

KOHINOOR'S AUTHENTIC DELIGHTS



Annual Report | 2007-08



www.kohinoorfoods.in

www.reportjunction.com

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Board of Directors

Mr Jugal Kishore Arora	Chairman
Mr Satnam Arora	Jt. Managing Director
Mr Gurnam Arora	Jt. Managing Director
Mr Vijay Burman	Non-Executive Director
Mr Anil Bhatia	Non-Executive Director
Mr Vijay Parkash Aggarwal	Non-Executive Director

Company Secretary	Ms Kanika Verma
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Auditors

M/s Mayur Batra & Co
 Chartered Accountants

Bankers

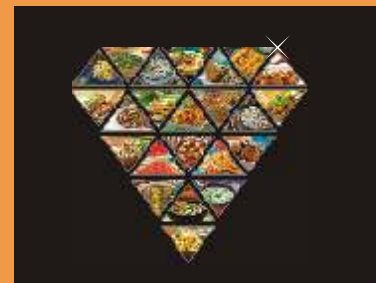
Oriental Bank of Commerce
 State Bank of India
 Punjab National Bank
 Corporation Bank
 Standard Chartered Bank
 HSBC Ltd.
 HDFC Bank Limited

Transfer Agents

M/s Skyline Financial Services Pvt. Ltd.
 246, First Floor, Sant Nagar, East Of Kailash,
 New Delhi-110065
 Tel: 26292680/82
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Listing of Equity Shares

National Stock Exchange Ltd.
 Bombay Stock Exchange



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Contents

Chairman's message	3
Directors' report and management discussion & analysis	5
Auditors' report	22
Balance sheet	26
Profit & loss account	27
Schedules	28
Consolidated balance sheet, Profit & loss account and schedules	43
Auditors' report	54
Subsidiary companies Joint venture company	55

Chairman's message

Dear Shareholders,

It gives me great pleasure to inform you that your company Kohinoor Foods Limited is well on its way in establishing itself as a globally competitive multi product foods company. We have been able to successfully increase the penetration of your company's products across the world. It is exciting times for your company because Indian food is growing in popularity across the world. We are able to watch retail trends carefully and have successfully launched several new products.

During the year, the company has added further names to its existing list of prestigious retail chains that stock Kohinoor products across the globe;



introduced Kohinoor to five new countries; enlarged its portfolio in ambient and frozen foods.

Your company has successfully increased the percentage of branded product sales to 71% of our turnover. The company continued to focus on the rapidly changing domestic market and have taken several strategic initiatives to exploit this opportunity.

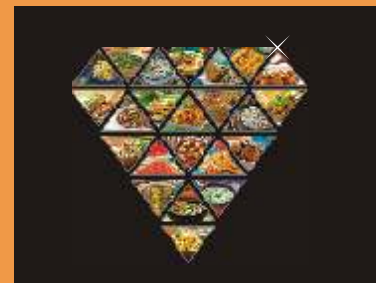
Focus on Domestic Market

Currently 44.46% of the turnover for the company comes from the domestic market and the domestic branded basmati rice business is growing at around 22%. We believe that our branded basmati sales will continue to be driven by the domestic market and your company is ideally placed to seize the opportunity arising out of continuing growth of modern retail formats in the country. The foods services division is also pursuing the domestic opportunity aggressively and has won several prestigious institutional clients.

Building sustainability and growth in the foods business

During the year, the company has further expanded its product portfolio in the ambient foods side to include more than 20 new products and more than 24 new products in the frozen foods side. The Company has during the year appointed four dedicated distributors in Sydney, Adelaide, Perth and Melbourne to increase its presence in Australia, which is emerging as a key market for frozen foods, further 12 product lines of Kohinoor frozen foods have been selected by *ASDA* Walmart to be displayed in over 250 stores. The company has also finalized a contract with a leading retail chain in the US for supply of 16 product lines of Kohinoor food products. The company has also added new cities

◀ Jugal Kishore Arora
Chairman



in the domestic market, namely metropolitan cities of Hyderabad and Bangalore. Your company is pursuing the domestic frozen foods market aggressively and intend to take its range of offerings to all metro cities.

of Hyderabad and Bangalore. Your company is pursuing the domestic frozen foods market aggressively and intend to take its range of offerings to all metro cities.

