



Board of Directors

CA D Seetharamaiah, Non Executive Independent Chairman
 Smt N Bhuvaneswari, Vice Chairman & Managing Director
 Sri N P Ramakrishna, Independent Director
 Dr N R Sivaswamy, Independent Director
 Dr A Appa Rao, Independent Director
 Dr V Nagaraja Naidu, Director

Company Secretary: CS Murali Krishna Narne

Company Senior Executives

Dr M Sambasiva Rao, President
 Sri N Lokesh, Vice President
 CA Prabhakara Naidu, Senior General Manager - Finance & Accounts

Dairy Division

Sri K Durga Prasada Rao, Senior Vice President - Operations
 Sri N Venkat Rao, Vice President - Procurement & Inputs
 Sri T Venkateswara Rao, Vice President - Plant & Engg.
 Sri A Jeevaratnam Naidu, Senior GM - Procurement & Inputs
 Sri P A Anil Kumar, Senior GM - Quality Assurance
 Sri J Samba Murthy, GM - Marketing
 Sri C V S Kaleswara Rao, GM - HR & Admin.
 Sri R D Gopinath Reddy, AGM - Systems
 Sri G Vinod Kumar, AGM - Materials

Retail Division

Sri S Jagadish, Vice President
 Sri Santhosh Unni, Head - Marketing & Operations
 Sri P Satya Pradeep, Head - Quality Assurance
 Sri CH Raja Babu, Head - Projects
 Sri A Arulanandam, Head - Logistics & Warehouse
 Sri Manoj S. Warriar, Head - Information Technology
 Sri P Harish Kumar, Head - Agri
 Dr A Satyanarayana, Head - Agronomy Services
 Sri B. Nagendra Prasad, AGM - Human Resources

Auditors : M/s. Raju & Prasad, 401, "DAIMOND HOUSE", Panjagutta, Hyderabad - 500 082

Bankers : Bank of Baroda, Andhra Bank, HDFC Bank & ICICI Bank

Listed with : The Stock Exchange, Mumbai (BSE), National Stock Exchange of India Limited (NSE)

Registrars : Karvy Computershare Private Limited, Plot no.17 to 24, Vittal Rao Nagar, Madhapur, Hyderabad - 500 081

Registered Office : 6-3-541/C, Panjagutta, Hyderabad - 500082

Company Locations : Refer Page No. 23 & 24

Website : www.heritagefoods.co.in & www.freshat.in



Members of Heritage Foods (India) Limited are hereby given notice for the 15th Annual General Meeting of the Company, the schedule of which and the business to be transacted therein, are given below:

Day and Date : **Wednesday, 22nd August, 2007**
 Time : **10.00 a.m.**
 Venue : **'Our Place', No. 8-2-602/E,
 Charan Pahadi Road,
 Road No.10, Banjara Hills,
 HYDERABAD - 500 034
 Phone: 040-23353422, 23354234**

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March 2007 and Profit and Loss Account for the year ended as on that date and the Reports of the Directors and the Auditors thereon.
2. To declare dividend for the year.
3. To appoint a Director in place of Sri D Seetharamaiah, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Dr V Nagaraja Naidu, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint Auditors and to fix their remuneration.

To consider and, if thought fit, to pass with or without modification(s) the following resolution as an Ordinary Resolution.

"RESOLVED THAT M/s. Raju & Prasad, Chartered Accountants, Hyderabad, who retire at this meeting, being eligible and willing to act as Auditors, be and are hereby appointed as Auditors of the Company to hold office from the conclusion of this Meeting until the conclusion of the next Annual General Meeting of the Company, at a remuneration to be fixed by the Board of Directors of the Company."

SPECIAL BUSINESS

6. To consider and, if thought fit, to pass with or without modification(s) the following resolution as a Special Resolution.

"RESOLVED THAT in supercession of the resolution passed as item no.5 at the 13th Annual General Meeting of members of the Company held on 15th July 2005 and pursuant to the provisions of Sections 198, 269, 309, 310, 311 and other applicable provisions of the Companies Act, 1956 read with Schedule XIII thereto (including any statutory modifications or re-enactments thereof, for the time being in force) and subject to such sanctions and approvals as may be necessary, consent of the Company be and is hereby accorded to the appointment of Smt N Bhuvanewari, Vice Chairman and Managing Director for a period of 3 Years commencing from 01-04-2006 on the following remuneration:

Monthly Remuneration : Rs.3.50 Lakhs

Commission : 3% of Net Profit of the Company per annum computed as per the provisions of the Companies Act, 1956

RESOLVED FURTHER THAT the Board of Directors of the Company, on the recommendation of the Remuneration Committee, be and is hereby authorized to revise the said remuneration during the currency of her tenure and the total cost to the Company on account of such revision for any year during the currency of her tenure is subject to the limits set out under section 198 and 309 of the Companies Act, 1956 read with schedule XIII thereto.

