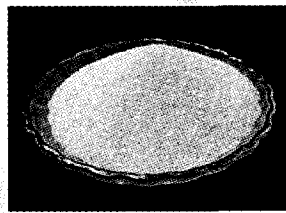
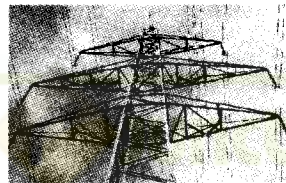


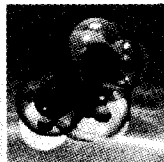
NOTHING SUCCEEDS LIKE SWEET SUCCESS



World Class Sugar



Power Generation



Ethanol



K M SUGAR MILLS LIMITED
Annual Report 2005-2006



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Turnover up by 229%

Net Profit up by 65%

Forward Looking Statement

Statement in this report that describe the company's objectives, projections, estimates, expectations or predications of the future may be 'forward looking statements' within the meaning of applicable

securities laws and regulations. The Company cautions that such statements involve risk and uncertainty and that actual results could differ materially from those expressed and implied.



Company Information

Company Information

BOARD OF DIRECTORS

Chairman

L K Jhunjhunwala

Whole Time Director

Aditya Jhunjhunwala, *Managing Director*

Sanjay Jhunjhunwala, *Joint Managing Director*

Subhash Chandra Aggrawal, *Executive Director*

Non Executive Director

H P Singhania

D K Kapila

Dr. Kirti Singh

R. S. Shukla

Auditors

M/s MEHROTRA & MEHROTRA

Chartered Accountants

C-561, DEFENCE COLONY,

NEW DELHI - 110 024

Bankers

STATE BANK OF INDIA

PUNJAB NATIONAL BANK

Registered Office

11, Moti Bhawan, Collectorganj, .

Kanpur U.P. - 208 001

Corporate Office & Works

Motinagar, Distt. Faizabad (U.P.) - 224 201

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Directors' Report ...

Your directors have the pleasure in presenting 34th Annual Report along with audited accounts of the company for the year ending September 30, 2006

Financial Results

	Current Year ended at 30.09.2006 Rs. in Lacs	Previous Year ended at 30.09.2005 Rs. in Lacs
Net Sales/Income from Operation	42493	12664
Other Income	188	316
Total Income (1+2)	42681	12980
Total Expenditure :	39824	11598
Decrease/(Increase) in stock in trade	164	594
Consumption of Raw Materials	36054	9116
Staff Cost	460	357
Other Expenditure	3146	1532
Interest	559	416
Depreciation	605	282
Profit before tax	1693	683
Provision for Current Tax	170	17
Provision for Deferred Tax	281	72
Net Profit before extra ordinary item	1242	593
Less: Extra ordinary item	270	
Net Profit	972	593
Balance Brought Forward from previous year	472	125
Profit Available for appropriation	1439	712
Proposed Dividend	276	180
Corporate Dividend Tax	39	25
Transfer to General Reserve	100	35
Balance Carried to balance Sheet	1025	472

Dividend

Your directors are pleased to recommend a tax free dividend of Rs. 1.50 per share (15%) for the year ended 30th September, 2006

Review of Operation

Sugar Division

The Company crushed 61,75,246.33 quintals of Sugar Cane in comparison to 49,66,862.83 quintals last year. We achieved recovery of 9.63% and the duration of crushing season was 148 gross days. After the modernization and expansion of the plant the factory achieved a crush rate of 6500 TCD.

During the year under report the average sugar price realized (including excise duty) improved to Rs. 1832 per quintal. The levy sugar price for the season 2005-06 is yet to be announced. However, levy sugar during this period was supplied at Rs. 1383.41 per quintal - the announced price for the season 2003-04. The ratio of levy and free sale sugar remained unchanged at 10:90.

The Statutory Minimum Price (SMP) of sugar cane was fixed at Rs. 80.25 per quintal linked to a basic recovery of 9.0 per cent with a premium for higher recovery whereas the U.P. Government had fixed the state advised price of Rs. 115/- per quintal of Sugar Cane for approved varieties. As per State Advised Price, the company had to pay following rate for Sugar Cane purchased by the company

Approved Variety Rs. 115/- per quintal
Early Variety Rs. 120/- per quintal
Rejected Variety Rs. 112/- per quintal

EXPORT

The Company has fulfilled its export obligation against advance licence of 10,000 M.T by exporting the same through Indian Sugar Exim Corporation Ltd.