Our products are well received world-wide because they are 100% natural, authentic tasting, vegetarian products with no preservatives. The Company has strengthened the foods portfolio with successful launch of dips and marinades and a range of desserts in the frozen foods category.

Strengthening our global distribution network

The Kohinoor brand has already made an impression in the UK retail market and has become the No. 2 brand in dry basmati in a very short span of time. It is one of the fastest growing brands in TESCO and also captures more than 48% of the ethnic food shelves. Your company's Basmati rice is now exported to 65 countries. We introduced our branded Basmati rice into the large and competitive Saudi Arabian market with the appointment of an exclusive distributor to market Kohinoor Basmati Rice. Due to our changed business model in the US we are able to reach both ethnic and mainstream retailers. Indian food is well received across the world now. A study done by the Food Marketing Group in the US forecasts that it will become the third most preferred food choice after Italian and Mexican food in that country and our goal is to capture a large share of this emerging market.

Increasing sales from branded products

In line with our goal your Company has crossed another milestone to get at the target of 90% sales from branded products by 2010, grossing nearly 71% sales from branded products in the current year; an increase from 62.23% last year. Today the revenue from the food business is Rs. 429.60mn constituting 6.77% of the turnover but we expect this business to contribute to 25% of sales by 2010. We are building a strong foundation and believe that our future is in this business.

During the financial year 2008, your company's sales increased to Rs. 6,350.63mn from Rs. 5,892.33mn, registering a very modest 7.78% growth. This is because of our conscious decision to reduce our dependence on unbranded and commodity sales. The operating profit margin increased to 13.35% from 10.36% due to higher branded sales.

Our journey from a modest rice company to a food brand that you can spot in retail shelves across the world gives me conviction to commit to you that we will continue to innovate and spot new opportunities and markets in the coming future. We are committed to building Kohinoor Foods into a global food company.

Let me end by thanking all our customers, distributors, vendors, culinary specialists and employees for helping us through this journey. And a special thanks to all shareholders, for continued trust and support.

Yours sincerely,

Jugal Kishore Arora

Chairman



Director's Report and Management Discussion & Analysis

The following report should be read in conjunction with the audited financial statements and notes for the period ended March 31, 2008 and the audited financial statements and notes for the year ended March 31, 2007. This report contains forward looking statements, which may be identified by their use of words like 'plans', 'expects', 'will', 'anticipates', 'believes', 'intends', 'projects', 'estimates' or other words of similar meaning. All statements that address expectations or projections about the future, including but not limited to statements about the company's strategy for growth, market position, expenditures, and financial results, are forward looking statements. Forward -looking statements are based on certain assumptions and expectations of future events. The company cannot guarantee that these assumptions and expectations are accurate or will be realized. The company's actual results, performance or achievements could thus differ materially from those projected in any such forward - looking statements. The company assumes no responsibility to publicly amend, modify or revise any forward looking statements, on the basis of any subsequent developments, information or events.

Financial overview

Results from operations

During the year under review, turnover grew at a steady 8% YoY with net sales of Rs 6,350.63mn as against Rs 5892.3mn in FY07. This was largely driven by continued strategic focus on the branded and high value-added segments. Branded sales witnessed a robust growth of 23.62% to Rs 4,533.6mn from Rs 3,667.4mn in the last financial year contributing to 71% of turnover.

