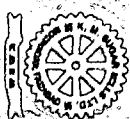


ANNUAL REPORT 2007-2008

K M SUGAR MILLS LTD.





Contents

1. Director's Report	3
2. Corporate Governance Report	5
3. Financial Analysis	11
4. Profit & Loss account	14
5. Schedules	17
6. Cash flow Statement	18
7. Balance Sheet Abstract	19
8.	35
9.	36

Forward Looking Statement

Statement in this report that describe the company's objectives, projections, estimates, expectations or predictions 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.



Corporate Information

Directors

1. Shri L. K. Jhunjhunwala
Chairman
2. Shri Aditya Jhunjhunwala
Managing Director
3. Shri Sanjay Jhunjhunwala
Jt. Managing Director
4. Shri Subhash Chandra Aggarwal
Executive Director
5. Shri Hemantpat Singhania
Director
6. Shri. R. S. Shukla
Director
7. Shri S. K. Gupta
Director
8. Dr. Kirti Singh
Director

Registered Office

11, Moti Bhawan
Collectorganj,
Kanpur-U.P. 208001

Registrar & Share Transfer Agent

In Time Spectrum Registry Limited
C-13, Pannalal Silk Mills Compound,
L. B. S. Marg,
Bhandup West
Mumbai 400078

Company Secretary

Shri Ajay Misra

Corporate Office & Works

Motinagar,
Distt. Faizabad U.P. -224201

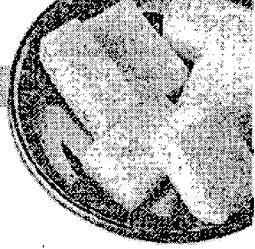
Bankers

State Bank of India
Punjab National Bank
Federal Bank Ltd.

Auditors

M/s Mehrotra & Mehrotra
Chartered Accountants
C-561, Defense Colony
New Delhi-110024

Company Information ...



“ The Financial Year 2007-08 was tough for the K. M. Sugar Mills Ltd. Tough for employees. Tough for the management and also tough for the stakeholders.

But there is optimism to share.

We are taking numbers of measures towards the corporate renewal that will strength our performance over the coming year.”



Directors Report

Dear Shareholders

Yours Directors are pleased to present 36th Annual Report and the audited accounts of the Company for the year ended September 30, 2008

(Rs. In Lacs)

	2007-08	2006-07
Profit before interest, depreciation & Tax	1534	(815)
Less: Interest	(1029)	(551)
Depreciation	(1605)	(1073)
Profit before tax	(1100)	(2439)
Provision for taxation (including FBT)	(8)	(9)
Provision for taxation (deferred)	(111)	(445)
Net profit before extra ordinary item	(1219)	(2893)
Add: Extra ordinary item	4	130
Net Profit	(1215)	(2763)
Add: Balance brought forward from previous year	(1746)	1025
Transfer to Molasses Reserve Fund	(6)	(8)
Amount available for appropriation	(2967)	(1746)
Transfer to general reserve	Nil	Nil
Balance carried to Balance Sheet	(2967)	(1746)

DIVIDEND

Due to non availability of profit during the Financial Year your directors are unable to recommend any dividend.

OVERALL OPERATIONAL HIGHLIGHTS

During the Financial Year 2007-08 the total turnover of the Company, net of excise duty including other income for the year ended September 30, 2008 was Rs. 31,338 Lacs compared with Rs. 12,677 Lacs for the previous year ended September 30, 2007, which is an increase by 247%, including trading of sugar The Company has reported an EBITDA of Rs. 1534 Lacs compared with Rs. (815) Lacs for the previous year ended September 30, 2007.