RESOLVED FURTHER THAT, in the event of absence or inadequacy of net profits for any financial year during her tenure, the said Monthly Remuneration shall be treated as minimum remuneration payable to Smt. N Bhuvanewari.

RESOLVED FURTHER THAT over and above the said minimum remuneration, Smt. N Bhuvanewari shall also be eligible for the following perquisites/benefits, which shall not be included in the minimum remuneration specified above:

- (a) Company's contributions to provident fund, superannuation fund or annuity fund upto the non-taxable limits under Income Tax Act, 1961;
- (b) Gratuity at the rate of half month's salary for each completed year of service; and
- (c) Encashment of leave at the end of tenure."

7. To consider and, if thought fit, to pass with or without modification(s) the following resolution as a Special Resolution.

"RESOLVED THAT in supercession of the resolution passed as item no.6 at the 13th Annual General Meeting of members of the Company held on 15th July 2005 and pursuant to the provisions of Sections 198, 269, 309, 310, 311 and other applicable provisions of the Companies Act, 1956 read with Schedule XIII thereto (including any statutory modifications or re-enactments thereof, for the time being in force) and subject to such sanctions and approvals as may be necessary, consent of the Company be and is hereby accorded to pay a minimum remuneration of Rs. 42 Lakhs to Dr. V Nagaraja Naidu, the then Managing Director due to inadequacy of net profits for the Financial Year 2006-07"

By Order of the Board
 For **HERITAGE FOODS (INDIA) LIMITED**

Registered Office:
 6-3-541/C, Panjagutta,
 Hyderabad - 500 082

Date : June 29, 2007

MURALI KRISHNA NARNE
 Company Secretary



NOTES:

1. **A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE ON POLL INSTEAD OF HIMSELF AND SUCH PROXY NEED NOT BE A MEMBER OF THE COMPANY. THE PROXIES TO BE EFFECTIVE, SHOULD BE DULY STAMPED, COMPLETED, SIGNED AND DEPOSITED AT THE REGISTERED OFFICE OF THE COMPANY OR ITS REGISTRAR AND SHARE TRANSFER AGENT NOT LESS THAN FORTY EIGHT HOURS BEFORE THE COMMENCEMENT OF MEETING.**
2. **MEMBERS/PROXIES SHOULD PRODUCE AT THE ENTRANCE OF THE VENUE DULY FILLED ATTENDANCE SLIP FOR ATTENDING THE MEETING.**
3. M/s Karvy Computershare Private Limited (Karvy) is the Registrar and Share Transfer Agent for physical shares of the Company. Karvy is also the depository interface of the Company with National Securities Depository Limited (NSDL) and Central Depository Services India Limited (CDSL).
4. The Register of Members and the Transfer Books of the Company will remain closed from Wednesday, the 1st August 2007 to Wednesday, the 8th August 2007 (both days inclusive)
5. The dividend as recommended by the Board of Directors for the year ended 31st March 2007, when declared at the Annual General Meeting will be paid on or after 22nd August 2007 to the members whose names appear:
 - i) As beneficial Owners as per list to be furnished by the Depositories in respect of the shares held in demat form; and
 - ii) As members on the Register of Members of the Company on 8th August 2007 after giving effect to all valid share transfers in physical form which would be received by the Company upto end of business hours on 31st July 2007.
6. In order to provide protection against fraudulent encashment of the warrants, shareholders holding shares in physical form are requested to intimate the company under the signature of the sole / first & joint holder, the following information to be incorporated on the Dividend Warrants:
 - (i) Name of the sole / first & joint holder and the folio number.
 - (ii) Particulars of Bank Account, viz.:
 - a. Name of the Bank, Branch and Complete Address of the Bank
 - b. Account type, whether Savings (SB) or Current Account (CA)
 - c. Bank Account Number allotted by the bank
7. Shareholders holding shares in electronic form may kindly note that their bank account details as furnished by their Depositories to the Company will be printed on the Dividend Warrants and the Company will not entertain any direct request from such shareholders for deletion of / change in such bank account details. Further, instructions, if any, already given by them in respect of shares held in physical form will not be

automatically applicable to shares held in electronic mode. Shareholders who wish to change such Bank Account details are therefore requested to advise their Depository Participants about such change along with details of Bank Account