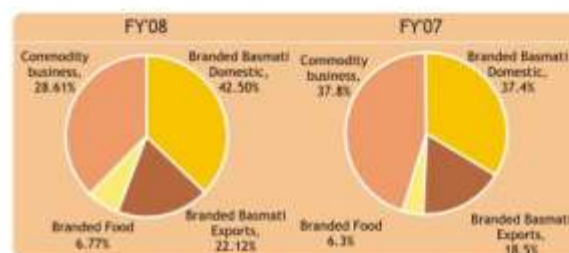
Particulars	FY08	FY07
Net Sales & Other Income	6371.63	5918.2
Profit before Depreciation	156.65	412.2
Depreciation	103.89	104.0
Profit before Tax	52.76	308.2
Provision for Taxation	(0.47)	87.5
Profit after Tax	53.23	220.7
Add: Balance brought forward	-	-
Profit available for appropriation	53.23	220.7
APPROPRIATION		
Transfer to General Reserve	53.23	197.8
Proposed Dividend (Including Tax)	-	22.9
Figures in Rs Million		

With increased sales of high-margin branded basmati rice and foods segments, operating profit margins witnessed improvement. The EBIDTA margin (earnings before interest, depreciation, tax and amortisation) of the company increased to 13.35% in FY'08 from 10.36% in the previous year. However, there was a decrease in Net Profit to Rs 53.23mn from Rs 220.7mn in FY'07 due to an exceptional item.

Segmental Overview

Kohinoor Foods is an emerging global food company. It has built a strong global distribution network and has been able to establish relationships with several large retailers across the world. It exports basmati rice to 65 countries. Its ambient ready-to-eat and ready-to-cook Indian foods are exported to 27 countries. During the year the company further expanded its presence in frozen foods and exported its products to 12 countries.

In line with its goal, the company has successfully crossed another milestone to get to the target of 90% branded sales by 2010. Sales from branded products comprised of 71% of turnover in FY'08 as against 62.23% in FY'07. Through a well defined and conscious strategy, it has been able to reduce the share of sales from private label and trading sales during the year under review.



Branded basmati rice

Kohinoor Foods is continuously expanding its retail and distribution network throughout the world and currently has 195 distributors and its products are available at over 300,000 retail outlets across the globe. Your company is constantly introducing new products in line with international trends and has introduced brown basmati rice and organic basmati rice. Sales from branded basmati sales increased by an impressive 24.63% YoY to Rs 4,104mn in FY'08 compared to Rs 3,293mn in FY'07.

Domestic market

Your company continues to be a undisputed market leader in the domestic branded basmati rice business. Our growth in the branded basmati business is driven by the

domestic basmati rice market. The domestic organised retail industry is seeing explosive growth; and to exploit the opportunities in the rapidly growing sector, Kohinoor has put together a dedicated team to build and manage relationships with the emerging retail chains. The company's wide range of branded basmati rice is

displayed on the shelves of all major retailers in the country including Reliance, Pantaloon Retail (Food Bazaar), Spencers, Shoprite, MORE (AV Birla Group), Hyper City, Vishal Megamart and Fabmall. It has also started supplies to retail chains SPINACH, BIG APPLE, SPAR, Heritage during the year. The company has increased penetration of branded basmati rice in Reliance Retail chain of stores; with this the company has developed a strong

foothold in over ten leading domestic retail chains.

Apart from the modern retail format, the company has expanded its distribution network and added more than 10 distributors to penetrate newer markets like Uttar Pradesh, Bihar, Jharkhand and Orissa.

Today, the company has 150 distributors and more than 600 stockists and its products are available in more than 260,000 retail outlets in the country.

Sales of branded basmati rice in the domestic market increased by 22.63% to Rs 2,699mn in FY'08 as compared to Rs 2,201mn in the previous fiscal.

Export Market

Your company has continued its focus on increasing penetration to newer markets and has entered 2 more countries taking the total list of customer countries to over 60.

Branded basmati exports increased by 28.66% in FY'08 to Rs 1,405mn from Rs 1,092mn.