SUGAR DIVISION

The manufacturing results for the sugar unit at Motinagar, Faizabad during the crushing season 2007-08 are as under:

	Season 2007-08	Season 2006-07
Gross Working days	117	176
Total Cane Crushed (qtls.)	5446995.57	8147202.87
Average cane crushed per day (qtls.)	46555.52	46290.93
Average Recovery	9.50	8.91

During the crushing season the sugar cane crop was badly affected in the eastern to frost, flood and other climatic conditions. Further the Sugar Mills in Uttar Pradesh which began crushing late in November, 2007 due to cane price dispute which is still pending with Hon' able Supreme Court, have been closed earlier due to shortage of sugarcane supply.

CANE MANAGEMENT

Since, the disease free and healthy cane is a base for good sugar recovery. Management of the Company is giving top priority to develop high yielding varieties of sugarcane in the reserved area of the factory. During the whole of the year company sponsored various programs among the farmers to educate them for growing high yielding of sugar cane. For this reason, the company incurred considerable expenses on other related activities, like development of roads in the area, supply of disease free cane seed & various pesticides at subsidized rates to the farmers.

But during the last crushing season all the efforts went in to vain due nature disturbance. The reserved area of the company was highly affected due to flood and destroyed most of the standing sugarcane crop even the left crop could not have the quality to give more recovery.

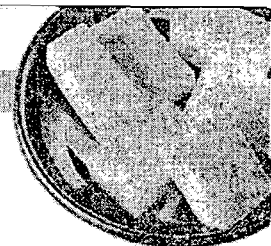
CANE PRICE

During the whole of the year a chaos was created over the price of the sugar cane. The State Government has notified the Cane Price of Rs. 125 per qtl against which the sugar mills under the banner of ISMA went to the court. Thereafter the Interim price fixed by the Hon' able Supreme Court for the season 2007-08 was Rs. 110/- The final judgment in this case is still pending. The company has booked cane purchase as per the interim order of the Hon' able Supreme Court.

CO-GENERATION

Sugar is a power demanding business, the saving grace is the Company's ability to generate power from sugar by-product bagasse. The Company enjoys an adequate exportable surplus of 20 MW co-generation capacity. The bagasse-based co-generation units qualify as a clean development mechanism project, helping the Company earn carbon credits. However CDM the validating agency has informed that since bagasse used in the co-generation unit was not weighed hence the company would have to seek deviation from the UNFCCC. We have since filed the deviation with UNFCCC and expected to get deviation very soon. However, less bagasse due to less cane became the gray side of the project.

Directors Report ...



The other matrix is as under:

Particulars	01/10/2007 to 30/09/2008	01/10/2006 to 30/09/2007
Production Capacity	25 MW	25 MW
Total Production	22832 MW	11148.50 MW
Export	13751.52	7999.02

DISTILLERY

The working of distillery during the Financial Year ended 30th September was not up to the mark because of un favorable climatic condition, high rate of molasses in comparison of less rate of rectified spirit. At the high price of molasses it was not viable to purchase molasses from out side. This year too availability of molasses is lower than last year and this will impact the working of distillery.

Particulars	01/10/2007 to 30/09/2008	01/10/2006 to 30/09/2007
RECTIFIED SPIRIT		
Production (In Lacs BL)	72.506	128.928
Cap. Utilization (%)	53.70%	95.50%
ETHANOL		
Production (In Lacs BL)	10.905	9.398
Cap. Utilization (%)	12.11%	10.44%

MANAGEMENT ANALYSIS REPORT

The detailed performance of both the businesses of the Company for the year ended September 30th, 2008 as required under listing agreement has been stated in the Management Discussion and Analysis Report in the section on Corporate Governance. Current year Prospects have also been discussed under this section of Corporate Governance.

DIRECTORS

On the Recommendation of "Remuneration Committee of Directors", the Board of Directors of the Company have re-appointed Shri L. K. Jhunjhunwala, Chairman, Shri Aditya Jhunjhunwala Managing Director, Shri Sanjay Jhunjhunwala, Jt. Managing Director and Shri Subhash Chandra Aggarwal, Executive Director of the Company for a period of three years w.e.f. 01-04-2009 to 31-03- 2011 on the revised terms, conditions and remuneration, subject to your approval. The experience and qualification of all the above mentioned directors are given in the Notice convening this meeting against the relevant item of the Agenda.

