



CORPORATE GOVERNANCE

THE COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE

A brief statement on Company's philosophy on code of governance:

Good Corporate Governance refers to a system that entails transparency, fairness, accountability and integrity. The Company is committed to transparency in all its dealings and places uncompromising emphasis on integrity and regulatory compliance.

The basic philosophy of corporate governance in the Company is to achieve business excellence and enhance shareholder value, keeping in view the needs and interests of its stakeholders.

BOARD OF DIRECTORS

The Board of Directors is an optimum combination of professionalism experiencing executive, non executive, and Independent Director formed by the shareholders, provides and evaluates the strategic directions of the Company; formulates and reviews management policies, serves and protects the overall interests of shareholders to ensure long-term value creation for stakeholders. Presently, the Board of Directors comprises of only five members viz. Mr. Basudav Garg, Mr. Rahul Garg, Mr. M. S. Venkateswaran, Mr. B.B Raina and Mr. Sundra Raj.

Composition:

As on 31st March 2011, the total number of Directors of the Company was six comprising of two Executive and four Non-Executive Independent Directors.

Name	Category
Mr. Basudav Garg	Chairman & Whole Time Director
Mr. Pawan Goel	Executive Director
Mr. M. S. Venkateswaran	Independent Director
Mr. S. V. Joshi	Independent Director
Mr. Sundra Raj	Independent Director
Mr. B.B Raina	Independent Director

Note:

None of the Directors of your Company is a member of more than 10 Committees or is the Chairman of more than five Committees across all the Public Companies in which they are Directors.

- Mr. Pawan Goel executive director of the Company due to personal reason was resigned from the post of directorship on 23.05.2011.
- Mr. S.V. Joshi independent director of the Company due to personal reason was resigned from the post of directorship on 07.05.2011.

BOARD MEETING

During the financial year ended March 31, 2011, 8 meetings of the Board of Directors were held as against the minimum requirement of 4 times. None of the two Board Meetings have a gap of more than 120 days between them. The dates of meetings and the number of directors present therein are mentioned below:

Sr. No	Date	Sr. No.	Date
1.	28.04.2010	6.	12.11.2010
2.	15.05.2010	7.	27.01.2011
3.	28.07.2010	8.	19.02.2011
4.	19.08.2010		
5.	29.10.2010		

S. No.	Name of Director	No. of Meeting attending during 2010-11		No. of Directorship in other Public Companies		No. of Membership Committee held	
		Board	Last AGM	Listed	Others	Chairman	Member
1.	Mr. Basudav Garg	8	Yes	Nil	1	Nil	Nil
2.	Mr. Pawan Goel	4	Yes	Nil	1	Nil	Nil
3.	Mr. M. S. Venkateswaran	8	Yes	Nil	Nil	Nil	Nil
4.	Mr. S. V. Joshi	4	Yes	Nil	Nil	Nil	Nil
5.	Mr. Sundra Raj	8	Yes	Nil	Nil	Nil	Nil
6.	Mr. B.B Raina	8	Yes	Nil	Nil	Nil	Nil

Note:

None of the Directors of your Company is a member of more than 10 Committees or is the Chairman of more than five Committees across all the Public Companies in which they are Directors.

The directorship/ committee membership is based on the disclosures received from the directors.

- Mr. Rahul Garg has been appointed as an additional director w.e.f 07.05.2011.

RESUME OF DIRECTORS PROPOSED TO BE REAPPOINTED

The brief resume of Directors retiring by rotation and seeking re-appointment is appended herein above in the notice for calling Annual General Meeting

COMMITTEES OF THE BOARD

The Board has constituted the following standing Committees:

1. Audit Committee
2. Shareholders'/Investors' Grievance Committee

AUDIT COMMITTEE

The purpose of the audit committee is to ensure the objectivity, credibility and correctness of the Company's financial reporting and disclosure processes, internal controls, risk management policies and processes, tax policies, compliance and legal requirements and associated matters.

