CAPITAL EXPENDITURE

The company incurred a capital expenditure of Rs.4811 lakhs during the year.

DIRECTORS

Smt T Anandhi and Shri S R Rajasekaran retire by rotation and being eligible offer themselves for reappointment at the ensuing Annual General Meeting.

Shri M J Vijayaraaghavan who was appointed as additional director on 26.12.2005 retires and being eligible offers himself for reappointment.

Shri Jack O' Neill resigned as director with effect from 25.06.2006.

Shri Surinder Chhibber, was inducted in the Board on 25.06.2006 as additional director retires and being eligible offers himself for re-appointment. Brief resume of the above directors are given in the section on Corporate Governance elsewhere in the Annual Report. The board places on record their appreciation of the valuable services rendered by Shri Jack O' Neill during his tenure as Director.

AUDITORS

The present Auditors M/s Gopalaier and Subramanian retire at the ensuing Annual General Meeting and are eligible for re-appointment. Cost Audit report for the financial year ending 31st March 2006 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 Vari of Then Thirumalai for the continued prosperity of the company.

On behalf of the Board

Coimbatore
25.06.2006

KG 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, 2006.

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**

	31.03.2006 12 Months	31.03.2005 9 Months
I Electricity		
(a) Purchased		
Units in lakhs	2.49	NA
Value in lakhs (Rs.) **	11.36	NA
Cost/Unit (Rs.)	4.56	NA
**Excludes fixed demand charges		
(b) Own Generation		
(i) Through Diesel Generator		
Units in lakhs	11.17	1.39
Units / Ltr.	3.20	3.60
Cost/Unit (Rs.)	7.19	6.87
(ii) Through steam turbine/generator		
Units in lakhs	195.59	145.12
Units/Ton of fuel mix	415.00	421.00
Cost/Unit (Rs.)	3.65	3.71
II Coal		
Quantity (Tonnes)	12126	9097
Total Cost (Rs. in lakhs)	385.10	291.12
Average Rate (Rs)	3176.00	3200.00
III Saw Dust etc.,		
Quantity (Tonnes)	33326	20288
Total Cost (Rs. in lakhs)	378.53	294.18
Average Rate (Rs)	1136.00	1450.00

B. CONSUMPTION / UNIT OF PRODUCTION

Electricity Unit/ Mtr. of Fabric	1.06	1.01
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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 and 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	1.55
b) Recurring	50.06
c) Total	51.61
d) R & D Expenditure as % of Total Turnover	0.24

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. 4438.76	Lakhs
Earned	Rs. 8101.19	Lakhs

On behalf of the Board

Coimbatore
25.06.2006

KG Baalakrishnan
Executive Chairman

ANNEXURE TO DIRECTORS' REPORT

Statement 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 2006.

Sl. No.	Name & Designation	Age	Remuneration (Rs.in Lacs)	Qualification	Experience in Years	Date of Commencement of Employment
1.	Shri KG Baalakrishnan Executive Chairman	66	78.50	B.Com, B.L	42 Years	03.11.2003
2.	Shri B Sriramulu Managing Director	39	86.14	BE(Tex.Tech), MS(Tex.Tech)	17 Years	03.11.2003
3.	Shri B Srihari Managing Director	37	86.14	BE(Chem.Tech) MS(Chem.Tech)	15 Years	03.11.2003

NOTES :

1. Remuneration represents 9% share of Profits. The remuneration to Shri KG Baalakrishnan is restricted to Rs. 78.50 lakhs on account of Rs.7.63 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 KG 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
25.06.2006

KG Baalakrishnan
Executive Chairman