8. Electronic Clearing Service (ECS) Facility:

With respect to payment of dividend, the Company provides the facility of ECS to the shareholders residing in the following cities -

Ahmedabad, Bangalore, Bhubaneshwar, Chandigarh, Chennai, Guwahati, Hyderabad, Jaipur, Kanpur, Kolkata, Mumbai, Nagapur, New Delhi, Patna and Thiruvananthapuram.

Shareholders holding shares in physical form, who wish to avail ECS facility, may authorise the Company with their ECS mandate in the prescribed form given at the end of this Annual Report and requests for payment of dividend through ECS should be lodged with M/s Karvy Computershare Private Limited on or before 8th August 2007.

9. Pursuant to provisions of sub-section (5) of Section 205A the Companies Act, 1956 the dividend, which remain unclaimed for a period of 7 years will be transferred by the Company to the Investor Education and Protection Fund (IEPF) established by the Central Government pursuant to Section 205C of the Companies Act, 1956. The Company has already transferred unclaimed amounts of dividends declared upto the financial year 1998-99 to the General Revenue Account / Investor Education and Protection Fund of the Central Government as required under section 205A and 205C of the Companies Act, 1956.

Information in respect of such unclaimed dividend and the last date for claiming the same are given below:-

Financial year ended	Date of declaration of Dividend	Last date for claiming unpaid Dividend
1999-2K	22.09.2000	21.09.2007
2000-01	28.09.2001	27.09.2008
2001-02	22.08.2002	21.08.2009
2002-03	30-07-2003	29-07-2010
2003-04	29-07-2004	28-07-2011
2004-05	15-07-2005	14-07-2012
2005-06	31-07-2006	30-07-2013

Shareholders, who have not so far encashed the dividend warrant(s) are requested to seek issue of duplicate warrant(s) by writing to the Company's Registrar and Transfer Agents, M/s Karvy Computershare Private Limited immediately. Shareholders are requested to note that no claims lie against the Company or the said fund in respect of any amounts which were unclaimed and unpaid for a period of seven years from the date that they first became due for payment and no payment shall be made in respect of any such claims.

10. Non-resident Indian shareholders are requested to inform M/s Karvy Computershare Private Limited immediately:
 - i. The change in the residential status on return to India for permanent settlement; and
 - ii. The particulars of Bank Account maintained in India with complete name, branch, account type, account number and address of the bank, if not furnished earlier.



11. Corporate Members intending to send their authorised representatives are requested to send a duly certified copy of the Board Resolution authorizing their representatives to attend and vote at the Annual General Meeting
12. Shareholders, holding shares in physical form, are requested to notify immediately change of address, if any, to the Company's Registrar & Share Transfer Agent, M/s. Karvy Computershare Private Limited, Plot no.17 to 24, Vittal Rao Nagar, Madhapur, Hyderabad - 500 081.
13. The documents referred to in the proposed resolutions are available for inspection at the Registered Office of the Company during working hours between 10.00 A.M. to 1.00 P.M. except on holidays.
14. The Register of Directors' shareholdings shall be open for inspection to any member of the Company during the period beginning 14 days before the date of Company's Annual General Meeting and ending 3 days after the date of its conclusion. The said register shall also remain open and accessible during the Annual General Meeting to any person having right to attend the meeting.
15. Brief resume of all Directors is provided in the Corporate Governance Report, which forms part of this Annual Report
16. Members seeking any information relating the Accounts may write to the Company at 6-3-541/C, Panjagutta, Hyderabad - 500082, for attention of Mr. N Murali Krishna, Company Secretary at the earliest.
17. The information or details pertaining to the directors seeking re-appointment has been provided in terms of Clause 49 of the Listing Agreement with the Stock Exchanges in the report on Corporate Governance published in this Annual Report.

