



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 G P Muniappan
Shri K N V Ramani
Shri V Jagadisan
Smt T Anandhi
Shri M J Vijayaraaghavan
Shri Surinder Chhibber
Shri A Velusamy
Shri S Muthuswamy
Director & Company Secretary

Registered Office
Then Thirumalai
Jadayampalayam, Coimbatore - 641 302
Phone : (04254) 304401 / 304000
Website : www.kgdenim.com
E-mail : cskgdl@kgdenim.in

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

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K G DENIM LIMITED

DIRECTORS' REPORT & MANAGEMENT DISCUSSION AND ANALYSIS

Dear Shareholders,

We have pleasure in presenting the Eighteenth Annual Report of the Company together with the Audited Statement of Accounts for the year ended 31st March 2010.

FINANCIAL RESULTS

(Rs. in lakhs)

PARTICULARS	For the year ended 31 st March 2010	For the year ended 31 st March 2009
Gross Profit	3452	1872
Less: Interest	1965	1978
Loss due to exchange variation	101	277
Profit prior to Depreciation and write off	1386	-383
Less: Depreciation	1290	1306
Add : Prior Year Income / (Expenditure) (Net)	2	20
Net Profit / (Loss)	94	-1709
Current, Deferred, FBT Tax & earlier year tax	77	-493
Net Profit / (Loss) for the year	17	-1216
Balance Brought forward	-315	901
Balance carried forward	-298	-315

PERFORMANCE OF THE COMPANY

During the year ended 31.03.2010, the Company achieved an overall production of 229 lakh meters of fabrics against the previous year's production of 215 lakh meters. The sales for the year ended 31.03.2010 was Rs.25851 lakhs as against sales of Rs.22054 lakhs during the previous year, representing an increase of 17 %.

The company has been able to stem the losses of earlier years and achieve positive results for the year.

INDUSTRY STRUCTURE & DEVELOPMENT

The Indian denim industry occupies an important position in the global denim fabric and garment manufacturing. After China, it has the strongest denim manufacturing base in Asia.

During 2009-10, the Indian denim industry witnessed a surge in demand, particularly, in the domestic market. The exports were partially affected by rise in the value of the rupee. In the processed fabric sector, especially the bed linen demand for US markets showed signs of improvement only towards the end of the year.

In the apparel segment, the preference by overseas customers for packaged ready made garments continued to increase.

OPPORTUNITIES AND THREATS

The domestic demand for denim is growing and the company is focussing on new product developments in this segment. The company is also concentrating on increase sale of its home textiles. Apparel exports is expected to grow significantly in the next year.

The increase in cotton and yarn prices in the beginning of 2010-11, the higher interest rates and the volatility in exchange rates are the serious concerns facing the company. The company is taking steps to mitigate the effects of cost increases by suitable product mix changes and also by actively managing the exchange risk.

SEGMENT WISE PERFORMANCE

The segment wise results are presented in item 2.19 of the Notes on Accounts. Both fabric and Apparel division have done well during the year in terms of volume and profitability.

Sales of denim fabrics in domestic market increased in this year. The exports were maintained at previous year levels. The sales of processed fabrics, including home textiles were also maintained. However, the order position for home textiles improved in the last quarter of the year. The company also augmented its income by doing job work for processed fabrics for outsiders.

In the apparel segments, the sales nearly doubled with improved profitability aided by the customer preference for packaged garments.

The higher sales volume and lower cotton and yarn costs helped in posting positive results for the year, 2009-10.

FINANCE

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

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 judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the Profit or Loss of the Company for that period.
- 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 are 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. Trigger Apparels Limited is expected to consolidate its market position with improved sales and profitability during the next year. No activity has taken place at KG Denim (USA) Inc. during the year.

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, 2010.

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 Bombay Stock Exchange Limited, Mumbai.

CAPITAL EXPENDITURE

The Company incurred a capital expenditure of Rs.132.63 lakhs during the year.

DIRECTORS

Shri Surinder Chhibber, Smt T Anandhi and Shri G P Muniappan retire by rotation and being eligible offer themselves for reappointment at the ensuing Annual General Meeting.

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 31st March 2010 will be submitted to the Central Government in accordance with Cost Audit Report Rules, 2001.