Your company made a major breakthrough during the year by commencing export of Kohinoor branded basmati to Saudi Arabia, the largest market for basmati rice in the world with the appointment of a strong distributor. The market size of Indian basmati rice in Saudi Arabia is approximately Rs 30bn. Kohinoor Foods has been exporting basmati rice to Saudi Arabia under private labels for the last ten years and understands the market. The branded products have received tremendous response and are now available in leading retail stores of the region.

With the overseas offices in US, UK and Dubai, Kohinoor Foods is aggressively pursuing the mainstream markets in

these regions. Your company's Basmati rice has already entered the mainstream markets of US, UK, Australia, Switzerland, Mauritius, Romania and the Middle East. It is today retailed across the world in prestigious stores like Tesco and Somerfield in UK, Coles and Woolworths in Australia, Metro and Globus in Switzerland and Romania, Carrefour and Geant Stores in the Middle East.

Foods Business

Kohinoor Foods foresaw that the future was in the high-margin foods business and forayed into branded and packaged convenience foods in 2004 with authentic Indian ready-to-eat curries and ready-meal preparations. Indian food is now popular across the world and your company has a strong presence in 27 countries and its food products are available in world's leading retail outlets such as Tesco, Somerfield, and ASDA in UK; Krogers, Target and Whole Foods in the US; Coles and Woolworths in Australia; and premium stores like Hankyu, Daimaru and Seijo Ishi in Japan.

Turnover from branded foods showed a robust increase of 14.74%YoY to Rs 430mn in FY'08 from a relatively small base of Rs 374mn in the previous financial year. The food business contributes to a modest 6.77% of the turnover currently but is targeted to contribute to 25% by 2010. Your company has a strong commitment to building a global food brand and is putting in place a strong foundation.

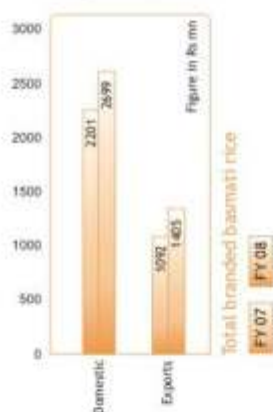
During the year, your company has introduced 4 more product lines with more than 44 SKUs (Stock Keeping Units) in the overseas markets. It started exporting to 5 more countries including UAE, Doha and Italy. The company now has a wide portfolio of around 350 SKUs.

Strengthening the Frozen Foods business

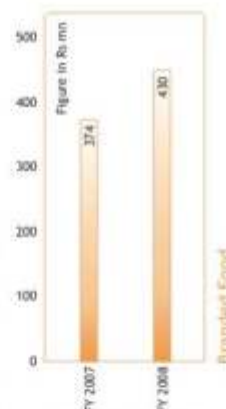
Kohinoor Foods has created more than 24 products in the frozen foods category including Indian Snacks and finger foods (including Samosas, Aloo Bondas, Kebabs, and Paneer Tikkas), Indian breads (including Naans, Parathas and Kulchas), Indian Curries and Biryani. Your company has completed shipment of frozen foods to USA, UK, Mauritius, Singapore, Australia, New Zealand, Bahrain and Switzerland. In the domestic market, Kohinoor Foods has already launched frozen foods in Delhi and NCR, Bangalore and Hyderabad.

Strengthening presence in domestic market

Kohinoor Foods has started to strengthen its presence in the domestic market for foods and has started building an



Total branded basmati rice



Branded Food



KOHINOOR'S AUTHENTIC DELIGHTS

independent distribution network. It had launched a food service division in Q4 FY'07 to service Indian and overseas institutional markets. The company has won several institutional customers during the year.

Commodity business

Kohinoor Foods has made a conscious effort to move out of the commodity business, and as a result, over the years, it has been reducing the share of unbranded and commodity sales in turnover. The major turnover in the commodity business comes from non-basmati rice, which the company is supplying to certain buyers who are buying basmati rice exclusively from Kohinoor Foods.

