



HERBERTSONS LIMITED

63RD

ANNUAL REPORT 1999-2000

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HERBERTSONS LIMITED

DIRECTORS

DR. VIJAY MALLYA.....*Executive Chairman*

K.R. CHHABRIA.....*Vice Chairman and Wholetime Director*

S.D. LALLA.....*Managing Director*

S.K. DIWANJI

S.S. GANDHI

S.R. GUPTA

C.L. JAIN

RITU MALLYA

R.M. PAREKH

V.K. REKHI

N. SRINIVASAN

S.K. BISHWAL

COMPANY SECRETARY

BHARATH RAGHAVAN



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REGISTERED OFFICE

Ewart House, 22, Homi Mody Street,
Mumbai 400 023.

MANUFACTORY

201/202, Matsya Industrial Area,
Alwar 301 030, Rajasthan.

AUDITORS

Fraser & Ross, Chennai.

REGISTRARS & SHARE TRANSFER AGENTS

Computech Sharecap Limited
147, Mahatma Gandhi Road,
Mumbai 400 023.

BANKERS

Citibank N.A.
State Bank of Travancore
State Bank of Bikaner and Jaipur
Bank of India



REPORT OF THE DIRECTORS

To the Members

Your Directors submit their Report and the audited Accounts for the year ended 31st March, 2000 as under :

		(Rupees) Previous Year
The working of your Company for the year under review resulted in an operating profit of	112,751,286	120,977,439
From which has to be deducted:		
for Depreciation	32,325,580	36,185,007
for Taxation	38,000,000	35,000,000
	70,325,580	71,185,007
	42,425,706	49,792,432
and to which is added surplus brought forward from previous year	33,724,372	30,356,387
	76,150,078	80,148,819
from which is appropriated		
Towards General Reserve	20,000,000	20,000,000
Prior years' Tax Adjustments (+)	625,000	--
Dividends on Equity Shares :		
Proposed final dividend	4,761,161	23,805,808
Corporate Dividend Tax on above (including Previous year's provision)	3,666,095	2,618,639
Interim Dividends	19,044,646	--
Corporate Dividend Tax on above	2,618,640	--
Leaving a balance in Profit & Loss Account	<u>26,684,536</u>	<u>33,724,372</u>

DIVIDEND

The Board of Directors of your Company declared a first interim dividend for the financial year 1999 – 2000 @ 15% at the Board Meeting held on 28th April, 2000, payment of which was duly made.

The Board of Directors of your Company declared a second interim dividend for the financial year 1999 – 2000 @ 5% at the Board Meeting held on 30th October, 2000.

Your Directors recommend payment of a final dividend @

5% (previous year 25% though proposed, could not be placed before the shareholders for approval as a result of orders of the Bombay High Court staying holding of Annual General Meeting) for the year ended 31st March, 2000, on 9,522,323 equity shares of Rs.10/- each.

OPERATIONS

During the year under review, your Company refurbished and upgraded the packaging of the key brands in its portfolio, in response to changing consumer trends in the

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new Millennium and continuous tracking of competitors' offerings, engaging the services of leading design houses – in India and UK, for this purpose.

The new packaging of Bagpiper Whisky was extended across the country. Similarly, the modern and stylish Bagpiper Gold packaging was launched in different markets. It is heartening to note that the packaging changes in both these brands has met with extremely encouraging response from the consumers. Considerable progress was made in the packaging development of Premium Romanov Vodka as well as Honey Bee Brandy. Also look alike pints and nips have been developed for Bagpiper Whisky. During the year your Company has developed a channel selling team for canteen stores and institutions, which is yielding positive results.

During the year, Honey Bee Brandy achieved sales in excess of a million cases and has become the second millionaire brand in your Company's portfolio. This is a landmark achievement, and the brand has achieved stupendous growth of 37% during the year. Premium Romanov Vodka, which continues to be a market leader in this category, registered sales in excess of 125,000 cases thereby registering an impressive growth of 21% during the year.