INTERNAL CONTROL SYSTEMS & THEIR ADEQUACY

Company already holds Certification under ISO 9002 and ISO 14001 to ensure confirmation of its process procedures to strict quality standard. Company is also strengthening its review control system by appointing External Consultants as Auditors. The Audit Committee also closely reviews with the internal and external auditors on the adequacy of internal control systems.

CAUTIONARY STATEMENT

The statement in this Directors' Report & Management Discussion and Analysis contain forward looking statements regarding Company's projections & expectations and the actual results could differ materially from those expressed on account various factors like raw material prices, change in demand, government regulation etc., and the readers are cautioned against placing undue reliance on the same.

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.

Coimbatore
26.05.2010

On behalf of the Board
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, 2010.

CONSERVATION OF ENERGY :

- Energy conservation measures taken : The Company has set up a steam-driven co-generation power unit with use of biomass fuel.
- 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.
- 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.
- Total energy consumption and energy consumption per unit of production:

FORM - A

A. POWER AND FUEL CONSUMPTION

	31.03.2010	31.03.2009
I Electricity		
(a) Purchased		
Units in lakhs	43.00	48.06
Value in lakhs (Rs.) **	202.80	219.78
Cost/Unit (Rs.)	4.72	4.57
**Excludes fixed demand charges		
(b) Own Generation		
(i) Through Diesel Generator		
Units in lakhs	12.00	8.14
Units / Ltr.	3.20	3.10
Cost/Unit (Rs.)	9.03	9.64
(ii) Through steam turbine/generator		
Units in lakhs	209.00	197.76
Units/Ton of fuel mix	413.00	415.00
Cost/Unit (Rs.)	4.37	4.58
II Coal		
Quantity (Tonnes)	19932	18948
Total Cost (Rs. in lakhs)	816.81	841.68
Average Rate (Rs)	4092.00	4442.00
III Saw Dust etc.,		
Quantity (Tonnes)	23597	24305
Total Cost (Rs. in lakhs)	307.70	275.62
Average Rate (Rs)	1304.00	1134.00

B. CONSUMPTION / UNIT OF PRODUCTION

Electricity Unit/ Mtr. of Fabric	1.35	1.40
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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	-
b) Recurring	10.56
c) Total	10.56
d) R & D Expenditure as % of Total Turnover	0.05

II. Technology absorption, adaptation and innovation :

Continuous efforts are made towards technology innovation.

D. FOREIGN EXCHANGE EARNINGS AND OUTGO

a) Efforts : The Company will continue to push up its volume of exports and maintain its price realization.

b) Total Foreign exchange used and earned :

Foreign Exchange : Used	Rs.1909 Lakhs
Earned	Rs.8571 Lakhs

On behalf of the Board
KG Baalakrishnan
Executive Chairman

Coimbatore
26.05.2010

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 31.03.2010.

Sl. No.	Name & Designation	Age	Remuneration (Rs. in lakhs)	Qualification & Experience	Date of Commencement of Employment
1.	Shri B Sriramulu Managing Director	43	24.00	BE (Textile Technology) MS(Textile Technology) 21 Years	03.11.2003
2.	Shri B Srihari Managing Director	41	24.00	BE (Chemical Technology) MS(Chemical Technology) 19 Years	03.11.2003
3.	Shri Pradeep Kher Vice President (Marketing)	47	15.00	BE (Textile Technology) PGD in Marketing Mgt. 25 Years	04.07.2008

Notes :

1. Nature of employment in all cases are contractual.

2. Shri KG 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
KG Baalakrishnan
Executive Chairman

Coimbatore
26.05.2010

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 stake holders 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 April 2009 to 31st March 2010. The present strength of the Board is 12 Directors, out of which 6 are independent directors.

