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HERBERTSONS LIMITED

65TH

ANNUAL REPORT 2001-2002

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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





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, 2002 as under :

		(Rupees) Previous Year
The working of your Company for the year under review resulted in an operating profit of	100,416,651	104,878,878
From which has to be deducted:		
for Depreciation	28,287,018	29,112,714
for Taxation (including Deferred Tax liability for 2001-02)	<u>27,343,286</u>	<u>32,000,000</u>
	55,630,304	61,112,714
	44,786,347	43,766,164
and to which is added surplus brought forward from previous year	<u>43,587,605</u>	<u>26,684,536</u>
	88,373,952	70,450,700
from which is appropriated		
Towards General Reserve	20,000,000	20,000,000
Add : Prior years' Tax Adjustments	-	16,000,000
Add : Excess Provision for Corporate Dividend Tax of earlier years written back	3,399,468	3,370,905
Less : Dividends on Equity Shares :		
Proposed final dividend	-	4,761,161
Corporate Dividend Tax on above	-	485,639
Interim Dividends	23,805,808	19,044,646
Corporate Dividend Tax on above	-	1,942,554
	<u><u>47,967,612</u></u>	<u><u>43,587,605</u></u>

DIVIDEND

The Board of Directors of your Company had declared and paid an interim dividend for the financial year 2001 - 2002 @ 25% (previous year 20%) and your Directors have not recommended payment of any final dividend for the year.

OPERATIONS

Your Company has achieved a volume growth of only 1% over the last year. This is mainly due to the unfriendly and hostile market conditions faced by your Company in the

Northern region of the country. However, your Directors are pleased to inform you of the significant increase in the sale of your Company's brands to the Canteen Stores Department (CSD), supplies to whom went up by an impressive 21.26% over the previous year.

Your Company's flagship brand Bagpiper Whisky in its new international quality packaging has maintained its status as the largest selling IMFL brand in the country and has recorded a sale in excess of 5.3 million cases registering a growth of over 3% over the previous year. This performance is to be viewed in the light of hostile market conditions faced

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by your Company in the Northern region.

Honeybee Brandy – member of the 'Millionaire Club' once again aggregated sale in excess of 1.1 million cases.

Premium Romanov Vodka with its stylish look continues to be the largest selling vodka in the industry and has for the first time exceeded 2 lakh cases registering a staggering 28% increase over the previous year.

Your Company is endeavouring to extend Joie de Franc Premium Brandy and Bagpiper XXX Rum which were launched in the previous year in select markets to other potential markets in the country, although the sale of Bagpiper XXX Rum has come down.

A detailed Management and Discussion Analysis Report is attached as a part of this report.

PROSPECTS FOR THE CURRENT YEAR

During the first half of the current financial year, your Company has recorded an increase of 7% in volume and 11% in value terms over the previous year. Barring unforeseen circumstances, your Company's business is expected to be satisfactory.

Your Company recognizes the need for driving growths through brand portfolio management and has therefore maintained its focus on the power brands i.e. Bagpiper, Honey Bee & Romanov. In addition, your Company has planned higher growth by launching new brands. Your Company is planning to extend its range in the high value whisky and brandy segment. Your Company has launched "Romanov Shotz" in the emerging "Ready To Drink" segment and the initial response has been encouraging. Initiatives have also been taken to further improve the packaging of existing brands.

In view of the various initiatives taken, your Company is confident that its growth in the current year will be higher than the last year and will outperform the industry, thereby enhancing value to all the stakeholders.

ENTERPRISE RESOURCE PLANNING

Your Company is in the process of implementation of the world's leading ERP Software viz. SAP R/3. Completion of this implementation is expected to bring in the following benefits:

- * Process standardization across regions.
- * Better manageability of business complexities:
 - * Quicker and more accurate information availability.
 - * Effective data backed decision making.
 - * Increased transparency across all levels.

- * Higher data consistency and integrity.
- * Improved management of Inventories and Receivables.
- * Reduction in Manufacturing cost.