PROSPECTS FOR THE CURRENT YEAR

Your Company is ever alive to the shift in consumer perceptions and the dynamics of the market place. Your Company will be introducing the new packaging of Honey Bee Brandy and Premium Romanov Vodka in all the key markets, during the current year. Also, your Company has already launched Bagpiper Rum in select markets with high salience for the rum category. The response to the offering is quite encouraging. Your Company will continue to modernize and innovate in the packaging of its products and various communication processes, with a view to outperform competition and remain as a market leader in the industry.

In view of the various initiatives taken by your Company, your Company is confident that its growth in the current year will be far more than the industry, thereby giving better value to the customers and stakeholders.

DEBENTURES

The proceeds of the Partly Convertible Debentures and the Non-Convertible Debentures issued by your Company in 1992 have been utilized for the purposes for which the Debentures were issued. The third and final installment of redemption of Non-Convertible portion (Part C) of the 15%

Secured Redeemable Partly Convertible Debentures amounting to Rs.207 lacs and of the 17% Secured Redeemable Non-Convertible Debentures amounting to Rs. 70 lacs (including premium on redemption) were paid on schedule in April, 2000.

INFORMATION TECHNOLOGY

Your Company was entirely successful in its efforts to avoid the Year 2000 problem and the rollover on 31st December, 1999 to 1st January, 2000 occurred without incident.

Your Company is aware of the emerging international trends of using information technology as the driving force of commerce in the future and will focus on the use of emerging information technology options to incorporate optimal business processes.

Your Company's various suppliers, customers and dealers are not computer reliant.

SUBSIDIARY COMPANY

The Accounts of BDA Limited for the year ended 31st March, 2000 have not yet been received by your Company and are not annexed. Relevant application under Section 212 (8) of the Companies Act, 1956 to the Central Government is being made.

DIRECTORATE

As members will recall, at the Annual General Meeting of your Company on 30/12/1998, the votes cast in respect of the resolutions pertaining to re-appointment of Directors retiring by rotation, resolutions under Section 257 of the Companies Act, 1956 pertaining to appointment of Directors and resolutions under section 284 of the Companies Act, 1956 for removal of Directors and appointment of other Directors in their place was placed in sealed covers without counting and were handed over to the Officer of the Court in accordance with the Orders of the Bombay High Court. The said votes have still not been counted.

Unless these boxes are opened and the results declared, it would not be possible for your Company to determine which of the Directors become liable to retire by rotation in subsequent Annual General Meetings.

Mr. S. D. Lalla whose term as Managing Director of your Company expired on 6/4/2000 was re-appointed as Managing Director for a further period of 5 years with effect from 7/4/2000 at the Board Meeting of your Company held on 7/3/2000 subject to the approval of the shareholders in general meeting.



Mr. K. R. Chhabria whose term as Vice Chairman and Whole time Director expired on 31/3/2000 was re-appointed as Vice Chairman and Whole time Director with effect from 1/4/2000 for a further period of 5 years at the Board Meeting held on 7/3/2000 subject to the approval of the members in general meeting.

Abstracts setting out the terms and conditions of the above appointments under Section 302 of the Companies Act, 1956 have been circulated to all shareholders. Pursuant to the stay orders of Bombay High Court your Company has been unable to convene/hold any Annual General Meeting. As and when the Bombay High Court passes suitable orders, the same shall be placed before the shareholders for approval.