- i) Terms of reference

1. Oversight of the Company's financial reporting process and disclosure of its financial information to ensure that the financial statements are correct, sufficient and credible.
2. Recommending the appointment and removal of statutory and internal Auditors (whenever required), fixation of audit fee and also approval for payment for any other services.
3. Approval of payment to statutory auditors for any other services rendered by the statutory auditors.
4. Reviewing with Management the quarterly / half yearly and the annual financial statements before submission to the Board, focusing primarily on:
 - Matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of clause (2AA) of section 217 of the Companies Act, 1956.
 - Any Change in accounting policies and practices.
 - Major accounting entries based on exercise of judgment by management.
 - The going concern assumption.
 - Compliance with accounting standards.
 - Compliance of legal requirement concerning financial statements.
 - Any related party transactions.
5. Reviewing with the management, statutory and internal Auditors, the adequacy and compliance of internal control system.
6. Reviewing, with the management, the quarterly financial statements before submission to the board for approval
7. Reviewing the adequacy of internal audit function, reporting structure coverage and frequency of internal audit.
8. Discussion on internal Auditors significant findings and follow up there on.
9. Reviewing the findings of any internal investigations by the internal Auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.
10. Discussion with statutory Auditors about the scope of audit as well as have post audit discussion to ascertain any area of concern.
11. Reviewing the Company's financial and risk management policies.
12. To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.

Further the Audit Committee shall mandatorily review the following information:

1. Management discussion and analysis of financial condition and results of operations;
2. Statement of significant related party transactions (as defined by the audit committee), 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

5. The appointment, removal and terms of remuneration of the Chief internal auditor shall be subject to review by the Audit Committee.

ii) Composition:

The Committee invites concerned officials from Accounts Department and Internal Audit Department as and when required. Auditors of the Company were also invited whenever the financials of the Company are considered by the Committee

The Audit Committee comprises of 2 Independent Directors and 1 Executive Director:

1. Mr. M. S. Venkateswaran (Independent Director)
2. Mr. S. V. Joshi - (Independent Director)
3. Mr. Basudav Garg - (Executive Director)

Mr. M. S. Venkateswaran is heading the Committee. During the year under review audit committee had met five times. No two meetings have a gap of more than 120 days in between them. During the year, five Committee Meetings were held on 25.04.2010, 05.07.2010, 23.07.2010, 27.10.2010, 23.01.2011.

The attendance record of the members of the Audit Committee for the FY 2010-11 is as under:

Name of the Member Director	No. of Meetings Held	No. of Meetings attended
Mr. M. S. Venkateswaran	5	5
Mr. S. V. Joshi	5	5
Mr. Basudav Garg	5	5

INVESTORS GRIEVANCE COMMITTEE

i) Terms of reference

1. To consider and review the queries/complaints received from Share/ Debenture Holders
2. To take steps to redress queries/ complaints and ensure speedy satisfaction to shareholders/ investors.
3. With a view to expediting the process of share transfer etc., on fast track basis, the Board has delegated the powers of approving transfer etc. to Non Executive Director, Mr. M. S. Venkateswaran of the Company.
4. To work under the control & supervision of the Board of Directors

ii) Composition:

The Investors Grievance Committee comprises of Two Non Executive Independent Directors and one Executive Director:

1. M. S. Venkateswaran - (Independent Director)
2. Mr. S. V. Joshi - (Independent Director)
3. Mr. Basudav Garg - (Executive Director)

Meeting and attendance:

The Constitution of the Committee and the attendance of each member of the Committee are given below:

Name of the Member Director	No. of Meetings Held	No. of Meetings attended
M. S. Venkateswaran	5	4
Mr. S. V. Joshi	5	5
Mr. Basudav Garg	5	5

Role and Powers of Shareholders'/Investors' Grievance Committee:

The Investors' Grievance Committee shall have the following role, functions and responsibilities:

To look into and supervise the redressal of shareholders'/Investors' Complaints.

To oversee the performance of the Registrars and Share Transfer Agents and recommend measures for overall improvement of the quality of investor services.