The following Directors of your Company are due to retire by rotation u/s 256 of the Companies Act, 1956. They are eligible for re-appointment and offer themselves for the same:-

1. Shri Hemantpat Singhania
2. Shri R. S. Shukla

The required information pursuant to clause 49 of the listing agreement regarding experience, qualifications, name of the companies in which the above Directors hold directorship and membership of the Committee of the Board are given in the notice convening this Annual General Meeting against the relevant item of the Agenda.

AUDITORS

M/s. Mehrotra & Mehrotra, Chartered Accountants, New Delhi, Auditors of the Company retires at the conclusion of the forthcoming Annual General Meeting and being eligible, offer themselves for reappointment. They have furnished a certificate to the effect that their proposed reappointment, if made, will be in accordance within the limits specified u/s 224 (1-B) of the Companies Act, 1956.

AUDITORS' REPORT

There is no adverse observation in the Auditors' Report read with the relevant Notes to accounts in Schedule '16' of the Annual Accounts. Since such observations are of routine nature and self explanatory, therefore, do not require further explanation.

PUBLIC DEPOSITS

The company has not accepted any deposit during the Financial Year 2007-08.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE AND OUTGO

The particulars required under Section 217(1)(e) of the Companies Act, 1956, read with Companies (Disclosure of Particulars in the Report of the Board of Directors), Rules, 1988 are given in 'Annexure 1' and forms part of this Report.

PARTICULARS OF EMPLOYEES

Particulars of employees as required under Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 as amended are given in 'Annexure 2' and forms part of this Report.



Corporate Governance Report

CORPORATE GOVERNANCE

The separate section on "Corporate Governance" including a certificate from the Auditors of the Company confirming compliance of the conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreement with Stock Exchanges is given in 'Annexure -3' and forms part of this Report

and cane producers and finally to all shareholders, for their trust and confidence reposed on the Company. The Directors also express their deep sense of appreciation for the committed services of the executives, staff and workers of the Company.

For and on behalf of the board

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Sub-section 217(2AA) of the Companies Act, 1956, with respect to Directors' Responsibility Statement, the Directors confirm:

- that in the preparation of the annual accounts, the applicable accounting standards have been followed by the company.
- that they have selected such accounting policies, applied them consistently, 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 loss of the Company for the year ended on that date.
- that they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing & the detecting fraud and other irregularities; and
- that they have prepared the annual accounts on a going concern basis.

L. K. Jhunlijhunwala
Chairman

Place: Lucknow
Dated: 30.01.2009

ANNEXURE TO THE DIRECTORS REPORT

Annexure 1 CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE AND OUTGO FORM A

Disclosure of particulars with respect to conservation of Energy

Particulars	Unit	Current Year ended at 30 th September 2008	Current Year ended at 30 th September 2007
Electricity			
Purchased Unit	Kwh	2245200	1184160
Total amount	Rs.	6735600	3528796.80
a) Own Generation			
i) Through Diesel Generation	Kwh	0.28 ltr/kwh	0.30 ltr/kwh
Units per litre of Diesel	Kwh	2.1 kg/kwh	-
ii) Through Steam Turbine Generation	Rs.	2.44 Rs./kwh	-
Kg of Bagasse required			
kwh			
iii) Total units Generated			
Total Cost/Unit			
b) Consumption per unit production			
Product -sugar.	kwh	227795000	11057500
Total Generation of Electricity		2733540	1548050
Less: Consumption for Co-gen Plant		81191760	7999440
Less: Consumption for Distillery Plant		143869700	1510010
Less: Export to UPPCL			
Balance: Consumption for Sugar Plant			

LISTING ARRANGEMENT

The shares of the Company continue to remain listed with the Bombay Stock Exchange and National Stock Exchange Limited and the annual listing fee for the year 2008-2009 has been paid.

INDUSTRIAL RELATIONS

The industrial relations have been cordial at all the plants of the Company during the year.