STATUS OF LITIGATION:

The following legal proceedings are pending where your Company is a party:

- 1) Suit No. 3910 of 1997 filed by M.Sreenivasulu Reddy & Ors. Versus Kishore R. Chhabria and Ors. and Suit No. 297 of 1999 filed by Imfa Holdings Pvt. Ltd. & Ors. versus Herbertsons Limited & Ors. in the Bombay High Court. Interlocutory applications in these have been disposed of by the Single Judge and are pending disposal by the Division Bench of the Bombay High Court. In the meantime by an order dated 1st December, 1999 of the Bombay High Court, the Company is restrained from holding Annual Meetings pending appeals.
- 2) Suit No. 6826 of 1999 filed by Herbertsons Limited vs. Kishore R. Chhabria & Ors. and Suit No. 307 of 2000 filed by Herbertsons Limited & Ors. versus Kishore R. Chhabria & Ors. in the Bombay High Court. These suits are also pending. Your Company has filed a contempt petition being Contempt Petition No. 4 of 2000 against Kishore Rajaram Chhabria & Ors. arising out of an interlocutory order in Suit No. 6826 of 1999 which is also pending.
- 3) Suit Nos. 5908 of 1998, 5909 of 1998, 5910 of 1998, 5911 of 1998 and 69 of 1999 filed by UB Limited against Herbertsons Limited & Anr. in the Bombay High Court. These suits are also pending.
- 4) Suit No. 124 of 2000 filed by BDA Limited & Ors. Versus Herbertsons Limited & Ors. in the Bombay City Civil Court. This suit is also pending.
- 5) Suit No. 7948 of 1999 filed by BDA Limited & Ors. versus Ashok Kumar Jain & Ors. in the Bombay City Civil Court. This suit is also pending.
- 6) Appeal No. 21 of 1998 filed by Shirish Finance & Investment Pvt. Ltd., Appeal No. 22 of 1998 filed by Imfa Holdings Pvt. Ltd. and two separate appeals (so far un-numbered) filed by Darrel Traders Private Limited and Beethoven Traders Private Limited against your Company before the Company Law Board, Western Region Bench u/s 111A of the Companies Act, 1956. These appeals are also pending.
- 7) Company Petition No. 17 of 1999 filed by Airedale Investment & Trading Pvt. Ltd. & Ors. u/s 397/398 of the Companies Act, 1956 against Herbertsons Limited & Ors. before the Company Law Board, Principal Bench, New Delhi. This petition is also pending. Some interlocutory applications have been heard and disposed off.
- 8) Company Petition No. 67 of 1998 filed by Herbertsons Limited against K.R.Chhabria & Ors. u/s 397/398 of the Companies Act, 1956 before the Company Law Board, Principal Bench, New Delhi. This petition is also pending. Some interlocutory applications have been heard and disposed off.
- 9) Appeal No. 4 of 1999 filed by Herbertsons Limited in the Bombay High Court from an interlocutory order of the Company Law Board, Principal Bench, New Delhi in proceedings in Company Petition No. 67 of 1998. This appeal is also pending.
- 10) Writ Petition No. 629 of 1999 in the Delhi High Court filed by Airedale Investment & Trading Pvt. Ltd. & Ors. challenging the appointment of Dr.Vijay Mallya as Managing Director of your Company. This petition is also pending.
- 11) Suit No. 1 of 2000 filed by Ashok Kumar Jain and Ors. versus M.D.Chhabria & Ors. in the Tis Hazari Court, New Delhi. This suit is also pending. Interlocutory order has been passed in the suit from which appeal has been made which is also pending.
- 12) Shaw Wallace & Co. Ltd. and another have filed suit no. 373 of 1992 against Kishore Rajaram Chhabria & Ors. in which your Company has made an application for being impleaded as a party defendant. The said application is pending.

Note: Any shareholder desiring any further information about any of the above proceedings are requested to contact the Company Secretary at the Registered Office during business hours.

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**AUDITORS**

Messrs. Fraser & Ross were appointed as Statutory Auditors at the Annual General Meeting held on 30th December, 1998 to hold office till the conclusion of the next Annual General Meeting. No Annual General Meeting has been held subsequently and as such they continue in office.

Messrs. Nayyar Malik & Co. were appointed as Auditors for auditing the accounts of the Sona Distilleries for the financial year 1998-1999 at the Annual General Meeting held on 30.12.98. In absence of any Annual General Meetings subsequently they continue to audit the accounts of Sona Distilleries for the financial years 1999-2000 and 2000-2001.