SUBSIDIARY COMPANY

The accounts of BDA Limited for the year ended 31st March, 2002 have not been received by your Company from BDA Ltd. and are not annexed or consolidated with the accounts of your Company. Necessary 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 were placed in sealed covers without counting and were handed over to the Officer of the Court to be counted only as per further orders of the Court.

In the circumstances, it is not possible for your Company to ascertain the Directors who are liable to retire by rotation at subsequent Annual General Meetings.

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 the absence of any Annual General Meetings subsequently they continue to audit the accounts of Sona Distilleries for subsequent years.

Approval of members for the said appointments will be sought at the relevant Annual General Meetings when convened.

PUBLIC DEPOSITS

The amount of fixed deposits due and not claimed by 120 claimants as at 31st March, 2002 was Rs.12,71,000/- . Out of this, deposits in respect of 54 claimants amounting to Rs. 6.00 lacs have either been renewed or repaid subsequent to 31st March, 2002.



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 I, 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.

CASH FLOW STATEMENT

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

LISTING OF SHARES

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

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

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

The Annual Listing Fees for the year 2002-2003 have been paid to the above Stock Exchanges.

The application for listing of your Company's shares with the National Stock Exchange of India Limited has been rejected by the said Exchange as your Company does not satisfy the required criteria for listing.

SEBI's decision on the application dated 10th March, 2000 of your Company for exempting your Company from dematerializing its securities is still awaited. The shares of your Company continue to be traded only on "trade for trade settlement" window of the Stock Exchanges.

CORPORATE GOVERNANCE

A report on Corporate Governance is annexed separately as part of the report along with a Certificate of Compliance from the Auditors.

AUDITORS' REPORT

With regard to the observations of the Statutory Auditors in the Auditors' Report the explanations are as follows:

- 1) As regards para 2(e)(i) of the Auditors' Report regarding capital work-in-progress pending adjustment, the relevant financial note no. 4 of Schedule 16 (Notes to Accounts) is self-explanatory.
- 2) As regards para (2)(e)(ii) regarding non-availability of the accounts of the wholly-owned subsidiary for the years ended 31st March, 2000, 31st March, 2001 and 31st March, 2002, non-consideration of expenses incurred by the wholly-owned subsidiary, non-consideration of diminution in value of investment in the wholly-owned subsidiary and considering advance to wholly-owned subsidiary as good and recoverable in spite of erosion of its net worth, the relevant financial note nos. 2a, 5(ii)(c) and 7(a)(i) of Schedule 16 (Notes to Accounts) are self-explanatory.
- 3) As regards para (2)(e)(iii) regarding non-availability of the share certificates of the wholly owned subsidiary for verification, the relevant note no. 2b of Schedule 16 (Notes to Accounts) is self-explanatory.
- 4) As regards para (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 (2)(e)(v) regarding treatment of overdue debtors, the Management is hopeful of recovering the same.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 217 (2AA) of the Companies Act, 1956, in relation to financial statements for the year 2001-2002, the Board of Directors reports that:

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- a) in the preparation of the annual accounts, the applicable accounting standards have been followed and that no material departures have been made from the same;
- b) accounting policies have been selected and applied consistently and that the judgments and estimates made are reasonable and prudent so as to give a true and fair view of the state of affairs of your Company as at the end of the financial year and of the profit of your Company for the year ended March 31, 2002;
- c) proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of your Company and for preventing and detecting fraud and other irregularities; and

- d) the annual accounts have been prepared on a going concern basis.