Explanatory Statement pursuant to section 173 (2) of the Companies Act, 1956

Item No. 6 & 7

Smt. N Bhuvaneswari and Dr. V Nagaraja Naidu were re-appointed at the 13th Annual General Meeting of the members of the Company held on 15-07-2005 for a period of 5 years with effect from 12-12-2004 at a remuneration that was approved by the members at that meeting. As you are aware that during the Financial Year your Company has ventured into a high growth retail food business and has made huge investments in all aspects of business and also your Company has engaged independent consultants in the key areas of business requirements in addition to recruiting best talent. As a result, your Company's presence in the market has been very quickly recognized as unique and one of the best retail business models in the Industry. Due to initial phase of high growth business, the expenditure during the financial year was high and as such there was a pressure on the margins of your Company during the year.

In view of the above and after considering the profitability, your Board of Directors has decided not to pay any commission in the event of absence or inadequate profits for any financial year and pay only minimum remuneration prescribed under the Companies Act, 1956 to Smt. N Bhuvaneswari and Dr. V Nagaraja Naidu for the Financial Year 2006-07. Accordingly the appointment of Smt N Bhuvaneswari with revised remuneration and payment of minimum remuneration to Dr. V Nagaraja Naidu for the Financial Year 2006-07 have been placed before the members for approval by way of special resolution at Item No.6 and at Item No.7 respectively. The said appointment and remuneration of the above Directors have the approval of the Remuneration Committee.

STATEMENT OF INFORMATION GIVEN TO THE SHAREHOLDERS PURSUANT TO SCHEDULE XIII OF THE COMPANIES ACT, 1956:

I. General Information:

- (1) Nature of industry:
 - a. Procurement, processing, packaging and distribution of Milk & Milk Products (Dairy Division)
 - b. Food Retailing (Retail Division)
- (2) Date or expected date of commencement of commercial production:
 - a. Dairy Division - 26-04-1993
 - b. Retail Division - 29-11-2006
- (3) In case of new companies, expected date of commencement of activities as per project approved by financial institutions appearing in the prospectus: Not applicable
- (4) Financial performance based on given indicators:

Financial parameters	2002-03	2003-04	2004-05	2005-06	2006-07
Turnover (Rs. In lakhs)	19283	23449	26613	29207	34633
Net Profit as computed under Section 198 (Rs.)	245337864	290589210	175985055	216662526	43608231
Net Profit as per Profit and Loss Account (Rs.)	149107029	176231299	101586179	136376734	17255493
Amount of Dividend Paid (including dividend tax) (Rs.)	30992414	30992414	34173293	34173293	35063402
Rate of Dividend declared	27.5%	27.5%	30%	30%	30%



- (5) Export performance and net foreign exchange collaborations: Not applicable
- (6) Foreign investments or collaborators, if any: Not applicable

II. Information about the appointee:

(1) Background details:

- (a) Smt. N Bhuvaneshwari, an Indian National, aged 45 years, is a Arts Graduate with 11 yrs of Industry experience.
- (b) Dr. V Nagaraja Naidu, an Indian National, aged 60 years, is a Doctorate in Financial Management held various positions in reputed Universities, Viz., Professor, Dean Director etc., and taught in the fields of Finance and Business Economics at Post graduate and Doctorate levels.

(2) Past remuneration:

Year	Remuneration paid to Smt. N Bhuvaneshwari	Remuneration paid to Dr. V Nagaraja Naidu
2002-03	7336757	4892530
2003-04	11147676	6081591
2004-05	7887386	4773439
2005-06	9407384	6580654

(3) Recognition or awards: Not applicable

(4) Job profile and his/her suitability:

- (a) Smt. N Bhuvaneshwari: Subject to the superintendence, direction and control of the Board, the day-to-day management and administration of the Company is vested in the Vice-Chairman and Managing Director.
- (b) Dr. V Nagaraja Naidu: Subject to the superintendence, direction and control of the Board, the day-to-day management and administration of the Company is vested in the Managing Director.

(5) Remuneration proposed:

As set out in the resolution for the Item No. 6 and Item No. 7 for Smt. N. Bhuvaneshwari and Dr. V Nagaraja Naidu respectively, the remuneration has the approval of the Remuneration Committee.

(6) Comparative remuneration profile with respect to industry, size of the company, profile of the position and person (in case of expatriates the relevant details would be with respect to the country of his origin):

Taking into consideration the size of the Company, the profile of Smt. N Bhuvaneshwari and Dr. V Nagaraja Naidu, the responsibilities shouldered by them, the aforesaid remuneration package is commensurate with the remuneration package paid to managerial position in other companies.