TRADING

The company embarked on large scale trading sugar, which has reflected in the financial results. The company purchased sugar from a number of sugar factory in Maharashtra, Karnataka, etc and supplied the same to various companies for export. The total quantity exported by the company was 11,47,813 Quintals.

Power Division

The company has commissioned 50 Tonnes boiler and 10 MW Turbine. The balance part of the 20 MW



Directors Report ...

Co-generation projects is under implementation and the company hopes to supply electricity to UPPCL soon.

The Company has already entered into a Power Purchase Agreement for 20 MW power generation with U.P. Power Corporation Ltd. However, there has been some delay in commissioning of the project due to delayed sanction and disbursement of SDF loan.

Further the government has revised and fixed the rate of interest on SDF loan at 2% below the bank rate. This will reduce the interest cost on the power division.

Distillery Division

During the year 86.71 liters of Industrial Alcohol was produced and 43.16 liters of Ethanol was produced. The company participated in the tenders floated by the Oil Companies for supply of Ethanol and order for supply for the state of U.P. has been received.

The oil marketing companies have revised Ethanol rate to Rs. 21.50 per liter from Rs. 18.75 per liter which in turn should have favourable impact on distillery division.

The company converted its process to a batch type process which is expected to result in higher recovery.

INDIAN SUGAR SCENARIO

The sugar production in India was 191 Lac M.T during this year, which was due to good monsoon and remunerative cane price to the farmers. The production during the coming season is expected to touch 220 Lac Tonnes. Further sugar price in the international market has also dropped drastically due to good crops in other countries such as Brazil and Thailand. This coupled with sudden ban on export led to a fall in domestic sugar price. Recently the government has now partially allowed export against advance licence. However the ability of the Indian Industry to export would depend on the international sugar prices.

Clean Development Mechanism (CDM)

The Company's 20 MW Co-generation Project is under validation for Carbon benefits. We expect validation and registration to be completed soon.

ISSUE OF CAPITAL

During the year the company made an IPO of 64,00,034 Equity Shares of Rs. 10/- each at a premium of Rs. 42/- per share. The issue proceeds of Rs. 33.28 Crores had been utilized in accordance with objects of the issue. The company has also approved the preferential issue of 16,00,000 convertible warrants at the price of Rs. 72/- per share in their extra ordinary general meeting held on 5th day of May, 2006. However allotment of said warrants could not be made, as prospective allottees had expressed their inability to subscribe the said warrants.

CORPORATE GOVERNANCE

As per clause 49 of the Listing Agreement with the stock exchanges, Management's Discussion and Analysis, a report on Corporate Governance together with the Auditor's certificate on the compliance of conditions of Corporate Governance forms part of the Annual Report.

AUDITORS

M/s Mehrotra & Mehrotra Chartered Accountants, Auditors of your company, retire and being eligible, offer themselves for re-appointment.

AUDITORS' REPORT

The notes to the accounts referred to in the Auditors' Report are self explanatory and, therefore, do not call for any further comments.

DIRECTORS

IFCI Limited has withdrawn its nomination of Mr. O.P. Yadav on the Board w.e.f. 2nd day of November, 2006. The Board place on record its appreciation for the valuable contribution made by him during his tenure as a Director on the Board of the Company.

Mr. H.P. Singhanian, Director retires by rotation at the ensuing Annual General Meeting and being eligible offers himself for re-appointment.

Mr. D.K. Kapila, Director retires by rotation at the ensuing Annual General Meeting and being eligible offers himself for re-appointment.



LISTING OF SECURITIES

The equity shares of your company are listed on the Bombay Stock Exchange Ltd. The company has also made an application for listing on the National Stock Exchange Limited.

The annual listing fee upto the year 2006-07 has been paid to The Bombay Stock Exchange Ltd.

CORPORATE GOVERNANCE

As per clause 49 of the listing agreement with the stock exchange, a report on corporate governance, a management discussion and analysis statement, a certificate from the auditors regarding compliance of conditions of corporate governance and certificate from chief executive officer (CEO) and chief financial officer (CFO), form part of this annual report.

Conservation of Energy

The company continued to take all possible steps for conserving the energy.

FOREIGN EXCHANGE EARNINGS AND OUTGO

The company had no direct foreign exchange earning. A sum of Rs.48,64,353/- was spent in foreign currency during the year.