Overview

The Indian market offers a huge potential for the food processing industry. According to the Confederation of Indian Industry (CII), the Indian food industry is estimated to be worth over \$200bn and is expected to grow to \$310bn by 2015. Even though India is one of the world's largest food producers, it accounts for less than 1.5% of international trade and presents a huge opportunity.

Processed food market is the most important segment of the food industry accounting for over 32% of the total food market (Source: ibef). While India has an abundant supply of food, the food processing industry is still nascent: only 2% of fruit and vegetables; and 15% of milk produced are processed. Despite this, the processed food industry in India ranks 5th in size, representing 6.3% of GDP. It accounts for 13% of the country's exports and 6% of total industrial investment. The industry size is estimated at \$70bn, including \$22bn of value-added products.

Convenience food:

The Food Service business in India is seeing explosive growth driven by increasing incomes, changing lifestyles, increasing urbanization and changing demographics where the average age in working population is decreasing. According to Euromonitor International a market research company, the amount of money Indians spend on meals outside the home has more than doubled in the past decade, to about \$5bn a year and is expected to double again in about half that time. With the increase of women in the working population convenience foods are also likely to become popular. The emerging large retail chains make these foods more easily accessible. According to the Ministry of Food Processing the industry size of the semi-processed and ready-to-eat packaged food industry is over \$1bn and is growing at a CAGR of 20%.

Basmati rice:

Among the rice growing countries, India has the largest area (40.2 million hectares) followed by China and Bangladesh. India and Pakistan grow and export aromatic rice and the main buyers are the Middle East and Europe.

The global production of basmati rice is approximately 2.3mn tons, out of which India's share is a whopping 74%. Total basmati rice market in India is estimated at Rs 10bn, out of which branded basmati rice market is approximately 50% in value and 33% in volume terms.

The domestic branded basmati market is growing rapidly driven by rising incomes and changing lifestyle. The major driver for branded basmati sales will be organized retail which is growing at 9% pa and is expected to grow by 30% in 5 years. As organized retail penetrates semi-urban and rural areas branded basmati penetration to rural areas is expected to increase.

Moving up the value chain

After establishing its brand in the ambient foods market, your company extended its product offerings by adding frozen foods to its portfolio. During the year KFL has added 24 new products in the frozen foods category including Indian Snacks (like Samosas, Aloo Bondas, Kebabs, Paneer Tikkas etc.), Indian breads (Naans, Parathas and Kulchas etc.) and Indian curries and Biryanis.

Spices The next growth sector

Your company has been exporting authentic Indian spices to overseas markets like US, UK, Australia, Singapore, Mauritius and Japan for the last three years. Your company is planning to launch Kohinoor spices in the domestic market to leverage the brand strength of Kohinoor and to seize the opportunity of a growing market where there is not a single national player present. The company expects to launch a full range of authentic Indian spices both basic and value added in the domestic market. It is ready with a complete launch plan and intends to get into the market in the first quarter of FY'09.

Strengthening presence in key international markets

Quality certifications-

- > HACCP certified
- > ISO 9001:2000 certified
- > US-FDA and EU-FSA compliant
- > Kosher Certified
- > BRC Certified (British Retailers' Consortium Certified)

During the year under review, your company has strengthened its presence in leading international markets and also made successful inroads into new markets. It entered 8 new markets for the branded basmati

segment including Saudi Arabia, the largest market of basmati rice in the world. It also entered 5 new countries for the food business including Bahrain and Kuwait. Today, the company's products are available at over 300,000 retail outlets across the globe and its clientele includes leading retail chains world over.

The company has 2 wholly-owned subsidiaries in US and UK and a joint venture company in Dubai to look after

these markets, which jointly form the largest market for food.