4 (Four) 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: 25th June 2009, 31st July 2009, 25th October 2009 and 29th January 2010. The Annual General Meeting was held on 29th September 2009. The table below gives the particulars of attendance of each Director at the Board Meetings held during the financial year and during his 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
Shri KG Baalakrishnan	4	4	Present	7	-	-
Shri B Sriramulu	4	4	Present	13	-	-
Shri B Srihari	4	4	Present	9	-	1
Shri G V S Desikan	4	4	Present	5	-	2
Shri V Jagadisan	4	4	Present	2	1	5
Shri K N V Ramani	4	4	Present	8	5	2
Shri G P Muniappan	4	4	Present	1	-	-
Smt T Anandhi	4	4	Present	4	-	-
Shri M J Vijayaraaghavan	4	3	Present	2	3	2
Shri Surinder Chhibber	4	3	Not Present	1	-	-
Shri A Velusamy	4	4	Present	7	1	4
Shri S Muthuswamy	4	4	Present	-	-	-

Profile of Directors retiring by rotation and eligible for reappointment

Shri Surinder Chhibber, aged 59 years is a post graduate in industrial engineering and operations research and has over 32 years of work experience in various capacities in foreign and Indian companies dealing in textiles and apparels.

Smt T Anandhi, aged 45 years has basic textile education and has over 15 years experience in textile field such as Cotton, Spinning and Garments. She is also on the board of various textile companies.

Shri G P Muniappan, aged 68 years is a post graduate in economics, is former Deputy Governor of the Reserve Bank of India.

Code of Conduct

In pursuance of Clause 49 of the listing agreement, the Board has approved the Code of Conduct for Board of Directors and Senior Management and the same has been circulated and posted on the Company's website. The Board of Directors and the Senior Management staff have given their declarations confirming compliance of the provisions of the above code of conduct.

3. COMMITTEES OF THE BOARD

a. Audit 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 judgment 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 the 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 25.06.2009, 30.07.2009, 24.10.2009 and 29.01.2010.

Composition of the Audit Committee as on 31st March, 2010 and the attendance during the year are as under:

Name of the Director	Position	Category	No. of Meetings held	No. of Meetings Attended
Shri V Jagadisan	Chairman	Independent, Non - Executive	4	4
Shri G V S Desikan	Member	Independent, Non - Executive	4	4
Shri K N V Ramani	Member	Independent, Non - Executive	4	4

All the members of the Audit Committee are financially literate with knowledge in finance and accounts.

The head of finance function, head of internal audit and the representative 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.

The Director and Company Secretary acts as the Secretary to the Committee.

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 Directors/Whole-Time Directors.

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 G P Muniappan, 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, etc.

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

During the year, the Shareholders'/Investors Grievance Committee meetings were held on 25.06.2009, 30.07.2009, 24.10.2009 and 29.01.2010.

Shri R K Sridhar, Asst. General 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 Exchange.

The total number of complaints received and replied to the satisfaction of shareholders during the year under review, was 18. Outstanding complaints as on 31st March 2010 were 'Nil'.

4. GENERAL MEETINGS

Location and date/time of the last three Annual General Meetings.

17 th AGM	29 th September 2009	10.30 a.m.	Registered Office premises, Then Thirumalai, Jadayampalayam, Coimbatore 641 302
16 th AGM	24 th September 2008	2.00 p.m.	- do -
15 th AGM	27 th August 2007	9.30 a.m.	- do -

No postal ballots were required to be used for voting at these meetings.

5. DISCLOSURES

There are no materially significant related party transactions that would have potential conflict with the interest of the Company at large. Details of related party transactions are given elsewhere in the Annual Report. The Register of Contracts containing the transactions in which the Directors are interested is placed before the Board regularly.

No penalty or strictures have been imposed on the Company by any regulatory authority for non-compliance of any laws.

The Company has complied with the Accounting Standards prescribed by the Institute of Chartered Accountants of India and as referred u/s 211 (3C) of the Companies Act, 1956.

K G DENIM LIMITED

6. MEANS OF COMMUNICATION

The Quarterly and Half yearly results are published in local dailies such as "Dinamani" and "The Financial Express" and on the company's website.

The Management Discussion and Analysis Report forms part of this Annual Report.