Director's Responsibility Statement

As required under the provisions of Section 217 (2AA) of the Companies (Amendment) Act, 2000, your directors confirm.

(a) The applicable accounting standards have been followed in preparation of annual accounts.

(b) The accounting policies have been applied consistently, judgments and estimates have been reasonable and prudent thereby giving a true and fair view of the state of affairs of the company at the end of

the financial year and of the profit of the Company for the year.

(c) Proper and sufficient care have been taken 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 other irregularities.

(d) The annual accounts have been prepared on a going concern basis.

PERSONNEL

Your Directors acknowledge the cooperation and assistance received by the management from all officers, staff and workmen of the Company. No employee is drawing remuneration in excess of limits specified in Section 217 (2A) of the Companies Act, 1956.

APPRECIATION

We deeply appreciate the ongoing co-operation and support provided by Central and State Governments and all Regulatory bodies.

We value our esteemed shareholders, customers, business associates, Financial/Investment Institutions and Commercial Banks for your confidence in your Company and its management.

The dedication and commitment of your Company's employees at all levels has been continued to be our major strength.

For and on behalf of the Board

L.K.Jhunjunwala
(Chairman)

Place: Lucknow

Date: 30th day of December, 2006



Annexure to the Directors Report

Information as required under Section 217(1) (e) of the Companies Act, 1956 read with the Companies Act, 1956 read with the Companies (Disclosure of particulars in the report of Board of Directors) Rules, 1988.

A. Conservation of energy

Energy Conservation Measures

1. Installation of Variable Frequency Drive in place of conventional system at Mills Cane Carrier, I.D. & F.D. fans of boilers from which we would save electricity by 40-50%.
2. Installed planetary gear box of crystallizers and Zero Mill which are very effective in transmitting the power resulting in energy saving of 70%.
3. Installation of auto condensing system of SEDEL system for last bodies of evaporators & vacuum pans which resulted in power saving of about 25% and this saving was utilized in enhancing the crushing capacity.
4. Molasses heating by noxious gases cum vapour of pan's noxious gases to reduce steam consumption which will result in reduction of steam consumption by 1.0% on cane.
5. C-masseccule boiling by second effect Vapour instead of first effect Vapour through continuous pan.
6. Flash Vapour recovery system from first effect condensate to second effect vapour line has been installed for steam saving by 0.5% on cane.
7. Energy Consumption per unit of Production: As per **Form-A** enclosed.

Form A

Disclosure of particulars with respect to conservation of energy for the year ended September 30th 2006.

Power & Fuel Consumption

Particulars	Unit	Current Year ended at 30 th September, 2006	Previous Year ended at 30 th Sept. 2005
(1) Electricity			
(a) Purchased Unit	Kwh	643802.00	492762.00
Total Amount	Rs.	3952841.00	3011147.00
Rate/unit	Rs.	6.13	6.38
(b) Own Generation			
(i) Through Diesel Generator unit		N.A.	N.A.
(ii) Through Steam Turbine			
Units	Kwh	227003476.00	13309920.00
Units/Qt. Bagasse	Kwh	19.00	19.00
Cost/unit		2.53	3.69
(2) Coal			
Quantity	Tonnes	Nil	Nil
Total Cost	Rs.	Nil	Nil
Average Rate	Rs.	Nil	Nil
(3) Others (Furnace Oil)			
Quantity	Tonnes	Nil	Nil
Total Cost	Rs.	Nil	Nil
Average Rate	Rs.	Nil	Nil
(Consumption per unit production)			
Products - Sugar	M.T.	599273.00	480792.00
Electricity	Kwh	3788.00	3989.00
Furnace Oil			
Coal			
Fire Wood	Qtl		

B. TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

1. Efforts, in brief, made towards technology Absorption, Adaptations and Innovation:
The technology used by the Company is being updated on continuous basis. The Company has not imported any technology and also no technical collaboration for its products.

**K.M.SUGAR MILLS LIMITED**

2. Benefits derived as a result of the above efforts, e.g. product improvement, cost reduction, product development, import substitution, etc.

Benefits derived as a result of the above efforts by way of higher recovery and reflected in the Working results of the Company. There is significant improvement in production of sugar as well as recovery on account of aforesaid development activities.

