

DIRECTORS' REPORT

Your Directors have pleasure in presenting the 22nd Annual Report with the audited financial statements for the year ended 31st March 2008.

FINANCIAL HIGHLIGHTS

	2007-08 Rs.	2006-07 Rs.
Total Income	351,15,50,356	407,15,05,406
Profit before Interest, Depreciation and exceptional items	29,49,79,871	59,80,84,078
Less: Interest	14,12,63,223	16,63,33,197
Depreciation	10,56,36,112	10,31,22,776
Exceptional items	10,15,49,622	5,93,31,864
Profit before Tax	(5,34,69,086)	26,92,96,241
Direct taxes	13,75,000	1,57,60,000
Deferred tax	(1,32,53,000)	2,68,96,000
Income tax of prior years	61,93,083	6,69,415
Profit after Tax	(4,77,84,169)	22,59,70,826
i) Transfer to General Reserve	Nil	13,00,00,000
ii) Proposed Dividend	Nil	7,94,20,950
iii) Provision for dividend tax	Nil	1,34,97,590
Basic / Diluted Earnings per Share of Rs.10/- each before extraordinary items	2.37	12.71
Basic / Diluted Earnings per Share of Rs.10/- each after extraordinary items	(2.11)	9.96

DIVIDEND

Since the Company has incurred loss during the year 2007-08, the Board of Directors have not recommended dividend for the year ended 31.3.2008.

FINANCIAL PERFORMANCE

Your Company achieved a turnover of Rs.351.15 crores in the year 2007-08 as against Rs.407.15 crores during the previous year. The Company incurred a net loss of Rs.4.78 crores as against net profit of Rs.22.60 crores earned in the previous year. The sharp decrease in sugar price realizations which breached below Rs.1200/- per quintal during the year and the payment of prior year disputed purchase tax arrears during the financial year resulted in the Company incurring loss for the year reported.

OPERATIONAL PERFORMANCE
Sugar Division

Due to inadequate rainfall in the command area of the factories during the year, the sugarcane crushing has been sustained in 2007-08. The sugarcane crushed during the year 2007-08 were as follows

	Sugarcane crushed (MT)	
	2007-08	2006-07
Unit I	720,841	866,805
Unit II	1,437,059	1,307,827
Total	2,157,900	2,174,632

The sustained production has prompted stepping up exports to liquidate the stocks. The subsidy extended by the Government of India for export of sugar enabled the Company to be competitive in the international market.

The Government of India had also created a buffer stock to support the industry and the Company had obtained its share of the benefit.

During the year, the Company exported 1,04,604 MT of sugar as against the previous year export of 34,898 MT of sugar on account of acceptance of Indian sugar in the international market.

Distillery Division

The Company produced 1,01,03,154 litres of Alcohol in 2007-08 as against 1,00,89,972 litres of Alcohol in the previous year. The off-take of alcohol by the IMFS units in the state remained high and supported the marketing efforts of the Company. The ethanol blending programme of the Central Government has not been implemented in the State since the State Government has not accorded permission for supply of ethanol to the oil companies.

Cogeneration of Power

Both the Cogeneration plants in Unit I and II generated 19,51,65,348 units of electricity in 2007-08, as against 18,59,95,428 units of power generated during the previous year. After captive consumption, 12,05,22,889 units of power were exported to TNEB as against 11,17,64,257 units exported in the previous year. The Company has earned 81,628 units of carbon credits for the year ending 30.9.2007 as against 79,049 units earned in the corresponding previous year.

Operations of subsidiary company

The wholly owned subsidiary Company, Trident Sugars Limited crushed 3,96,363 MT of sugarcane during the financial year 2007-08 as against 3,24,690 MT of sugarcane crushed in the previous year. The annual accounts of the subsidiary company is enclosed alongwith the accounts of the Company.

FUTURE OUTLOOK

The implementation of the sugar and cogeneration units at Gingee Taluk, Villupuram District is in progress and the plants are expected to be commissioned in August 2008. There has been an escalation in project cost from Rs.180 crores to Rs.200 crores on account of increase in steel, cement and other input costs. With the expected commissioning of the plants, the revenues and the profitability of the Company for the year ending 31.3.2009 is expected to considerably increase provided the sugar price realizations sustain at reasonable levels.

Sugarcane crushing for the year 2008-09 is expected to be lower than the crushing for the year 2007-08 on account of decrease in plantation of sugarcane in the command area. However the Company is undertaking extensive cane development activities to encourage the farmers to continue sugarcane plantation which is likely to yield positive results in the long term.