US operations

USA is a large potential market for Indian food products. According to the US-based Food Marketing Group, Indian food is growing popular rapidly and is expected to overtake Chinese and Kosher food and occupy the No. 3 position (below Italian and Mexican) in the next 3 years.

Realizing the strong demand in that country, we established our wholly-owned subsidiary in New Jersey Kohinoor Foods USA, Inc. in the year 2000. KFUI is presently supplying to leading mainstream stores such as Whole Foods, Krogers, select stores of Walmart, BJ's Club Stores and Costco apart from almost all leading ethnic Indian stores in the US.

During the year under review, the US sales increased to \$ 14.8mn in FY08 as compared to \$ 11.1mn in the previous year. The company has also set up a different division in the US to get into the main stream retail chains.

UK operations

Indian food is hugely popular in UK and enjoys mainstream acceptance. There are more than 10,000 Indian restaurants in greater London alone. Kohinoor Foods had set up Indo European Foods Limited, a wholly-owned subsidiary in the year 2001 in UK. The subsidiary owns a

Key international clients

- > TESCO - The worlds second largest chain and UK's no. 1 retail chain
- > Somerfield - UK's no. 4 retail chain stores
- > ASDA Walmart - UK's no. 2 retail chain stores
- > Bestway Cash & Carry - UK's leading cash & carry outlet
- > Krogers - Leading chain stores in the US
- > Whole Foods - Leading chain stores in the US
- > BJ's Club Store - Leading chain stores in the US
- > Costco - Leading chain stores of US, Canada and UK
- > Coles and Woolworths - Leading chain stores in Australia
- > Shoprite, Mauritius
- > Globus and Metro, Switzerland
- > Mustafa Centre, Singapore
- > Tiger Food Brands - Leading FMCG conglomerate of South Africa
- > Malaysia Airlines
- > Emirates

rice processing facility at the port city of Felixstowe with a milling capacity of 8 MT per hour. It presently services mainstream stores like Tesco, Somerfield, ASDA Walmart, Bestway, Costco, Tesco, Ireland and almost all leading ethnic stores in UK.

Indo European Foods has taken Kohinoor to a new high. The brand Kohinoor has grown by leaps and bounds and has become the No. 2 brand in dry basmati in UK in a very

short span of time (Source: AC Nielsen). Kohinoor is one of the fastest growing brands in Tesco (50% YoY) capturing more than 48% share of the fast growing ethnic food shelves at TESCO. Kohinoor today is recognized as the 4th most favoured food brand in the UK (Source: Ethnic Focus Research, Jan 2007 UK).

During the year under review, the UK sales increased to £ 7.50mn in FY08 as compared to £ 5.96mn in the previous year.

Dubai Operations

Rich Rice Raisers Factory LLC (RRR) was established as a joint venture company in the financial year 2001 in Dubai to augment its marketing strengths in the middle-east region. RRR has a small rice processing facility in Dubai besides a full-fledged marketing office. Rich Rice Raisers is presently supplying Kohinoor range of basmati rice and other food products in mainstream stores like Carrefour, Lulu's Chain and Geant Stores. Kohinoor Foods caters to the Iranian market from its Dubai base and intends to tap the Iraq market.

Strengthening domestic presence for food business

Key domestic clients

- > Taj Group
- > Oberoi Group
- > KFC
- > Papa John's
- > Pulse Foods
- > Food Bazaar
- > Reliance Retail
- > AV Birla Group
- > Spencer's
- > Shoprite
- > Hyper City
- > Twenty Four Seven

Kohinoor Foods has also taken measures to strengthen its presence in the domestic market for foods business. It has set up an independent distribution set-up for marketing its range of food products in India and building relationships with modern retail stores.

During the year, the company made major breakthroughs by starting supplies to Reliance Retail for their newly opened retail stores. It also tied up with international chains like

Pizza Hut, Papa John's, Pulse Foods for supplies to the domestic market.