3. In case of imported technology (imported during the last 5 years reckoned from the beginning of the Financial year) following information may be furnished:

The Company has not imported any technology and also has no technical collaboration for its products:

- (a) Technology imported --- N.A.
 (b) Year of import --- N.A.
 (c) Has Technology been fully absorbed --- N.A.
 (d) If not absorbed, areas where this has not taken place --- N.A.

reasons thereof and future plans of action

Efforts made in technology absorption: As per Form B enclosed.

FORM-'B'

(See Rule - 2)

**FORM FOR DISCLOSURE OF PARTICULARS
WITH RESPECT TO ABSORPTION**

Research and Development (R & D)

1. Specific areas in which R & D carried out by the Company:
 The Company has been undertaking various Research and Development activities in the Under mentioned areas :-
- Procurement and multiplication of Breeder Seeds from Research Station with the object of varietal improvement.
 - Conducting demonstration plots, museum (with different varieties) 2 Tier Seed Nursery to educate the farmers with the latest technology of cane cultivation and performance of varieties.
 - Mechanical, Chemical and Biological control of prominent pests of Sugar cane in the area.
 - Ratoon Management by proper cultivation practices. Encouraging Multiple ratooning for economic cultivation.
 - Conducting research on the following aspects of cane yield per unit area.
 - Comparative study of field performance of new sugarcane varieties and their quality.
 - Study on yield performance of cane planted in autumn/spring.
 - Comparative Study of companion cropping of different crops with Sugarcane under Autumn Plantation of

Cane.

- Comparative Study on different methods of use of fertilizer.
 - Comparative Study on different methods of transplanting of sugar cane.
- Disease control by way of uprooting and burning disease affected clumps and distribution of disease free seeds raised from heat treated seed material.
 - Distribution of Bio Manures and Agro Chemicals for increasing productivity such as Moti Super, Carbofuron, Phorate, Mercurial compounds and DAP.
2. Benefits derived as a result of the above R & D :
 With our consistent efforts in the field of cane development, there has been significant increase in yield per hectare and total production. We have also improved our varietal position, which will reflect on better sugar recovery. No capital expenditure has been incurred on R & D work, but some recurring expenses were incurred during the year.
3. Future Plan of Action :
- Future plans to continue Research and Development work in the field of Sugar Cane Cultivation to further increase the yield per unit of area.
 - Installation of M.H.T. Plants at different stations in factory zone.
 - Distribution of improved quality farm equipments among the cane growers.
4. Expenditure on R & D
- Capital
 - Recurring Rs. 41.28 lacs
 - Total Rs. 41.28 lacs
 - Total R & D expenditure as a 0.10% percentage of total turnover

C. FOREIGN EXCHANGE EARNING & OUTGO

	2005-06	2004-05
i) Activities relating to exports initiative taken to increase exports	Various export proposals are being examined	Various export proposals are being examined
ii) Development of new export market for product and services and export plan	-do-	-do-
iii) Total foreign exchange earnings (Rs. Lacs)	Nil	Nil
iv) Used (Rs. Lacs)	48,64,353/-	Nil



Corporate Governance Report ...

(Pursuant to clause 49 of the Listing Agreement with Stock Exchange)

➤ **Governance Philosophy**

The K.M.Sugar Mills Limited is Committed to the adoption of best governance practices and its adherence in the true spirit, at all times. Our governance practices stems from an inherent desire to improve and innovate and reflects the culture of trusteeship that is deeply ingrained in our value System and forms part of the strategic though process. Our governance philosophy rests on five basic tenets viz. Board accountability to the company and shareholders, strategic guidance and effective monitoring by the Board, protection of minority interests and rights, equitable treatment of all shareholders as well as Superior transparency and timely disclosure.

➤ **COMPOSITION OF BOARD OF DIRECTORS**

The current policy is to have an appropriate mix of independent and executive directors on the board as on 30th September, 2006. The constitution of the board was as follows.