Besides the market dynamics, the sugar price realizations are also affected by the policies of the Central Government and with inflation being a key agenda of the Government, the Company expects the sugar prices to remain relatively flat during the year 2008-09. Therefore it is expected that there would be pressure on the margins for the year 2008-09 also.

DIRECTORS

Dr.P.Surulinarayansami and Mr. R.Varadarajan, Directors retire by rotation at the ensuing Annual General Meeting and being eligible have offered themselves for reappointment.

AUDITORS

M/s Srikishen & Co, Chartered Accountants, the present auditors of the Company, retire at the ensuing Annual General Meeting and are eligible for reappointment. They have furnished necessary certificate in terms of Sec.224(1B) of the Companies Act, 1956.

PARTICULARS OF EMPLOYEES UNDER SECTION 217(2A)

The particulars of the employees of the Company who were in receipt of remuneration, which in the aggregate exceeded the limits fixed under section 217(2A) of the Companies Act, 1956 is attached herewith. (Annexure 1)

DIRECTORS' RESPONSIBILITY STATEMENT

Your Directors state that in the preparation of the annual accounts, the applicable standards have been followed; they have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit of the company for that period; they have 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 other irregularities and that the annual accounts have been prepared on a going concern basis.

CONSERVATION OF ENERGY

Particulars required to be furnished under sub section 1(e) of section 217 of the Companies Act, 1956 are also annexed to this report. (Annexure 2)

CORPORATE GOVERNANCE

The Management discussion and analysis and the compliance of recommendations on corporate governance are annexed to this report. (Annexure 3)

ACKNOWLEDGEMENT

Your Directors thank the Banks and Financing Institutions for their valuable and timely financial assistance and support provided to the Company. Your Directors also thank the cane growers, suppliers, Government Institutions and others for the cooperation extended to the Company. The Board also places on record its appreciation of the dedicated services rendered by the employees of the Company.

May **Goddess Lakshmi** shower Her blessings for the continued prosperity of the Company.

For and behalf of the Board

Place: Coimbatore
Date : 19.06.2008

RAJSHREE PATHY
Chairman and Managing Director

Addendum to the Directors' Report
DERIVATIVE TRANSACTION

The Company has an outstanding derivative transaction with AXIS Bank Limited for a notional value of USD 10 million which may escalate up to a total of USD 40 million if the prescribed exchange rates occur during the reference period on two fixing dates in June 2008 and in June 2009. The delivery however will occur, only in June 2009.

The actual Mark to Market values on the respective fixing dates in June 2008 and June 2009 will depend upon the prevailing exchange rate of the designated currencies in the contract. As the loss, if any, is indeterminable as on date, it is hence not considered.

The Company had sought legal advice on the subject and had been advised that the contract itself is void ab initio as it contravened RBI guidelines.

The Company has since proceeded against the Bank, in the High Court of Judicature at Chennai and the Hon'ble Court has granted an interim injunction restraining the Bank from enforcing the contract against the company till 20th June 2008, when it will be next heard.

For and behalf of the Board

Place: Coimbatore
Date : 19.06.2008

RAJSHREE PATHY
Chairman and Managing Director

ANNEXURE 1 TO DIRECTORS' REPORT

Statement under sub section 2(A) of section 217 of the Companies Act, 1956

S.No.	Name of the Employee	Designation	Remuneration payable for the year 2007-08	Qualification & Experience	Date of commencement of employment	Age	Last employment
1	Ms.Rajshree Pathy	Chairman and Managing Director	Rs.24,30,960	B.Com 19 years	16.3.1989	52 years	General Manager Ganga Textiles Ltd
2	Mr.R.Varadarajan	Director and Chief Operating Officer	Rs.26,26,560	MBA 20 years	16.7.1987	50 years	Head, Department of Management Studies PSG College of Arts & Science

ANNEXURE 2 TO DIRECTORS' REPORT

AS PER RULE 2 OF COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF THE BOARD OF DIRECTORS) RULES, 1988.

A. CONSERVATION OF ENERGY:

During the year under review, the Company has taken various energy conservation measures including

1. Boiler Feed pumps put into VFD mode of operation.
2. Downsizing of pumps from higher capacity to lower capacity.
3. Use of spray pond excess water instead of raw water resulting in reduction in power consumption for water pumping.