Approval of members for the said appointments for both years will be sought at the relevant Annual General Meetings when convened consequent upon orders of the Bombay High Court.

PUBLIC DEPOSITS

The amount of fixed deposits due and not claimed by 123 claimants as at 31st March, 2000 was Rs. 12,66,000. Out of this, deposits in respect of 76 claimants amounting to Rs. 8,65,000 have either been renewed or repaid subsequent to 31st March, 2000.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

Information pursuant to Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is given in Annexure 1, forming part of this Report.

PERSONNEL

Relations between the Management and the Employees continued to be cordial.

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

LISTING AGREEMENT

As required by the amended Listing Agreement with the Stock Exchanges, a cash flow statement is appended.

Your Company's equity shares are listed on the following Stock Exchanges:

The Stock Exchange, Mumbai
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai 400 023.

The Stock Exchange
Kamadhenu Complex,
Near Polytechnic, Panjara Pole,
Ahmedabad 380 015.

The Delhi Stock Exchange Association Limited
3 & 4/4B, Asaf Ali Road,
New Delhi 110 002.

Bangalore Stock Exchange Limited
Stock Exchange Towers,
51, 1st Cross, J C Road,
Bangalore 560 027.

The Annual Listing Fees for the year 2000-2001 have been paid to the above Stock Exchanges.

Your Company has made an application for listing its shares on the National Stock Exchange Ltd. which application is pending.

As per the mandate of the Securities and Exchange Board of India (SEBI) your Company's name was included in the list of companies for compulsory dematerialization of their shares by June 26, 2000. Your Company has filed an application to SEBI for exemption from dematerializing your Company's shares in view of ongoing litigation in the Bombay High Court as well as pending SEBI investigation on substantial acquisition of shares in your Company. The said application is still pending. Meanwhile SEBI has directed the Stock Exchanges to permit trading of your Company's shares only on "trade for trade settlement" window of Stock Exchange.

AUDITORS' REPORT

With regard to the observations of the auditors in the Auditor's Report the explanations are as follows:

- 1) As regards para II 2(e)(i) of the auditors report regarding capital work-in-progress pending adjustment, the relevant financial note no. 8. of Schedule 16 (Notes to Accounts) is self-explanatory.
- 2) As regards para II (2)(e)(ii) regarding non-availability of the accounts of the Subsidiary for the year ended 31st March, 2000, non-consideration of expenses incurred by the subsidiary, non-consideration of diminution in value of investment in the subsidiary



and considering advance to subsidiary as good and recoverable in spite of erosion of its net worth, the relevant financial note nos. 2(a) 3(c) and 10(a) of Schedule 16 (Notes to Accounts) are self-explanatory.

- 3) As regards para II(2)(e)(iii) regarding non-availability of the share certificates of the subsidiary for verification, the relevant note no. 2(b) of Schedule 16 (Notes to Accounts) is self-explanatory.
- 4) As regards para II(2)(e)(iv) regarding non consideration of the diminution in the value of quoted and unquoted investments, in the opinion of the Management the diminution in the value of these investments being temporary in nature, the same need not be taken into account.
- 5) As regards para II (2) (e) (v) regarding non provision of certain disputed income tax, sales tax and excise duty demands, the Company has been legally advised that it has a strong case on merits and is

likely to succeed at various stages of appeal.

- 6) As regards para II (2) (e) (vi) regarding treatment of overdue debtors, the Management is confident that it can recover the same.

ACKNOWLEDGEMENTS

Your Directors place on record their appreciation for the continued support from shareholders, customers, suppliers, investors, banks and financial institutions. Your Directors would also like to express their appreciation for the significant contribution by all the employees of your Company during the year.

By Authority of the Board

Sd/-

VIJAY MALLYA

Executive Chairman

Mumbai, 30th October, 2000.