7. REMUNERATION TO DIRECTORS

For the financial year ended 31st March 2010, the remuneration paid to the Directors as indicated below:-

Name of the Director & Designation	Salary Amount (Rs.)	Perquisites and other benefits (Rs.)	Total (Rs.)
Shri B Sriramulu, Managing Director	24,00,000	-	24,00,000
Shri B Srihari, Managing Director	24,00,000	-	24,00,000
Shri A Velusamy, Director	5,34,000	55,536	5,89,536
Shri S Muthuswamy, Director & Company Secretary	6,67,500	82,500	7,50,000

The details of sitting fees paid to Non-Executive Directors for attending the Board or Committee Meetings during the financial year ended 31st March 2010 were as follows :-

Name of the Directors	Sitting Fee (Rs.)	No. of Shares held
Shri G V S Desikan	100000	200
Shri V Jagadisan	100000	Nil
Shri K N V Ramani	100000	10000
Shri G P Muniappan	20000	Nil
Shri M J Vijayaraaghavan	15000	Nil

8. GENERAL SHAREHOLDER INFORMATION

- 18TH AGM to be held on : 13.08.2010
at : 9.15 a.m.
venue : Registered Office Premises, Then Thirumalai, Jadayampalayam, Coimbatore 641 302
- Financial Calendar (Tentative)
First Quarter - Second week of August 2010
Second Quarter - Second week of November 2010
Third Quarter - Second week of February 2011
Results for the year ending 31st March 2011 last week of May 2011
- Date of Book Closure 02.08.2010 to 13.08.2010 (Both days inclusive)
- Listing of Equity Shares/Debentures Listed in Bombay Stock Exchange. The Company has paid the listing fees for the year 2010 - 2011.
- Registrar and Share Transfer Agents In accordance with SEBI's Circular dated 4th January 2003 directing that the work related to share registry, in physical & electronic modes, be maintained at a single point, as from 1st April 2003, both the above segments of share registry operations are now being handled by the SEBI Registered R & T Agent M/s Cameo Corporate Services Limited, at 'Subramanian Building', No.1 Club House Road, Chennai 600 002
- State Code Mumbai : Share - 1429
- Demat ISIN No. for NSDL & CDSL INE 104A01012
- Share Transfer System The Company's shares are traded in the stock exchange compulsorily in demat mode. Both the physical and demat modes of share transfers are being handled by company's Share Transfer Agent M/s Cameo Corporate Services Limited, 'Subramanian Building', No.1 Club House Road, Chennai 600 002
The share transfer committee, which is a Board Committee, approves the transfer of shares.
- Dematerialisation of Shares 90.02% of the total equity shares (23094519 Shares) were held in the dematerialised form as on 31st March 2010. Trading in equity shares of the company is permitted only in dematerialised form w.e.f 26.06.2000, as per the notification of SEBI.
- i. Details of Public Funding obtained in the last three years. No capital from public was raised during the last three years.
During the year 2007-08, preferential allotment was made to preference shareholders for redemption of preference shares held by them.
- ii. Outstanding GDRS/ADRS/Warrants or any convertible instrument None
- Plant Location K G DENIM LIMITED, Then Thirumalai, Jadayampalayam, Coimbatore 641 302
- Address for communication K G DENIM LIMITED, Then Thirumalai, Jadayampalayam, Coimbatore 641 302
- Website www.kgdenim.com



9. DISTRIBUTION OF SHAREHOLDING ON 31ST MARCH 2010

Category	No. of Shareholders	%	No. of Shares	%
Upto 5,000	14816	86.47	2713839	10.58
5,001 - 10,000	1262	7.36	1093288	4.26
10,001 - 20,000	473	2.76	759598	2.96
20,001 - 30,000	178	1.04	468410	1.83
30,001 - 40,000	67	0.39	246972	0.96
40,001 - 50,000	98	0.57	470201	1.83
50,001 - 1,00,000	120	0.70	910396	3.55
1,00,001 and above	121	0.71	18991201	74.03
Total	17135	100.00	25653905	100.00

10. SHARE PRICE DATA

Market price data of the company's equity shares in Bombay Stock Exchange for the period from April 2009 to March 2010 is as below:

Month	BSE Price	
	High	Low
April 2009	7.27	5.00
May 2009	9.12	5.04
June 2009	11.20	7.34
July 2009	8.40	6.66
August 2009	9.12	6.45
September 2009	12.19	8.41
October 2009	11.44	8.50
November 2009	11.95	9.30
December 2009	12.99	10.85
January 2010	16.94	11.75
February 2010	13.49	9.54
March 2010	13.30	10.10

11. COMPLIANCE WITH NON MANDATORY REQUIREMENT

1. As the Company communicates corporate, financial and product information online on the web site www.kgdenim.com individual communication of half yearly results is not sent to the shareholders.
2. The Company has not passed any resolution requiring approval of the shareholders by postal ballot.