The above measures have resulted in reduction in energy consumption.

The total energy consumption and energy consumption per unit of production is given in Form A

Form A

Form for Disclosure of Particulars with respect to Conservation of Energy

a. Power and Fuel Consumption

	Unit	Sugar Division	Distillery Division	Co-gen. Division
1. Electricity				
a. Purchased	KWH	8,58,945 (18,99,610)	47,523 (50,990)	36,952 (4,510)
Total amount	Rs. in lakhs	109.86 (201.85)	4.14 (5.08)	3.22 (0.45)
Rate per unit (including demand charges)	Rs.	12.79 (10.63)	8.71 (9.95)	8.71 (9.95)
b. Own Generation				
i) Through Diesel Gensets Qty. Consumed	KWH	57,470 (36,124)	NIL (NIL)	NIL (NIL)
Units per ltr of Diesel	KWH	2.05 (1.75)	NIL (NIL)	NIL (NIL)
Cost per unit	Rs.	16.53 (20.03)	NIL (NIL)	NIL (NIL)
ii) Through steam turbine(Co-generation) Qty. consumed	KWH	4,81,01,304 (5,24,58,989)	17,75,360 (18,75,440)	2,26,03,044 (1,98,96,742)
Units per MT of steam	KWH	152 (148)	116 (123)	156 (166)
Cost/unit	Rs.	Steam produced from own bagasse (Steam produced from own bagasse)		
2. Coal Quantity	MT	NIL (NIL)	NIL (NIL)	NIL (NIL)
Total Cost	Rs.in lakhs	NIL (NIL)	NIL (NIL)	Nil (NIL)
Average rate	Rs.	NIL (NIL)	NIL (NIL)	Nil (NIL)

	Unit	Sugar Division	Distillery Division	Co-gen. Division
3. Furnace Oil Quantity	Ltrs	NIL (NIL)	NIL (NIL)	16,000 (NIL)
Total value	Rs. in Lakhs	NIL (NIL)	NIL (NIL)	3.26 (NIL)
Average Rate	Rs.	NIL (NIL)	NIL (NIL)	20.40 (NIL)
4. Firewood Quantity	MT	NIL (NIL)	NIL (NIL)	1873 (4,668)
Total value	Rs. in Lakhs	NIL (NIL)	NIL (NIL)	32.22 (57.40)
Average Rate	Rs.	NIL (NIL)	NIL (NIL)	1720 (1229)
5. Others/internal generation - Bagasse Quantity	MT	NIL (NIL)	NIL (NIL)	5,75,506 (5,87,782)
Total cost	Rs. in Lakhs	Own Bagasse consumed		
Rate/unit	Rs.	(Own Bagasse consumed)		

b. Consumption per unit of production

Product	Per Quintal White Crystal Sugar	Per Litre Alcohol
Electricity (KWH)	24.14 (26.34)	0.18 (0.19)

B. TECHNOLOGY ABSORPTION:
FORM B

Form for disclosure of particulars with respect to absorption

Research and development

1. Specific areas in which R & D carried out by the Company.
 - a. Rapid propagation of new sugarcane varieties through Tissue culture
 - b. Use of new weedicides for weed control and sugarcane ripener for improved recoveries.
 - c. Isolation and characterisation of new biofertiliser microorganisms *Herbaspirillum* sp.
2. Benefits derived as a result of the above R & D
 - a. Four location and season specific high yielding and high quality new sugarcane varieties have been developed.
 - b. Improvement in average yield and recovery.
 - c. *Herbaspirillum* sp. can be used for production of new biofertilizer for higher yield in sugarcane crop.
3. Expenditure on R & D

(a) Capital	Rs. NIL
(b) Recurring	Rs.8,71,381/-
(c) Total	Rs.8,71,381 /-
(d) Total R & D expenditure as a percentage of total turnover.	0.02%

Technology absorption, adaptation and innovation

- (1) Efforts in brief towards technology absorption, adaptation and innovation.
 - a. Mechanisation of sugarcane cultivation
 - b. Novel method of sugarcane propagation (Chip bud seedling technique) in shade houses.
- (2) Benefits derived as a result of the above R & D
 - a. Introduction of sugarcane ridgers and planters have reduced cost of sugarcane.
 - b. Novel method of chip bud planting has reduced cost of cultivation.