To consider and approve transfer of shares, transmission of shares, dematerialization of shares, transposition of shares, issuance of duplicate share, deletion of names, splitting and consolidation of shares, etc.

During the year under review, no complaints were received from the shareholders.

REMUNERATION-CUM-COMPENSATION COMMITTEE

None of the Director are being paid any remuneration, thus the company has not formed this committee.

GENERAL BODY MEETINGS

Date and venue of last three Annual General Meeting

Nature of Meeting	Date and Time	Venue	Special Resolution passed
Annual General Meeting	30 th December 2008 at 1.00 P.M	9th Kilometer Stone Pipli To Ambala, Village Masana Kurukshetra, Haryana	None
Annual General Meeting	30 th September 2009 at 1.00 P.M.	9th Kilometer Stone Pipli To Ambala, Village Masana Kurukshetra, Haryana	None
Annual General Meeting	27 th September 2010 at 1.00 P.M.	9th Kilometer Stone Pipli To Ambala, Village Masana Kurukshetra, Haryana	None

POSTAL BALLOT

No resolution was passed by Postal ballot during the financial year 2010-11.

DISCLOSURES

- Related party transactions are defined as transactions of the Company of material nature, with promoters, directors or with their relatives etc. The transactions with related parties are disclosed in Notes to the Accounts in Financial of the Company. However, these transactions are not likely to have any conflicts with the Company's interest. The Audit Committee has reviewed these transactions.
- In the preparation of the financial statements, the Company has followed the accounting standards issued by the Institute of Chartered Accountants of India to the extent applicable.

- There were no penalties, strictures imposed on the company by Stock Exchange or SEBI or any statutory authority on any matter related to capital markets, during the last three years.

MEANS OF COMMUNICATION

The Company communicates with the shareholders at large through its Annual report and publication of financial results.

The Board of Directors of the Company approves and takes on record the Un-audited financial results within one month of the close of the quarter and the results are announced to all the stock exchanges where the shares of the company are listed. Further the highlights of the quarterly results in the prescribed Performa are published in the newspapers.

GENERAL SHAREHOLDER INFORMATION

Annual General Meeting

- | | | |
|-----|--|--|
| (a) | Date and Time: | 30 th September 2011 at 1.00 P.M. |
| | Venue: | 9th Kilometer Stone Pipli To Ambala,
Village Masana, Kurukshetra, Haryana |
| b) | Financial Year of the Company | The Company follows financial year of April 01 st to March 31 st |
| | Tentative Schedule for Financial Year 2011-12 | |
| - | 1 st Quarter ending June 30, 2011: | End of July 2011 |
| - | 2 nd Quarter ending September 30, 2011: | End of October 2011 |
| - | 3 rd Quarter ending December 31, 2011 : | End of January 2012 |
| - | Annual Result for the year ended March 31, 2012: | End of June 2012 |
| c) | Date of Book Closure/Record Date : | 23 rd September to 30th September 2011
(Both Days inclusive) |
| d) | Registered Office | 9th Kilometer Stone Pipli To Ambala,
Village Masana, Kurukshetra,
Haryana |
| e) | Dividend Payment Date : | Not Applicable as the Board has
not Proposed any dividend |
| f) | Listing of Equity Shares on
Stock Exchanges : | Delhi Stock Exchange Limited,
Bombay Stock Exchange Limited,
Ludhiana Stock Exchange Limited
Jaipur Stock Exchange Limited,
Ahmedabad Stock Exchange Limited |

- g) Stock Code
Delhi Stock Exchange : 7161
Bombay Stock Exchange Code : 519415
Ludhiana Stock Exchange : RDRY
Jaipur Stock Exchange Limited : 364
Ahmedabad Stock Exchange Limited : 50106
- h) Registrar & Share Transfer Agents : M/s Skyline Financial Services Pvt. Ltd
(Appointed w.e.f. 01.08.2011)
- i) Market Price Data

Month	Value (In Rupee)		Volumes
	High	Low	
October, 10	N.A.	N.A.	N.A.
November, 10	N.A.	N.A.	N.A.
December, 10	N.A.	N.A.	N.A.
January, 11	N.A.	N.A.	N.A.
February, 11	N.A.	N.A.	N.A.
March, 11	N.A.	N.A.	N.A.