ACKNOWLEDGEMENTS

Your Directors place on record their sincere appreciation for the continued support from shareholders, customers, suppliers, investors, banks, financial institutions and other business associates. 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, 2002

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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, 2002

A. CONSERVATION OF ENERGY

- a) During the year 2001-02, your Company has successfully generated 148801 units from the Energy Conservation Turbine installed in March-2001 by utilization of steam used for the re-distillation process without using any additional fuel. This has resulted in saving of approximately Rs. 6.74 lacs due to non purchase of above units from State Electricity Board.
- b) Installation of Auto Voltage regulator has resulted in reduction in failures of electrical equipment due to voltage fluctuations and thereby reduction in utilization of DG set in case of low/high voltage.
- c) Using energy saving device in cooling water system by optimizing the use of cooling tower fan with respect to the atmospheric condition resulting in saving in consumption of electricity by 10%.

B. TECHNOLOGY ABSORPTION**1. Research & Development**

Your Company has an ongoing system of evaluation of production techniques in the Malt Spirit production plant and E.N.A. plant to improve the quality, yield, consistency in sensory evaluation and reduction in overall cost of Spirit produced.

2. Technology Absorption

Your Company has an ongoing system of upgrading its technology keeping in view the latest developments in the industry. During the year, your Company has successfully installed 150 BPM Auto Quarts line in place of existing 60 BPM Auto Quarts line resulting in increased production capacity, efficiency, improvement in quality of finished product and overall reduction in cost.

Your Company has also upgraded its Auto Pints line and Auto Nips line by installation of Multimatic Labelling machines and change parts for switching over of production from Semi-Auto line to Auto lines resulting in increased production capacity, efficiency, improvement in product quality and overall reduction in cost.



Your Company has acquired an additional Godrej Forklift for shifting of finished goods which has resulted in reduction in shifting time and manpower thereby increasing efficiency and reducing cost.

Installation of S. S. flexible pipelines in place of existing MS/PVC pipe lines, has resulted in quality upgradation of ENA and blend.

and earned is contained in Note Nos. 21-24 of Schedule 16 to the accounts.

By Authority of the Board

Sd/-

C. FOREIGN EXCHANGE EARNINGS AND OUTGO

VIJAY MALLYA
Executive Chairman

The information regarding total foreign exchange used

Mumbai, 30th October, 2002

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, 2002.

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. 24,00,000.								
1	Mr. Capoor Ashok	Executive Vice President - Mktg. & Sales	2,697,173	B.A.(Hons), M.B.A.	27	12-May- 92	49	Marketing Manager Godfrey Phillips India Ltd.
2	Mr. Lalla S D	Managing Director	3,996,324	L.C. & S.E., AMIE (Civil)	40	07-Apr- 94	58	President Raychem RPG Ltd.
3	Capt. Sharma V K	Executive Director - Chairman's Office	2,695,237	B.Com., M.A., L.L.B	28	01-Oct-93	59	V. P. Administration United Breweries Ltd.
(B) Employed for part of the year and in receipt of remuneration of not less than Rs. 2,00,000 per month								
1	Mr. Arora V K	Divisional Vice President - Sales	3,812,444	B.A. (Hons)	30	15-Apr- 74	50	Sales Representative Chemi Kleen (India) P.Ltd.
2	Mr. Srivastava C B	General Manager - Sales, Northern Region	1,317,571	B.Sc	23	18- Sep- 78	45	Institute of Productivity and Management

NOTES :

1. The appointment of all the employees is contractual.
2. None of the 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, 2002.



CORPORATE GOVERNANCE REPORT

COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE

Your Company is committed to good Corporate Governance and constantly strives to achieve excellence in all its dealings. The philosophy of your Company on Corporate Governance, apart from envisaging attainment of the highest levels of accountability and equity in all its actions and enhancement of value of all stakeholders, is fulfillment of the role of a responsible Corporate citizen.

BOARD OF DIRECTORS

The Board of Directors of your Company is a combination of Executive and Non Executive Directors, comprising twelve directors of whom three are Executive Directors and the balance are Non Executive Directors.

Reference is made to the Directors' Report under the heading "Directorate". For the reasons explained in the Directors' Report, your Company is unable to alter the constitution of the Board of Directors as per requirements of the Corporate Governance provisions. Your Company has accordingly informed the Stock Exchanges where your Company is listed.