C. FOREIGN EXCHANGE EARNINGS AND OUTGO:

Total foreign exchange used and earned
 foreign exchange earned : Rs.1,27,24,34,502/-
 foreign exchange outgo : Rs. 11,65,72,676/-

Annexure 3 to Directors' Report
CORPORATE GOVERNANCE REPORT
1. Company's philosophy on Code of Governance

Rajshree Sugars believes that good corporate governance is essential to achieve long term corporate goals and enhance shareholders' value. The company is committed to produce sugar and value added by - products of good quality and strive for continuous improvement in all spheres of its activities to create value that can be sustained over a long term for all its shareholders, employees, customers, government and lenders. Rajshree Sugars endeavours to ensure that high standards of ethical conduct are met throughout the organization.

2. Board of Directors

As on the date of this report, the Board of Directors of the Company is comprised of

- 1 Promoter Executive Director	Ms. Rajshree Pathy
- 1 Non promoter Executive Director	Mr. R. Varadarajan
- 2 Non-Independent Non-Executive Directors	Mr.Raja M.J.Abdeen Dr. P. Surulinarayanasami
- 4 Independent Non-Executive Directors	Mr. G.R.Karthikeyan Mr. Mydur Anand Mr. R.C.H.Reddy Mr. G.S.V.Subba Rao

Attendance of Directors at Board meetings and Annual General meeting during the year 2007-08.

Name of Director	No. of Board Meetings attended	Last AGM Attended	Membership in Board of other Companies	Membership in Committee of other Companies	Sitting fees paid for Board and Committee meetings (Rs.)
Ms.Rajshree Pathy	7	Yes	12	1	--
Mr.R.Varadarajan	7	Yes	2	1	--
Mr.G.R.Karthikeyan	6	Yes	2	--	1,10,000
Dr.P. Surulinarayanasami	2	No	1	--	20,000
Mr.Raja M.J.Abdeen	7	Yes	13	--	1,20,000
Mr.Mydur Anand	6	Yes	2	--	1,10,000
Mr.R.C.H.Reddy	6	Yes	5	2	1,00,000
Mr.G.S.V.Subba Rao	7	Yes	--	--	1,20,000

7 Board meetings were held during the year on 30th April 2007, 13th June 2007, 30th July 2007, 10th September 2007, 31st October 2007, 31st January 2008 and 8th February 2008.

3. Audit Committee

The Audit Committee constituted by the Board of Directors consists of the following Directors as members.

Mr.G.S.V.Subba Rao	(Chairman)	Non-Executive and Independent Director
Mr.Mydur Anand	(Member)	Non-Executive and Independent Director
Mr.G.R.Karthikeyan	(Member)	Non-Executive and Independent Director
Mr.R.C.H.Reddy	(Member)	Non-Executive and Independent Director
Mr.Raja M.J.Abdeen	(Member)	Non-Executive and Non-Independent Director

The broad terms of reference are as follows:

- Review of company's financial reporting process and its financial statements
- Review of accounting and financial policies and practices
- Review of internal control systems
- Review of risk management policies and practices

During the year 2007-08, the audit committee meetings were held on 30th April 2007, 13th June 2007, 30th July 2007, 31st October 2007 and 31st January 2008. Members' attendance at the meetings were as follows:

Name of the Member	No. of meetings attended
Mr.G.S.V.Subba Rao	5
Mr.Mydur Anand	5
Mr.G.R. Karthikeyan	5
Mr.Raja M.J.Abdeen	5
Mr.R.C.H.Reddy	4

4. Remuneration Committee

The Remuneration Committee constituted by the Board of Directors to approve remuneration to the Directors consists of the following Directors as members.

Mr.G.R.Karthikeyan	(Chairman)	Non-Executive and Independent Director
Mr.Mydur Anand	(Member)	Non-Executive and Independent Director
Mr.R.C.H.Reddy	(Member)	Non-Executive and Independent Director
Mr.Raja M.J.Abdeen	(Member)	Non-Executive and Non-Independent Director

During the year, no meeting of the Remuneration Committee was held.

The remuneration policy of the Company is to remunerate the Wholetime Directors commensurate with the operational and financial performance of the Company and the performance of the individuals.

The remuneration paid to wholetime Directors for the year 2007-2008 are as follows (in Rs.):

Managerial remuneration:	Ms. Rajshree Pathy	Mr. R.Varadarajan
Salary	24,00,000	21,84,000
Commission	--	--
Perquisites	30,960	4,42,560
Total	24,30,960	26,26,560

There are no pecuniary relationship or transactions of the Non-Executive Directors vis-à-vis the Company.