Management Discussion and Analysis Report (MDA)

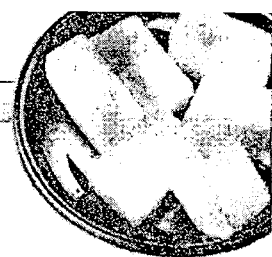
The Management Discussion and Analysis Report on the business and operations of the Company is attached to this report.

Acknowledgements

Your Directors wish to place on record their sincere appreciation for the assistance and co-operation received from the banks, government authorities, customers, vendors



K.M.SUGAR MILLS LIMITED



FORM B

I. Disclosure of particulars with respect to Technology Absorption Research & Development (R&D)

1.	Specific are as in which R & D carried out by the Company	<ul style="list-style-type: none"> Modification of cane feeding arrangement at Cane Carrier by lower down the auxiliary cane carrier head shaft and remove the head on cutter & kicker for increase the feeding length. Installation of 21kg/Cm 2 to 7 kg/Cm 2 PRDS for boiling house steam requirement and remove 21kg/Cm to 13Kg/Cm2 PRDS. Besides above various measures have been taken at different points of steam & electric power consumption.
2.	Benefits derived as results of the above R & D	<ul style="list-style-type: none"> Due to above the company has saved 500 bhp power. Last year the company obtained the final preparatory Index 85-86+ and this year again and saved the power 500+400 = 900 HP from cane preparation 1st R.J. heated by V.L.J.H. at last body of Evaporator for steam saving Raw juice 2nd heating controlled by DCS operation and maintained the juice out let temperature and reduce the steam consumption. At molasses conditioner we controlled the steam temperature 70^o C through automation and reduce the steam consumption All exhaust condensate collected at one place to avoid the wastage of exhaust condensate.
3.	Further plan of action	
4.	Expenditure on R & D	
	i) Capital	Nil
	ii) Recurring Expenditure	Nil
	iii) Total	Nil
	iv) Total R & D expenditure as a percentage of total turnover	Nil

II. Technology absorption, adaptation and innovation:

III. Foreign Exchange Earnings & Out go

i)	Activities relating to exports initiative taken to increase exports	NIL
ii)	Development of new export market for product and services and export plan	NIL
iii)	Total foreign exchange earnings (Rs. Lacs)	NIL
iv)	Used (Rs. Lacs)	NIL

Annexure 2

Information pursuant to Section 217 (2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the year ended September 30, 2008.

A. EMPLOYED THROUGHOUT THE FINANCIAL YEAR AND WERE IN RECEIPT OF EMUNERATION IN AGGREGATE OF NOT LESS THAN Rs. 24, 00,000 PER ANNUM.

Sl.	Name	Age years	Designation	Qualification	Experience (in years)	Date of Commencement of employment	Remuneration. Rs. in Lacs	Previous employment
1	L.K. Jhunjhunwala	66	Chairman	Graduate	32 years	01.04.2005	24.00	First employment

B. EMPLOYED FOR PART OF THE FINANCIAL YEAR AND WERE IN RECEIPT OF REMUNERATION AT A RATE NOT LESS THAN Rs. 2,00,000 PER MONTH.

Sl.	Name	Age years	Designation	Qualification	Experience (in years)	Date of Commencement of employment	Remuneration. Rs. in Lacs	Previous employment
NIL								

Annexure 3

DIRECTORS' REPORT ON CORPORATE GOVERNANCE

1. Company philosophy on Code of Governance

K. M. Sugar Mills Limited firmly believes that good governance practices that create long term sustainable shareholder value. The Company's philosophy on corporate governance envisages the attainment of the highest levels of transparency, accountability and equity in all facets of its operations and in all its interactions with its shareholders,



employees, the Government and the lenders. The company aims to increase and sustain its corporate value through growth and innovation.