ANNEXURE I

READ WITH THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988 AND FORMING PART OF THE DIRECTORS' REPORT FOR THE YEAR ENDED 31ST MARCH, 2000

A. CONSERVATION OF ENERGY

- a) Installation of higher capacity ENA Plant has resulted in an increase in yield and better quality thereby saving in Coal consumption.
- b) Effective running of Cooling Tower by recirculation of used water has resulted in conservation of Water & Power. Recycling of hot water as feed water in boiler has further added in saving towards Coal consumption.
- c) Installation of energy meters in all the electrical panels of the Plant & Machinery has resulted in effective monitoring and maintaining efficiency of the Plant & Machinery.

B. TECHNOLOGY ABSORPTION

1. RESEARCH & DEVELOPMENT

With modification in the Malt spirit production plant and ENA plants, the quality of spirit produced has improved significantly and consistently. Installation of humidification plant at maturation warehouse has reduced the maturation wastages by maintaining

constant temperature. These have resulted in an increase in yield resulting in increased production and reduction in cost.

2. TECHNOLOGY ABSORPTION

Your Company has an on-going system of upgrading its technology keeping in view the latest development in the Industry. Upgradation of the bottling facilities at the Distillery has resulted in increased production capacity and improved quality of finished production and thereby an overall reduction in cost. Upgradation of semi-autoline into autoline for pints bottle and increased capacity for exiting Auto Nip Line has been planned. There has been no Import of Technology during the last five years.

C. FOREIGN EXCHANGE EARNINGS AND OUTGO

The information regarding total foreign exchange used and earned is contained in Note Nos. 24-27 of Schedule 16 to the accounts.

By Authority of the Board

Sd/-

VIJAY MALLYA

Executive Chairman

Mumbai, 30th October, 2000.

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**ANNEXURE II**

STATEMENT UNDER SECTION 217(2A) READ WITH COMPANIES (PARTICULARS OF EMPLOYEES) RULES, 1975 AND FORMING PART OF THE DIRECTORS' REPORT FOR THE YEAR ENDED 31ST MARCH, 2000.

Sr. No.	Name of employee	Designation & Nature of duties	Remuneration received (Rs.)	Qualifications	Experience	Date of commencement of employment	Age (Yrs)	Last Employment
(A) Employed for the whole year and in receipt of remuneration of not less than Rs.6,00,000.								
1	Mr. Arora V. K.	Divisional Vice President - Sales	1,468,676	B.A. (Hons)	28	15-Apr- 74	48	Sales Representative Chemi Kleen (India) Pvt. Ltd.
2	Mr. Capoor Ashok	Executive Vice President - Mktg. & Sales	1,871,445	B.A.(Hons), M.B.A.	25	12-May- 92	47	Marketing Manager Godfrey Phillips India Ltd.
3	Mr. Chhabria K. R.	Vice Chairman & Wholetime Director	1,606,200	B. Com.	26	01-Apr- 95	45	Chairman C M L
4	Mr. Lalla S. D.	Managing Director	4,214,753	L.C. & S.E., AMIE (Civil)	38	07-Apr- 94	56	President Raychem RPG Ltd.
5	Comde Mongia S. K.	Divisional Vice President - Business Promotion	1,464,636	M.Sc. (Def.Sc)	42	01- Aug- 93	59	Commodore Indian Navy
6	Mr. Raghunathan A.	Divisional Vice President - Finance	1,424,317	B.Com., A.C.A	25	01- Aug-93	48	G M - Finance & Accounts McDowell & Co.Limited
7	Capt. Sharma V. K.	Exe Director - Chairman's Off.	2,166,451	B.Com., M.A., L.L.B.	26	01-Oct-93	57	V P Administration United Breweries Ltd.

(B) Employed for part of the year and in receipt of remuneration of not less than Rs. 1,00,000 per month - Nil**NOTES :**

1. The appointment of all the employees is contractual.
2. None of the employees is related to any Director of the Company.
3. Remuneration includes salary and allowances, medical expenses, leave travel assistance, commission, bonus, Company's contribution to provident and superannuation funds and also the monetary value of perquisites calculated in accordance with the provisions of the Income-tax Act, 1961, and the Rules framed thereunder.