Since no remuneration is paid to Non-Executive Directors other than the sitting fee, no criteria of making payments to non-executive Directors.

The number of shares held by the non-executive Directors are as follows

	No. of shares
Dr.P.Surularayanasami	11,31,107
Mr.Raja M.J.Abdeen	8,10,000
Mr.G.R.Karthikeyan	1,040
Mr.Mydur Anand	300
Mr.R.C.H.Reddy	832
Mr.G.S.V.Subba Rao	None

5. Shareholders / Investors Grievance Committee

The Shareholders / Investors Grievance Committee is headed by Mr.Raja M.J.Abdeen, Non-Executive Director. Mr.C.Shankar, Company Secretary is the compliance officer. During the year 2007-08, 47 complaints were received and 47 complaints were solved to the satisfaction of the shareholders. As of 31st March 2008, there are no complaints/queries pending reply. An exclusive email ID for addressing shareholders grievances, viz., investor@rajshreesugars.com has been created.

6. General Body meetings

Location and time for the last three Annual General Meetings

Year	AGM	Location	Date	Time	No. of special resolutions passed
2004-05	AGM	Conference Hall, Indian Chamber of Commerce & Industry, Coimbatore.	30.09.2005	3.00 PM	1
	EGM	-- as above --	08.06.2006	11.00 AM	1
2005-06	AGM	-- as above --	06.09.2006	3.00 PM	--
2006-07	AGM	-- as above --	10.09.2007	3.00 PM	--

No special resolutions were put through postal ballot last year and nor is there any proposal for this year.

7. Disclosures

There are no materially significant transactions with related parties viz. promoters, directors or the management, their subsidiaries or relatives conflicting with company's interests.

No penalty or strictures have been imposed on the company by Stock Exchanges or SEBI or any statutory authority on any matter related to capital markets during the last three years.

The Company does not have a Whistle Blower Policy. Access to the Audit Committee has not been denied to any personnel.

The Company has complied with all the mandatory requirements of Clause 49 of the Listing agreement. Constitution of Remuneration Committee as per the Non-mandatory requirement has been complied with.

8. Means of Communication

The company is publishing quarterly unaudited financial results and notice advertisements in The Hindu-Business Line and Dinamani (vernacular language) regularly. The company has posted the quarterly/annual results in the Company's Website www.rajshreesugars.com. The company is also displaying audited financial results, quarterly unaudited financial results, report on corporate governance and shareholding pattern etc. on the SEBI EDIFAR website.