Business outlook

A rapidly growing domestic economy with changing consumption patterns presents a huge opportunity for your company going forward. Your company is committed to building a global food brand and has drawn up a strategy to continue its focus on the branded foods business. It will continue to introduce new products and penetrate new markets overseas.

Focus on branded business

- > We will continue our focus on branded product sales and capitalize on the high margin convenience foods segment. We believe that 90% of our turnover would

come from the branded segment (Basmati rice and Food business) by FY 2010 as compared to 71% in FY'08.

- › Kohinoor Foods plans to increase its total market share in the domestic branded basmati market from 38% to 42% by FY2010 through aggressive and focused marketing strategies and expects to garner additional market share from a growing market.
- › We expect the food business to contribute 25% of our turnover by FY 2010.
- › After the successful launch of frozen foods, your company is eyeing the much larger chilled foods business in UK and India to further consolidate its position as a global player in this arena. The critical point in the chilled foods business is the management of logistics we expect to be ready with a full-fledged plan next year.

Increased production

- › Considering the enthusiastic response from across the globe, the company has increased capacity of ambient food production at our Bahalgarh food factory to 120,000 meals/day.

International market

- › Kohinoor Foods expects to find entry into other top stores like Sainsbury's, Morrisons in UK by the end of FY'09. The company plans to enter into more big retail formats across the world, in mainstream markets. Major focus would be on US and UK, the largest markets for food products in the world.
- › Your company intends to acquire major market share of US ethnic food market by leveraging distribution centres in five major cities of US.
- › We aim to add at least another 25 countries to our list of customer countries in the next 2 years in the food business.

Risks & concerns

Macro-economic factors like recession, subdued demand, political uncertainty, may affect the business of the Company as also the industry at large. The company is aware that uncertainties in business offer opportunities as well as downside risks and thus has identified and put in place mitigation tools for the same. Some key risk areas are:

Procurement risk: Adequate availability of key raw materials at the right prices is crucial for the Company. Being a generic natural product with low yield concentrated in a small region of the World, production of Basmati depends on the vagaries of nature. Therefore, any disruption in the supply due to a natural or other calamity

or violent changes in the cost structure could adversely affect the Company's ability to reach its consumers with the right value proposition.

However, the company's long term relationship with farmers built on trust ensures constant supply and thus over the years it has not faced any procurement problems. Also, adequacy of irrigation facilities in the Basmati producing regions mitigates these uncertainties.

High working capital requirement: Basmati rice requires to be aged for 9-12 months before selling, leading to huge working capital requirements. This results in low ROCE for the industry. Combating this risk, efficient working capital management system has been set in place by the company and cash flow is monitored on daily basis.

Intense competition from unorganized sector: Another characteristic of this industry is the presence of unorganised sector offering basmati in loose unbranded form which intensifies competition. The company is moving towards branded products and has invested significantly in building strong brands which helps differentiate their product.

Package foods industry in India at a nascent stage:

Currently the packaged foods industry in India faces several problems including the high price of processed food, fragmented supply chain, lack of infrastructure, high packaging costs, low FDI and the lack of a proper legal framework. However we feel the unorganized nature of the industry is an opportunity for a company like KFL having strong systems and infrastructure, extensive distribution network and access to best technology for package foods business.

Dividend

Your Directors do not recommend any dividend the financial year 2007-08

Directorate

In accordance with the provisions of the Companies Act, 1956 Mr. Satnam Arora and Mr. Jugal Kishore Arora are Directors liable to retire by rotation at this Annual General Meeting and being eligible offer themselves for reappointment.

Subsidiaries and joint ventures

As required by section 212 of the Companies Act, 1956 the reports and audited accounts of the Subsidiary Companies alongwith the statement pursuant to Section 212 of the Companies Act, 1956 form part of the Annual Report.

Internal control system

Your Company has well established Internal Control Procedures across its various locations, commensurate with its size and nature of operations to ensure that