- j) Liquidity

Shares of KMG Milk Food Limited are listed on the Delhi Stock Exchange, Bombay Stock Exchange, Jaipur Stock Exchange, Ludhiana Stock Exchange and Ahmedabad Stock Exchange. The trading has been suspended at all Stock Exchanges. So there is no liquidity in the scrips of the Company but recently Company fulfilled all compliance required to revoke the suspension of the trading at Bombay Stock Exchange, hence trading of the shares of the Company is starting in very short period, however still there is no liquidity in the scrips of the Company.

- k) Dematerialization of Shares

Company's shares are in physical mode.

- l) Outstanding GDRs/ADRs/Warrants or any other convertible instruments

Company does not have any GDRs/ADRs/Warrants or any other Convertible Instruments.

- m) Investor Correspondence

- n) For transfer of shares, payment of dividend on shares and any other queries relating to the shares is handled by the Company's Registrar & Share Transfer Agent at the following address:

M/s Skyline Financial Services Private Limited
D-153 A, 1st Floor, Okhla Industrial Area, Phase – I, New Delhi- 110020.

Mr. Aditya Kumar Dwivedi, Compliance officer and Company Secretary as per Clause 47 of the Listing Agreement with Stock Exchanges and Investor's complaint may also be addressed to him at following address:

Address: N-223, LG Floor, Geater Kailash- I, New Delhi- 110098.

o) Shareholding Pattern

The shareholding pattern as on 31st March 2011:

	Category	No. of shares held	Percentage of Shareholding
A.	Shareholding of Promoter and Promoter Group		
(1)	Indian	30,38,385	57.28
(2)	Foreign	--	--
	Total	<u>30,38,385</u>	<u>57.28</u>
B.	Public Shareholding		
(1)	Institutions	--	--
(a)	Mutual Funds/UTI	--	--
(b)	Financial Institutions/Banks	--	--
(c)	Foreign Institutional Investors	--	--
(d)	Any Other	--	--
	Sub Total	--	--
(2)	Non Institutions		
(a)	Bodies Corporate	3,33,300	6.28
(b)	Individuals	19,32,915	36.44
(c)	Any Other (NRI)	--	--
	Sub Total	<u>22,66,215</u>	<u>42.72</u>
	Total (A+B)	<u>53,04,600</u>	<u>100.00</u>
	Grand Total	<u>53,04,600</u>	<u>100.00</u>

P) Distribution of Shareholding as on 31.03.2011

S.No	Category (Shares)	Holders	% of Total Holders	Shares	% of Total Shares
1.	Upto 500	1039	75.40	259400	4.89
2.	501-1,000	153	11.10	143415	2.70
3.	1,001-2,000	93	6.75	147700	2.78
4.	2,001-3,000	23	1.67	62200	1.17
5.	3,001-4,000	04	0.29	14500	0.27
6.	4,001-5,000	11	0.80	53400	1.01
7.	5,001-10,000	16	1.16	135800	2.56
8.	10,001 & Above	39	2.83	4488185	84.61

For KMG Milk Food Limited

Sd/-

Basudev Garg
Chairman and Whole Time Director

Place: Haryana
Date: 13.08.2010

MANAGEMENT DISCUSSION & ANALYSIS REPORT

This Management Discussion and Analysis Report form a part of the Annual Report of the Company. It Indicates the Company's movement in the external environment Vis-à-vis its own strengths and resources. Management Discussion and Analysis detailing the Company's objectives and expectations is a "forward looking statement" within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied depending upon global and Indian demand-supply conditions, changes in Government regulations, tax regimes, and economic developments within India and overseas.

INDUSTRY STRUCTURE AND DEVELOPMENT

The dairy industry plays an important role in the socio-economic development of India. The dairy industry in India is instrumental in providing cheap nutritional food to the vast population of India and also generates huge employment opportunities for people in rural places.