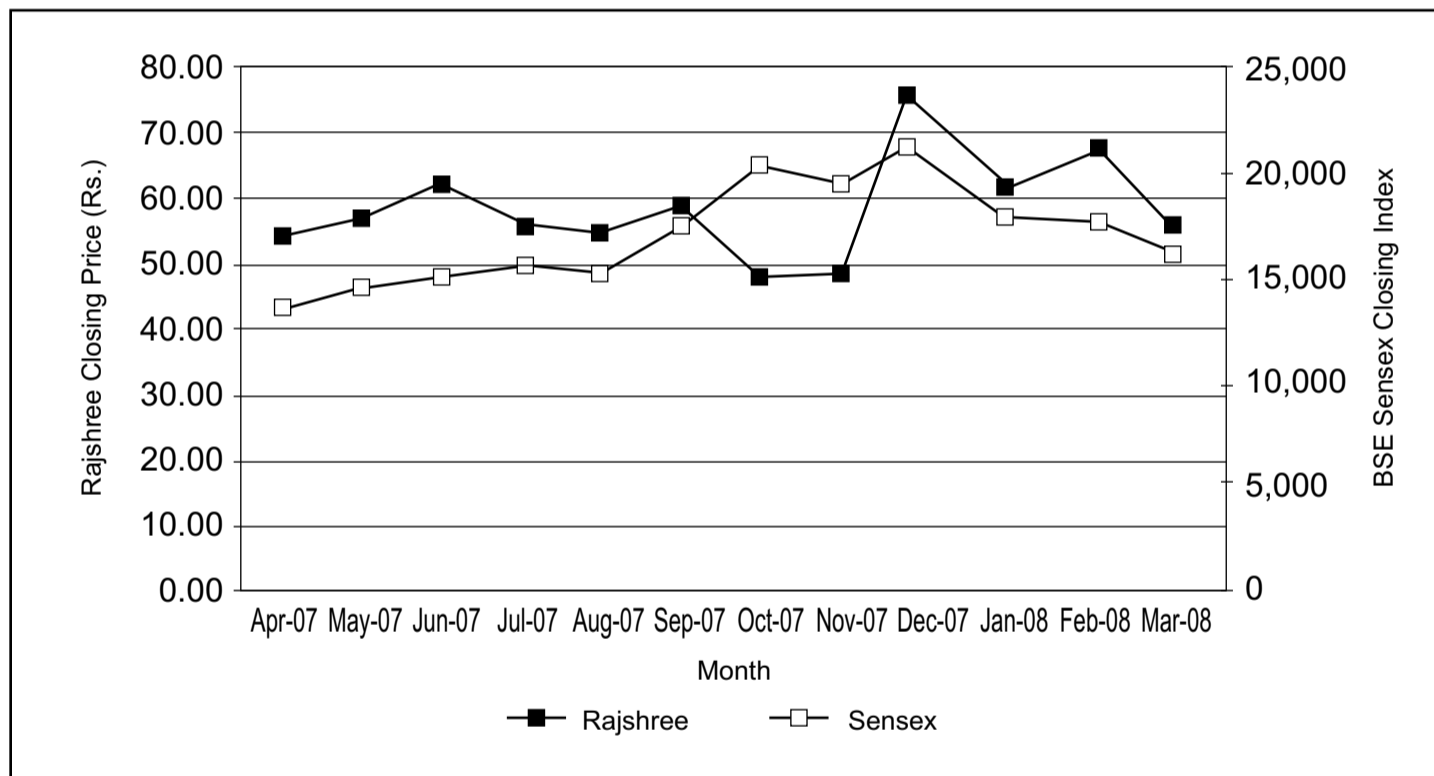
9. General shareholder information

i. AGM Date, time and venue	29th September 2008 at 10.15 A.M. Conference Hall, Indian Chamber of Commerce and Industry, Avanashi Road, Coimbatore 641 018.
ii. Financial calender 2008-09 First quarterly results Second quarterly results Third quarterly results Audited yearly results	Before end of July 2008 Before end of October 2008 Before end of January 2009 Before end of June 2009
iii. Book Closure Date	22nd September 2008 to 29th September 2008
iv. Listing on Stock Exchange	Bombay Stock Exchange Limited National Stock Exchange of India Limited
v. Stock Code Bombay Stock Exchange Limited National Stock Exchange of India Limited	500354 RAJSREESUG

vi. Market Price Data High/Low during each month of the Financial Year 2007-08 (Bombay Stock Exchange)

Month	High (Rs.)	Low (Rs.)
April	68.30	53.70
May	58.80	52.10
June	62.50	54.10
July	62.80	53.10
August	61.00	52.00
September	65.70	52.10
October	59.75	43.05
November	58.50	45.35
December	77.80	48.55
January	81.60	55.50
February	66.40	53.20
March	65.00	44.00

vii. Performance in comparison to broad based indices such as BSE Sensex, CRISIL index etc.

Rajshree Vs BSE Sensex


viii. Registrars and Share Transfer Agents (for physical & demat shares)	M/s SKDC Consultants Limited Post Box No. 2979 No.7, Seth Narayandas Layout Street No.1, Tatabad P.O. Coimbatore 641 012.
ix. Share transfer system	Share transfers are registered and returned within a period of 30 days from the date of receipt, if the documents are clear in all respects, by the Committee which meets every week.

x. Distribution of shareholding as on 31st March 2008

No. of equity shares held	No. of Folios	No. of shares held	% of shareholding
Upto 5000	28,787	72,01,876	31.74
5001 to 10000	120	8,92,282	3.93
10001 to 20000	35	5,16,876	2.28
20001 to 30000	16	4,17,706	1.84
30001 to 40000	9	3,26,452	1.44
40001 to 50000	4	1,77,847	0.78
50001 to 100000	9	7,01,818	3.09
100001 and above	17	1,24,56,843	54.90
Total	28,997	2,26,91,700	100.00

xi. Shareholding pattern as on 31st March 2008

Category	No. of Folios	No. of shares held	% of shareholding
Promoters	9	78,18,742	34.46
Directors and their relatives	13	21,75,279	9.59
Mutual funds and UTI	15	4,84,993	2.14
Banks, Financial institutions and insurance companies	4	1,330	0.01
Corporate bodies	561	30,93,568	13.63
Indian public	28,276	88,17,304	38.85
NRIs and OCBs	119	3,00,484	1.32
GDRs	0	0	0
Total	28,997	2,26,91,700	100.00