By authority of the Board

Sd/-

VIJAY MALLYA

Executive Chairman

Mumbai, 30th October, 2000.



REPORT OF THE AUDITORS TO THE MEMBERS

We have audited the attached Balance Sheet of Herbertsons Limited as at 31st March 2000 and the annexed Profit and Loss Account for the year ended on that date and report that:

- I. As required by the Manufacturing and Other Companies (Auditor's Report) Order 1988, issued by the Company Law Board in terms of Section 227(4A) of the Companies Act 1956, we enclose in the Annexure, on the basis of such checks as we consider appropriate, a statement on the matters specified in paragraphs 4 and 5 of the said Order.
- II. Further to our comments in the Annexure referred to in Para I above, we state:
 1. The accounts of the Sona Distilleries Division have been audited by M/s Nayyar Malik & Co., Chartered Accountants, and their Report has been considered by us. (Note No.14b)
 2. a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.
 - b) In our opinion, proper books of account as required by law have been maintained by the Company, so far as appears from our examination of those books.
 - c) The Balance Sheet and the Profit and Loss Account dealt with by this report are in agreement with the books of account.
 - d) In our opinion, the Profit and Loss Account and Balance Sheet referred to in this report comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act 1956 with the exception of recognition of diminution in value of the carrying costs of investments as required by Accounting Standard 13.
 - e) Attention is invited to:
 - i) Note No.8 regarding certain Capital Work-in-Progress pending adjustment for a considerable period of time.
 - ii) Note No. 2a regarding the non-availability of the accounts of BDA Limited, the wholly owned Subsidiary company, for the year ended 31st March 2000, and non consideration of the expenses incurred by the subsidiary as per their audited accounts for want of information, Note No.3c regarding non-consideration of the diminution in the value of investment in the subsidiary and, Note No.10a regarding considering advance of Rs.134.67 mio. to subsidiary (including

interest arrears of Rs.29.51 mio) as good and recoverable in spite of erosion of its net worth as per the audited accounts for the year ended 31st March 1999. The auditors of the subsidiary company, on the accounts so far audited by them, have made a disclaimer in regard to the true and fair view of the state of affairs.

- iii) Note No.2b regarding the non-availability of the share certificates of the wholly-owned subsidiary, BDA Limited, with the company for our verification.
- iv) Note No.3(a) and (b) regarding not taking note of the diminution in the value of Rs.9.68 mio. of quoted investments and Rs.4.93 mio of unquoted investments, considering the same as temporary in nature.
- v) Note No.5 (d) regarding certain disputed Income-tax, Sales Tax and Excise Duty demands of Rs. 103.64 mio.
- vi) Note Nos.9 (a) & (b) and 10 (b) regarding overdue Debtors amounting to Rs.22.88 mio. and Overdue Advances amounting to Rs.0.86 mio. considered as good and recoverable by the Management.

We are unable to form an opinion regarding the quantum, if any, of the ultimate shortfall in the realisability of the investments/debtors and advances and the ultimate liability in respect of the Income-tax, Sales Tax and Excise Duty demands referred to above.

3. In our opinion and to the best of our information and according to the explanations given to us, the said Balance Sheet and the Profit and Loss Account read together with the Accounting Policies and notes thereon give the information required by the Companies Act 1956, in the manner so required, subject to paragraph (e) above the effect of which could not be determined, and the consequential effect thereof on the profit for the year, assets, liabilities and reserves of the company, give a true and fair view:
 - i) in so far it relates to the Balance Sheet, the state affairs as at 31st March 2000 and
 - ii) in so far it relates to the Profit and Loss Account, of the profit for the year ended on that date.

FOR FRASER & ROSS

K.N.RAMASUBRAMANIAN

Partner

Mumbai, 30th October, 2000.

Chartered Accountants