The main aim of National Dairy Development Board (NDDB) is to accelerate the pace of dairy development in the country and attract new investments. India is a wonderland country for investors looking for investment opportunities in the dairy industry. The dairy industry holds great potential for investment in India and promises high returns to the investors.

There are different sectors within the dairy industry that promise great business investment opportunities as the Indian cattle yield less milk as compared to their foreign counterparts. The Indian cattle breeders are looking for ways to improve milk yield through improved breeding practices. Thus, there is a huge potential available for foreign investors to invest in dairy sector for breeding of high-quality buffaloes as well as cows. There is also great scope for investment in milk based value added food products through biotech interventions particularly the introduction of dairy biologics, enzymes, probiotics, coloring and flavoring materials for food processing. Producing bio-preservative ingredients based on dairy fermentation, such as pediococin, aciophilin, bulgarican, and Nisin contained in dairy powder, present a great promise as investment opportunity. Thus, the dairy industry in India has huge investment opportunities in a variety of sectors. The investors are all set to gain profitable returns on their investment.

QUALITY & FOOD SAFETY POLICY

The Company's Quality Policy is: -

"Company is committed to manufacture and supply nutritional and safe products to satisfy customer requirements by a motivated team using eco-friendly measures with continual improvement in quality and food safety"

The Company has consistently shown quality improvement with regard to various processes, keeping strict control on deviations. Customer complaints are resolved using laid down systems of quality assurance. Several initiatives are being taken to further improve customer satisfaction in consonance with the Company's quality policy.

OPPORTUNITIES & THREATS

Strengths and Opportunities:

- Great potential for export of milk products.
- Established and expanding domestic market for dairy products.
- Increasing demand for fluid milk as well as value added Products.
- By product Utilization for import substitution.
- Huge Employment generation & opportunities for Self employment.

- Liberalized Government policies in dairy sector.
- Availability of large resources of unconventional feeds and fodders for Dairy owners.
- Availability of diverse germ plasm of dairy cattle and buffaloes that have unique features like heat tolerance, disease resistance, draft ability and ability to survive, breed and produce under stress conditions.

Weaknesses and Threats:

- Entry of Multi National Companies manufacturing dairy products in Domestic market.
- Increasing chemical contaminants as well as residual antibiotics in milk.
- Poor microbiological quality of milk.
- Incentive on export of quality feed ingredients particularly cakes.
- Deficiency of molasses, a rich source of energy and binding agent in feed industry and constituent of urea molasses mineral lick.
- Excessive grazing pressure on marginal and small community lands resulting in complete degradation of land.
- Extinction of the indigenous breeds of cattle due to indiscriminate use of crossbreeding programmed to enhance milk production.

The liberalization of the Dairy Industry is likely to be exploited by multi-nationals. They will be interested in manufacturing milk products which yield high profits. It will create milk shortage in the country adversely affecting the consumer.

The analysis also shows that the 'strengths' and 'opportunities' far outweigh 'weaknesses' and 'threats'. Strengths & opportunities are fundamental and weaknesses & threats are transitory.

SEGMENT WISE / PRODUCT WISE REPORTING

The Company is primarily engaged in the business of manufacture, purchase and sales of a wide range of Dairy products like ghee, skimmed milk powder, whole milk powder, dairy whitener, lactose and milk. The income from these activities and export of dairy products is not materially significant in financial terms. Accordingly segment information has not been disclosed.

RISK AND CONCERNS

The major risk and concerns attributed to the performance of the company are:

- a. Although the export sales are less in comparison to domestic sales, fluctuation in foreign exchange rates and international prices of dairy products may influence the performance of the company.
- b. Increase in input costs, change in tax structure, change in interest rates, changes in Government policies/ laws of land, development and stability of Indian economy against the negative external and internal forces may also impact the overall performance of the company.
- c. Profitability may be affected on account of competition from existing and prospective manufacturers of the company's products.
- d. Dairy business is primarily influenced by monsoon. Unfavorable monsoon may affect the milk availability and Company may not get milk upto installed capacity and demand.