xii. Dematerialisation of shareholding and liquidity	82.85% of total equity share capital is held in dematerialized form with NSDL and CDSL.
xiv. Outstanding GDR/ADR/Warrants or any convertible instruments, conversion date and impact on equity	NIL
xv. Plant locations	<p><u>Unit I - Sugar, Cogeneration & Distillery</u> Varadarajnaragar PO, PIN 625 562. Periakulam Taluk, Theni District</p> <p><u>Unit II - Sugar & Cogeneration</u> Mundiampakkam PO PIN 605 601. Villupuram Taluk & District</p> <p><u>Unit III - Sugar & Cogeneration (Under implementation)</u> Semmedu Village, Gingee Taluk, Villupuram District</p>
xvi. Address for correspondence	<p>"The Uffizi", 338 Avanashi Road Peelamedu, Coimbatore 641 004. E-mail ID : investor@rajshreesugars.com rscl@rajshreesugars.com</p>

xvii. The following are the details of dividends paid by the Company and their respective due dates of transfer to such fund of the Central Government, which remain unencashed.

Date of declaration of dividend	Dividend for the financial year	Due date of transfer to the Central Government
05.09.2001	2000-2001	04.10.2008
26.09.2002	2001-2002	25.10.2009
10.09.2003	2002-2003	09.10.2010
13.09.2004	2003-2004	12.10.2011
30.09.2005	2004-2005	29.10.2012
06.09.2006	2005-2006	05.10.2013
10.09.2007	2006-2007	09.10.2014



It may be noted that no claim of the shareholders will be entertained for the unclaimed dividends which have been transferred to the credit of the Investors Education & Protection Fund of the Central Government.

In view of the above, the shareholders are advised to send all the unencashed dividend warrants to the Registered Office of the Company for revalidation and encash them before the due date for transfer to the Central Government.

CEO/CFO certification

The certification as per clause 49 (V) of the Listing agreement has been submitted by the CEO and CFO of the Company to the Board of Directors.

Declaration under clause 49 of the Listing Agreement by the Managing Director

The Shareholders,

I, Rajshree Pathy, Chairman and Managing Director, hereby declare that all the Board Members and Senior Management personnel have affirmed compliance with the code of conduct for the Board of Directors and Senior Management Personnel of Rajshree Sugars and Chemicals Limited.

Place : Coimbatore
Date : 19th June, 2008

Rajshree Pathy
Chairman and Managing Director

Compliance certificate from the Auditors of the Company

To
The Members of
M/s. Rajshree Sugars & Chemicals Limited

We have examined the compliance of conditions of corporate governance by M/s Rajshree Sugars & Chemicals Limited for the year ended on 31st March 2008, as stipulated in clause 49 of the listing agreement of the said company, with the stock exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination has been limited to a review of the procedures and implementations thereof, adopted by the Company for ensuring compliance with the conditions of the Corporate Governance. 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 the representations made by the Directors and the Management, we certify that the company has complied with the conditions of corporate governance as stipulated in clause 49 of the above mentioned listing agreement.

As required by the guidance note issued by the Institute of Chartered Accountants of India, we have to state that based on the representation given by the Registrars of the Company to the Investors' Grievance Committee as on March 31, 2008, there were no investors' grievance matters against the Company remaining unattended pending for more than 30 days.

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.

Place:Coimbatore
Date:19th June 2008

For **SRIKISHEN & CO.**
Chartered Accountants

K.Murali Mohan
Auditors, Proprietor
Membership No.14328

MANAGEMENT DISCUSSION AND ANALYSIS

Industry structure and developments

The Indian sugar industry is comprised of cooperative sugar factories, private and public sector sugar factories. Cooperatives account for about 55% of the total number of factories.

The sugar industry is cyclical in nature. When the national production is high, prices go down substantially due to over supply. Low sugar price realization would result in arrears of cane payment and this would compel the farmers to switch to alternate crops. As a result the acreage under sugarcane would drop and the sugar production would be consequently lower. This would create a high demand for sugar and the demand supply mismatch would firm up the prices.