2. Board of Directors

The current policy is to have an appropriate mix of Executive and Independent Directors to maintain the independence of the Board. As on 30th September, 2008, the Board contains optimum mix as per the Listing Agreement. The present strength of the Board is eight and its mix is:

- ✓ Three Promoters, Executive Directors
- ✓ One Non-Promoters, Executive Directors
- ✓ Four Independent, Non-Executive Directors

During the year ended 30th September, 2008, four Board meetings were held on December 29, 2007, January 31, 2008, April 30, 2008 and July 31, 2008. The composition of the Board of Directors as on 30th September 2008, the number of other Board of Directors or Board Committees of which he is a member/Chairperson and the attendance of each director at these Board meetings and the last Annual General Meeting (AGM) are as under:

Name of Director	Category	No. of other Directorships (Public Limited Company)	No. of Chairmanships/membership on other Board Committees	No. of Board Meeting attends	Attendance at last AGM
1. L.K. Jhunjhunwala	Promoter, Executive	-	-	4	No
2. Aditya Jhunjhunwala	Promoter, Executive	2	-	1	No
3. Sanjay Jhunjhunwala	Promoter, Executive	-	-	4	Yes
4. S.C. Aggarwal	Independent, Executive	-	-	4	No
5. H.P. Singhanian	Independent, Non executive	1	1	4	Yes
6. Dr. Kirti Singh	Independent, Non executive	-	-	1	No
7. R.S. Shukla	Independent, Non executive	-	-	4	Yes
8. S. K. Gupta	Independent, Non executive	-	-	4	Yes

Board Procedure

The Board Meeting of the Company held at least once a quarter to review the quarterly performance and the financial results. The members of the Board are generally informed well in advance at least seven clear days from the date of the Board Meeting in writing and as well as over phone. All the items on the Agenda are accompanied by notes giving comprehensive information on the related subject. The Agenda and the relevant notes are sent in advance separately to each Director and only in exceptional cases, the same is tabled at the meeting.

The information as specified in Annexure I to clause 49 of the listing agreement is regularly made available to the Board.

To enable the Board to discharge its responsibilities effectively, the members of the Board are briefed at every Board meeting on the overall performance of the company. In

addition to matters statutorily requiring Board's approval, all major decisions involving policy formulation, capital expenditure budgets, new investments, compliance with statutory / regulatory requirements are considered by the Board.

The Minutes of the Board Meeting are circulated in advance to all Directors and confirmed at subsequent meeting.

Details of Directors seeking reappointment at the ensuing Annual General Meeting

In respect of Directors seeking appointment or reappointment, the Notice for the Annual General Meeting contains all the relevant information, like brief resume of the Directors, nature of their expertise in specific functional areas and name of the companies in which they hold Directorship and Membership of any Committee of the Board.

3. Board Committees

Currently, the Board has three committees, the Audit Committee, the Remuneration Committee and Investor Grievance Committee. The Board is responsible for constituting, assigning, co-opting for Committee Members to various Committee meetings.

The quorum for meetings is either two members or one-third of the members of the committees, whichever is higher.

Audit Committee

Composition

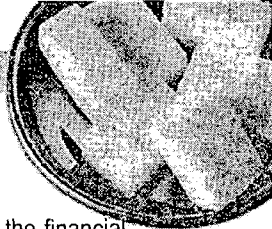
The Audit Committee comprises four out of three Non-executive Independent Directors. The audit Committee met four times during the year on December 29, 2007, January 31, 2008, April 30, 2008 and July 31, 2008. Attendance of the members at the meeting was as under:

1. Mr. H. P. Singhanian	Chairman	4
2. Mr. R. S. Shukla	Member	4
3. Mr. Sanjay Jhunjhunwala	Member	4
4. Mr. S.K. Gupta	Member	3

The Chief Financial Officer, the External and Internal Auditors are the permanent invitees. The Company Secretary is the Secretary of the Committee.

Terms of Reference and Powers:

Oversee Company's financial reporting process and disclosure of its financial information to ensure that the financial statements are correct, sufficient and credible. Recommend the appointment and removal of external



auditor, fixing audit fees and also approval for payment for any other service.