During the financial year under review a total of five Board Meetings of your Company were held on 27th April, 2001, 31st July, 2001, 28th August, 2001, 30th October, 2001 and 21st January, 2002 respectively.

Attendance of each Director at the Board Meetings during the year under review and details of number of outside Directorship/ Chairmanship (including private limited companies) and Committee position held by each of the Directors is given below:

Names of Directors	Category	No. of Board Meetings attended	Total No. of other companies in which Director	Out of which No. of other companies in which Chairman	Total no. of other Board Committees in which Member	Out of which no. of other Board Committees in which Chairman
Dr. Vijay Mallya	Executive Director/ Executive Chairman	4	3 (in India) 38 (outside India)	14 (in India)	2	None
Mr. K. R. Chhabria	Executive Director/ Vice Chairman & Whole-Time Director	4	10	1	None	None
Mr. S. D. Lalla	Executive Director/ Managing Director	4	6 (in India) 1 (outside India)	None	None	None
Mr. S. K Diwanji	Non Executive Director	4	14	None	8	1
Mr. S. S. Gandhi	Non Executive Director	1	1 (in India) 2 (outside India)	None	None	None
Mr. S. R. Gupte	Non Executive Director	5	15 (in India) 3 (outside India)	None	7	2
Mr. C. L. Jain	Non Executive Director	4	9	None	8	5
Ms. Ritu Mallya	Non Executive Director	4	1	None	None	None
Mr. R. M. Parekh	Non Executive Director	4	2	None	2	None
Mr. V. K. Rekhi	Non Executive Director	4	5 (in India) 3 (outside India)	None	4	None
Mr. N. Srinivasan	Non Executive Director	4	19	None	9	2
Mr. S. K. Bishwal	Non Executive Director	5	None	None	None	None

Your Company has not convened/held any Annual General Meeting subsequent to the provisions of Corporate Governance coming into effect.



DISCLOSURE REGARDING APPOINTMENT & RE-APPOINTMENT OF DIRECTORS

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 were placed in sealed covers without counting and were handed over to the Officer of the Court to be counted only as per further orders of the Court.

In the circumstances, it is not possible for your Company to ascertain the Directors who are liable to retire by rotation at subsequent Annual General Meetings.

AUDIT COMMITTEE

The Audit Committee of the Board of Directors of your Company was constituted on 17th January, 2001 in compliance with the requirements of both the Listing Agreement and Section 292A of the Companies Act, 1956.

Constitution of the Audit Committee is as follows:

Mr. N Srinivasan (Chairman)	-	Non Executive Director
Mr. R M Parekh	-	Non Executive Director
Mr. C L Jain	-	Non Executive Director
Mr. S D Lalla	-	Executive Director

The Head of Finance, representatives of Internal Audit and Statutory Auditors are invitees to the meetings of the Audit Committee.

The following terms of reference stipulated by the Board of Directors to the Audit Committee covers all matters specified under the Listing Agreement as well as the provisions of Section 292A of the Companies Act, 1956:

- a) Overseeing the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
- b) Recommending the appointment and removal of external auditor, fixation of audit fee and also approval for payment for any other services.
- c) Reviewing with management the annual financial statements before submission to the Board, focusing primarily on;
 - Any changes in accounting policies and practices.
 - Major accounting entries based on exercise of judgment by management.
 - Qualifications in draft audit report.
 - Significant adjustments arising out of audit.
 - The going concern assumption.
 - Compliance with accounting standards.
 - Compliance with stock exchange and legal requirements concerning financial statements.
 - Any related party transactions i.e. transactions of the Company of material nature, with promoters or the management, their subsidiaries or relatives etc. that may have potential conflict with the interests of the Company at large.
- d) Reviewing with the management, external and internal auditors, the adequacy of internal control systems.
- e) Reviewing the adequacy of internal audit function, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting, structure, coverage and frequency of internal audit.
- f) Discussing with internal auditors any significant findings and follow up thereon.