COMPLIANCE CERTIFICATE ON CORPORATE GOVERNANCE

To the Members/Board of Directors of M/s K G DENIM LIMITED, COIMBATORE

We have read the report of the Board of Directors on Corporate Governance and have examined the relevant records relating to compliance of conditions of Corporate Governance by M/s K G Denim Limited for the year ended March 31, 2010, as stipulated in Clause 49 of the Listing Agreement of the said Company with stock exchange.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was conducted in the manner described in the Guidance Note on certification of Corporate Governance issued by the Institute of Chartered Accountants of India and was limited to the procedures and implementation thereof adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance as stipulated in the said clause. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us and on the basis of our examination described above, the Company has complied with the conditions of Corporate Governance as stipulated in Clause 49 of the above mentioned Listing Agreement.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For GOPALAIYER AND SUBRAMANIAN
Chartered Accountants
CA. R MAHADEVAN
Partner
Membership No.27497
Firm Regn. No.000960S

Coimbatore
26.05.2010

K G DENIM LIMITED

AUDITORS' REPORT TO THE MEMBERS OF K G DENIM LIMITED

- 1 We have audited the attached Balance Sheet of K G DENIM LIMITED as on 31st March 2010 and also the Profit & Loss Account for the year ended on that date annexed thereto and the cash flow statement for the year ended on that date. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
- 2 We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
- 3 As required by the Companies (Auditor's Report) (Amendment) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
- 4 Further to our comments in the Annexure referred to above, we report that;
 - (a) We have obtained all the information and explanations, which, to the best of our knowledge and belief, were necessary for the purposes of our audit;
 - (b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
 - (c) The Balance Sheet, Profit & Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - (d) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956.
 - (e) On the basis of written representations received from the directors as on 31st March 2010 and taken on record by the Board of Directors, we report that none of the director is disqualified as on 31st March 2010 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956;
- 5 In our opinion, and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India;
 - (a) In the case of Balance Sheet, of the state of affairs of the Company as at 31st March 2010;
 - (b) In the case of Profit & Loss Account, the PROFIT for the year ended on that date; and
 - (c) In the case of the cash flow statement, of the cash flows for the year ended on that date.

For GOPALAIYER AND SUBRAMANIAN
Chartered Accountants

CA. R MAHADEVAN
Partner
Membership No.27497
Firm Regn. No.000960S

Coimbatore
26.05.2010

ANNEXURE REFERRED TO IN PARAGRAPH (3) OF OUR REPORT OF EVEN DATE

I. IN RESPECT OF ITS FIXED ASSETS

- (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) The fixed assets have been physically verified by the management according to a phased programme designed to cover all the items over a period of three years, which in our opinion, is reasonable having regard to the size of the Company and nature of its assets. Pursuant to the programme, a portion of the fixed assets has been physically verified by the management during the year discrepancies noticed on such physical verification were not material and have been properly dealt with in books of accounts.
- (c) There were no disposal of substantial part of fixed assets during the year and hence the going concern of the Company is not affected.

II. IN RESPECT OF ITS INVENTORIES

- (a) As explained to us, inventories have been physically verified by the management at regular intervals during the year.
- (b) In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
- (c) The Company has maintained proper records of inventories. As explained to us there were no material discrepancies noticed on physical verification of inventories as compared to book records.

III. IN RESPECT OF LOANS, SECURED OR UNSECURED, GRANTED OR TAKEN BY THE COMPANY

The Company has neither taken any loans secured or unsecured, nor has granted any loans secured or unsecured to parties covered in the register maintained under Section 301 of the Companies Act, 1956 and hence sub-clauses (a) to (g) of Clause (iii) are not applicable.

IV. In our opinion and according to the explanations and information given to us, there is adequate internal control system commensurate with the size of the Company and the nature of business for the purchase of inventory and fixed assets and for the sale of goods. During the course of our audit no major weakness has been noticed in the internal control system.