Review with management the quarterly, half yearly and annual financial statements before submission to the Board. Review with the management External and Internal Auditors, adequacy of internal control system.

Review the adequacy of internal audit function including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.

Discussion with the Internal Auditors, any significant findings and follow up thereon.

Review the findings of any internal investigation by the Internal Auditors in to matters where there is suspected fraud. Discussion with External Auditors before the audit commences nature and scope of audit as well as post audit discussion to ascertain any area of concern.

Review Company's Financial Risk Management Policies and also to look into the reasons for substantial defaults in payments to depositors, shareholders and creditors.

Review any matter in relation to the items specified in Section 292A of the Companies Act, 1956 or referred to it by the Board and for this purpose shall have full access to information contained in the records of the Company and obtain external professional advice, if necessary.

Remuneration Committee

Composition

Remuneration Committee comprises three Non-executive Independent Directors. The remuneration Committee met four times during the year on December 29, 2007, January 31, 2008, April 30, 2008 and July 31, 2008 Attendance of the members at the meeting was as under:

- | | |
|---------------------------------|---|
| 1. Mr. H. P. Singhania Chairman | 4 |
| 2. Mr. R. S. Shukla Member | 4 |
| 3. Mr. S. K. Gupta, Member | 3 |

Remuneration Policy

Non-Executive Directors

The remuneration to the Non-executive Directors is decided and approved unanimously by the Board of Directors. The Non- Executive Directors are paid remuneration by way of sitting fees Rs. 5000 only for each meeting of the Board or any committee thereof attended by them.

Executive Directors

The remuneration committee has been constituted to decide and recommend to the Board of Directors the remuneration package for the Chairman, Managing Director, Jt. Managing Director & Executive Directors, subject to the limit prescribed under the Companies Cat, 1956.

The remuneration paid to the directors during the financial year ending on September 30, 2008 is as under :

Name	Salary & Allowance	Perquisites & other profits	Incentives/ Bonus Paid	Sitting Fees
L. K. Jhunjhunwala	2400000	-----	-----	-----
Aditya Jhunjhunwala	1200000	-----	-----	-----
Sanjay Jhunjhunwala	1200000	-----	-----	-----
S.C. Aggarwal	300000	-----	-----	-----
H.P. Singhania	-----	-----	-----	17000
R.S. Shukla	-----	-----	-----	17000
Dr. Kirti Singh	-----	-----	-----	5000
S. K. Gupta	-----	-----	-----	12000

Shareholders' Grievance Committee

Composition

Remuneration Committee comprises four directors out of which one executive director and three non-executive Independent Directors. The Committee met four times during the year on December 29, 2007, January 31, 2008, April 30, 2008 and July 31, 2008 Attendance of the members at the meeting was as under:

- | | |
|---------------------------------|---|
| 1. Mr. H. P. Singhania Chairman | 4 |
| 2. Mr. R. S. Shukla Member | 4 |
| 3. Mr. S. K. Gupta, Member | 3 |
| 4. Mr. Aditya Jhunjhunwala | 1 |

GENERAL BODY MEETING

Particulars of the last three Annual General Meetings :

Financial Year	Day & Date	Location	Time
2004-05	Saturday, 05.11.2005	11, Moti Nagar, Moti Bhawan, Collectorganj, Kanpur-208001	4.00 P.M.
2005-06		Check Mate Banquet Hall, 7/17/2 Parvati Vagla Road, Tilak Nagar, Kanpur- 208001	11.00 A.M.
2006-07	Wednesday, 26.03.2008		

DISCLOSURES

- There are no transactions of the company of material nature with promoters, directors, management, subsidiaries or relatives etc: which would have potential conflicts with the interest of the company at large.
- Disclosure of Accounting Treatment**
In the preparation of the financial statements, the Company has followed the Accounting Standards issued by the Institute of Chartered Accountants of India. There are no cases, wherein treatment different from that prescribed in Accounting Standards has been followed.