The sugar season 2006-07 witnessed a record national production of 283.28 lac MT of sugar and as a result the price of sugar plummeted to a very low Rs.11900/- per MT which was barely enough to meet the raw material cost. Consequently, the industry witnessed heavy losses during the year 2007-08 and piled up huge arrears in cane payment. The gravity of the situation prompted the Government of India to create a buffer stock of 5 million tons in the early part of the financial year and also announce a transport subsidy for exports. Even these measures were not enough in arresting the downward trend in sugar price and consequent buildup of cane arrears. The Government of India then announced a Scheme for Financial Assistance to Sugar Undertakings in December 2007 providing for interest free financial loans from Banks equivalent to excise duty payable on notional production of sugar during the season 2006-07 and 2007-08 in order to help the industry clear the cane payment arrears for the season 2006-07 and cane price for season 2007-08.

Opportunities and threats

The sugar industry is set to enter an upward phase in the sugar cycle. Estimates of sugarcane production for the ensuing season in the leading sugar producing states of Uttar Pradesh and Maharashtra are significantly lower and with the fall in production in the southern states too, the present estimates of sugar production for the season 2008-09 would be close to 220 lakh tons. Hence the sugar price realizations are expected to firm up during the second half of this financial year. It presents an opportunity to regain the patronage of the farmers who have shifted to other crops, by clearing the arrears of cane payment with the surplus generated by the higher prices. The demand for sugar is steadily rising and therefore the industry still sees an opportunity to increase capacity. Higher cane output means higher production of by-products which could be used to meet the targeted power production capacity of 5000 MW from non-conventional sources as envisaged by the Government.

The availability of sugarcane is dictated by the vagaries of nature and the opportunities in alternate crops. Sugarcane continues to be subject to the political climate too, with State Governments tending to fix higher prices for sugarcane having no relation to sugar prices. A national consensus for alcohol and power amongst the State Governments still eludes the Central policy makers. The sustained surge in petroleum prices has rapidly escalated the search for alternate fuels amidst growing concerns of diversion of food crops for bio-fuels. Alcohol from sugarcane is one of the most proven bio-fuels and also does not threaten the food chain. The focus on alcohol as fuel thus gains urgency and augurs well for the sugar industry.

People are certainly more aware of their health and diabetes is definitely a cause for concern. But consumption of sugar is driven more by cultural propensity and lifestyle changes that are reflected in ever-increasing demand and is a vital link in the food chain.

Segment wise performance

The segments for the purpose of reporting are Sugar, Distillery and others consisting of property development. The sugar segment includes both sugar and cogeneration divisions. The sugar segment achieved a sales turnover of Rs.322.86 crores as against Rs.382 crores in the previous year while the Distillery segment recorded a turnover of Rs.24.57 crores as against Rs.23 crores recorded in the previous year. There were no transactions in the property development division during the year 2007-08 as well as previous year. The sugar segment earned a profit before interest & taxes of Rs.7.57 crores as against Rs.42.63 crores earned in the previous year while the Distillery division earned Rs.16.24 crores against Rs.13.05 crores earned during the previous year. The operating profit ratio of the sugar division has substantially reduced on account of depressed sugar prices during the year reported on. The operational performance of the segments is given under the Directors' Report.

Outlook

The sugar production for the season 2007-08 is now revised around 280 lac tons. The second half of the current financial year is expected to see a drop in sugar production on account of likely decrease in plantation. Therefore the overall physical parameters for the financial year 2008-09 is expected to be less than that of the previous year. The anticipated decrease in sugar production would see sugar price firm up slowly during the current year and the industry expects to see an improvement in its bottom line during the year 2008-09.

Risks and concerns

The Government has announced remunerative prices for rice and wheat and hence there is the possibility of the farmers opting for alternate crops which are of shorter duration. The control of inflation is high on the agenda of the nation and in the event of sugar prices firming up, the Government may act to arrest the spiraling prices by permitting import of sugar or ban the export of sugar. The ethanol blended programme is yet to be implemented by the Government with full vigour and therefore its success depends upon the commitment of the Government to find a viable bio-fuel supplement to its fossil fuel needs.

Internal control systems and their adequacy

The Company has installed proper internal control systems for the various functional areas. The checks and control measures are effective and adequate.

Financial performance and operational performance

The details of financial performance and operational performance is mentioned in the Directors' Report.

Cautionary statement

Statements in this Report describing the Company's objectives, estimates and expectations may constitute "forward looking statements" within the meaning of applicable laws and regulations. Actual results might differ materially from those either expressed or implied.