3 Promoters Executive Directors
1 Non-promoter Executive Director
4 Independent Non-executive Directors
1 Non-executive nominated Director

The composition of the board of directors and also No. of other directorship and Committee membership held by them as on 30th September, 2006, which is as follows:-

Sr. No.	Name of Directors	Executive/ Independent Non-Executive	No. of other directorship	No. of Membership/ Chairmanship of other Board Committee
1.	L.K. Jhunjhunwala	Chairman	7	-
2.	Aditya Jhunjhunwala	Managing Director	12	-
3.	Sanjay Jhunjhunwala	Jt Managing Director	4	-
4.	H.P. Singhania	Independent Director	4	Chairman of 1 investor grievance committee
5.	Dr. Kirti Singh	Independent Director	-	-

6.	D.K. Kapila	Independent Director	4	Chairman in 3 Audit committees & member in 2 other committees.
7.	R.S.Shukla	Independent Director	-	-
8.	*O.P. Yadav	Independent Director	3	-
9.	S.C.Agarwal	Executive Director	-	-

* IFCI Limited has withdrawn the nomination of Mr. O P Yadav w.e.f. 2nd day of November, 2006

➤ **NON-EXECUTIVE DIRECTORS COMPENSATION**

All fees/ compensation, (except sitting fees) paid to non-executive directors, including independent directors, shall be fixed by the Board Directors and shall require shareholder's approval. Sitting fees for attending meeting of the Board / committee is paid as per the provision of Articles of Association of the Company. Commission paid to the non- executive directors is fixed by Board of Directors pursuant to the shareholders approval.

➤ **OTHER PROVISIONS OF THE BOARD**

The Board shall meet at least four times a year, with a maximum time gap of four months between any two meetings. The minimum information to be made available to the Board as prescribed in Clause 49 of the Listing agreement.

The Company's Board of Directors play primary sole in excusing good governance and functioning of the Company. All relevant information (as mandated by the regulations) is place before the Board. The Board reviews from time to time Compliance reports of all laws applicable to the Company as well as steps taken by the company to rectify instances of non-compliances. The members of the Board have complete freedom to express their opinion and decisions are taken after detailed discussion. The details of Board meeting held during F.Y. ended 30.09.2006 are as out lined below:-



Date of Board Meeting	City	No. of Directors Present
05.11.2005	Lucknow	5
30.01.2006	Lucknow	7
04.04.2006	Faizabad	6
25.04.2006	Lucknow	5
31.07.2006	Lucknow	6

➤ **AUDIT COMMITTEE**

The Company has an Audit Committee at the Board level which acts as a link between the management, the statutory and internal auditors and the Board of Directors and oversees the financial reporting process.

➤ **COMPOSITION OF AUDIT COMMITTEE**

Sr. No	Name of Director's	Independent / Non- Executive
1.	Shri D.K. Kapila	Independent
2.	Shri R.S. Shukla	Independent
3.	Shri H.P.Singhanina	Independent
4.	Shri Sanjay Jhunjunwala	Executive

The details of Audit Committee Meeting held during F.Y. ended 30.09.2006 are as out lined below:

Sr. No.	Date of Meeting	City	No. of Directors present
1.	05.11.2005	Lucknow	4
2.	30.01.2006	Lucknow	4
3.	25.04.2006	Lucknow	4
4	31.07.2006	Lucknow	3

The Scope of the functioning of the Audit Committee is to review , from time to time , the internal control procedures, the accounting policies of the company and such other functions as may be recommended from time to time by SEBI , Stock Exchanges and / or under the Companies Act, 1956 Which interalia include review of :-

- 1) Management Discussion and Analysis of financial condition and results of operation.
- 2) Statement of significant related party transactions submitted by management.
- 3) Management letters / letters of internal control weaknesses issued by the statutory auditors.
- 4) Internal audit reports relating to internal control weaknesses and the appointment , removal and terms of remuneration of the Chief internal auditor;
- 5) Risk framework

SHAREHOLDER'S GRIEVANCE COMMITTEE

The company is having a Investor's Grievances Committee it deals with the matters relating to share transfer / transmission, issue of duplicate share certificates, approving the split and consolidation requests and the redressal of the shareholders and investors grievances in relation non-receipt of dividend etc.

M/s Intime Spectrum Registry Ltd. has been appointed as Registrar and share transfer Agent to comply with the SEBI Rules and Regulations.

➤ **COMPOSITION OF SHAREHOLDERS GRIEVANCE COMMITTEE**

Sr. No.	Name of Member	Independent /Non- executive
1.	Shri H.P.Singhanina	Independent
2.	Shri D.K.Kapila	Independent
3.	Shri Aditya Jhunjunwala	Executive
4.	Shri R.S. Shukla	Independent

The details of shareholders' Grievances Committee held during f.y. ended 30.09.2006 are as below.

Sr. No.	Date of Meeting	City	No. of Directors Present
1	30.01.2006	Lucknow	4
2	25.04.2006	Lucknow	4
3	31.07.2006	Lucknow	3