ADEQUACY OF INTERNAL CONTROL SYSTEMS

The Company has in place the proper and adequate systems of internal controls. Such internal controls are according to the nature of its business and size of its operations, in order to ensure that all assets are safeguarded against loss from unauthorized use or disposition and that all transactions are authorized, recorded and reported correctly and adequately.

The performance of the Company is regularly reviewed by the Audit Committee and/or the Board of Directors to ensure that it is in consonance with the overall corporate policy and in line with pre-set

objectives. The Audit Committee of the Board is headed by a non-executive independent Director and all audit findings are reported on a quarterly basis to it.

HUMAN RESOURCE DEVELOPMENT

Being a manufacturing Company, workers form an important link in the chain of growth. The Company maintained a cordial relationship with its personnel during the year under review. The workers are motivated with better service conditions, which is at par with the best in the industry. During the year under review, the Company had under taken extensive steps for optimizing the use of its manpower through, productivity improvement, and role enrichment. There is a continuous focus on enhancing productivity in all facets of our operations.

INDUSTRIAL RELATIONS

The industrial relations in the Company with the workers at all levels are very cordial and are expected to remain cordial in future as well. The Management acknowledges the contribution of all employees in increasing its turnover manifold.

DISCLAIMER STATEMENT

Statements in this report describing the current industry structure, outlook, opportunities etc. reflect the assessment and perception of the Company, which are based on certain assumptions, and expectations of future events. The Company cannot guarantee that these assumptions and expectations are accurate. The Company's actual results, performance, or achievements could thus differ materially from those projected in any such forward-looking statements.

Certificate by Chief Executive Officer/Director on compliance with the conditions of Corporate Governance under Clause 49 of the Listing Agreement(s)

The Board of Directors
KMG Milk Food Limited

We hereby certify that for the Financial Year 2010-11:

1. We have reviewed the financial statements and the cash flow statement and that to the best of our knowledge and belief :-
 - a. These statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
 - b. These statements together present a true and fair view of the Company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.
2. There are, to the best of our knowledge and belief, no transactions entered into by the Company during the year 2010-11 which are fraudulent, illegal or violate the Company's code of conduct.
3. We accept responsibility for establishing and maintaining internal controls and that we have evaluated the effectiveness of the internal control systems of the Company and we have disclosed to the auditors and the Audit Committee those deficiencies, of which we are aware, in the design or operation of the internal control systems and that we have taken the required steps to rectify these deficiencies.
4. We further certify that: -
 - a. there have been no significant changes in internal control during this year.
 - b. there have been no significant changes in accounting policies during this year.
 - c. there have been no instances of significant fraud of which we have become aware and the involvement therein, of management or an employee having a significant role in the Company's internal control system.

Place: Haryana
Dated: 13th August 2010

Sd/-
Basudev Garg
Chairman & Whole Time Director

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

As per requirement of Clause 49 of the Listing Agreement with the Stock Exchanges, the Company has laid down a Code of Conduct for its Board of Directors and Senior Management.

I, Basudev Garg, Chairman & Whole Time Director of the Company confirm the compliance of this code by myself and other members of the Board of Directors and Senior Management personnel as affirmed by them individually, for the year ended 31st March, 2011.

Place: Haryana
Dated: 13th August 2010

Sd/-
Basudev Garg
Chairman & Whole Time Director

CERTIFICATE

To

The Members of KMG Milk Food Limited

We have examined the compliance of conditions of corporate governance by KMG Milk Food Limited for the year ended on 31.03.2011 as stipulated in clause 49 of the Listing Agreement of the said Company with stock exchange(s).

The compliance of conditions of corporate governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of 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, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mention Listing Agreement.

We state that no grievance(s) is pending against the company as per the records maintained by the Company.

We further state that such compliance is neither as 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: Delhi
Date: 13th August, 2011

For Rajan K Gupta & Co.
Chartered Accountants

Sd/-
(Rajan Gupta)
Partner
M.NO 74696
FRN 005945C