- (7) Pecuniary relationship directly or indirectly with the company, or relationship with the managerial personnel, if any:

Smt. N Bhuvaneshwari, Vice Chairman and Managing Director have been receiving the rent for the building rented as Head Office to the Company. The following are the amounts paid as rent during the last three financial years:

Year	Area (SFT)	Amount (Rs. in Lakhs)
2004-05	3999	7.47
2005-06*	7995	12.48
2006-07@	11819	19.19

* From 01-04-2005 to 31-8-2005 - 3999 SFT
From 01-09-2005 to 31-01-2006 - 6499 SFT

@ From 01-04-2006 to 22-06-2006 - 7995 SFT
From 23-6-2006 to 30-6-2006 - 10106 SFT

III. Other information:

- (1) During the Financial Year all the preoperative and start up expenses of retail business were charged to Profit and Loss Account as per Accounting Standard No. 26 though the business was not fully operational and commenced only in the last quarter of the financial year.

With the proposal of marketing existing dairy products more in consumer packs instead of bulk sales, introduction of more value added products besides overall increase in milk sales, the margins of dairy division will improve substantially and also with the scaling up of retail operations and commencement of back end agri division activities the overall margins of your Company would improve in the coming years.

IV. Disclosures:

- (2) All the elements of remuneration package, of the managerial person has been given in the Report on Corporate Governance.

The Directors recommend the resolutions for your approval. None of the Directors of the Company, except Smt. N Bhuvaneshwari at Item No.6 and Dr. V Nagaraja Naidu at Item No.7, is interested in the resolutions.

The terms of appointment of the above Directors as stated in this notice, may be treated as abstract under section 302 of the Companies Act, 1956. The Copies of relevant resolutions of the Board in respect of re-appointment is available for inspection by members at the Registered Office of the Company during working hours of any working day till the date of this Annual General Meeting.

By Order of the Board
For **HERITAGE FOODS (INDIA) LIMITED**

Registered Office:
6-3-541/C, Panjagutta,
Hyderabad - 500 082
Date : June 29, 2007

MURALI KRISHNA NARNE
Company Secretary



Dear Shareholders,

Your Directors are pleased to present the 15th Annual Report and the audited accounts for the year ended 31st March 2007.

Financial Results

	(Rupees in lakhs)	
Particulars	2006-07	2005-06
Net Sales / Income from Operations	34652.83	29206.63
Add: Other Income	122.48	126.91
Less: Total Expenditure	33558.24	26811.07
Profit before Interest, Depreciation and Tax	1217.08	2522.48
Less: Interest	184.48	40.13
Depreciation & Amortisation	677.68	480.00
Profit before tax	354.93	2002.36
Less: Provision for current taxation	41.35	655.00
Less: Provision for deferred taxation	117.69	-26.90
Less: Provision for Fringe Benefit Tax	23.33	10.49
Profit after tax	172.55	1363.77
Less: Prior period expenses & taxation	141.08	47.22
Profit after prior period expenses	31.48	1316.55
Balance brought forward	1709.31	1484.49
Amount available for appropriation	1740.79	2801.04
Appropriations		
General Reserve	50.00	750.00
Dividend	299.70	299.70
Tax on Dividend	50.93	42.03
Balance carried to Balance Sheet	1340.16	1709.31
Total	1740.79	2801.04

DIVIDEND

The Board of Directors are happy to recommend a dividend of Rs. 3 per Equity Share (30 percent) aggregating to Rs.3.51 Crores (including dividend tax) for the year 2006-07. The dividend, if approved at the forthcoming Annual General Meeting, will be paid to all eligible equity shareholders on or after 22nd August 2007.

EQUITY SHARE CAPITAL

During the year the Authorised Capital of the Company had been increased from Rs.12 Crores consisting 1,20,00,000 equity shares of Rs.10/- each to Rs.15 Crores consisting of 1,50,00,000 equity shares of Rs.10/- each.

BUSINESS REVIEW

Dairy Division: In line with the Company's growth strategies, an amount of over Rs.22 Crores has been spent during the year for dairy business expansion to set up a packing plant at Uppal, Hyderabad with an Installed Capacity of 50,000 Litres per day (LPD), four processing plants (three in Andhra Pradesh and one in Tamil

Nadu) with an Installed Capacity of 25,000 LPD each and eighteen support plants with an aggregate capacity of 1,18,000 LPD to support the existing processing and packing plants.

During the current financial year, your Company proposes to invest over Rs.10 Crores for setting up of more than twenty supporting facilities to improve the performance and effective utilisation of existing installed capacities of packing and processing plants. To increase the revenue share from products, your Company is establishing / increasing the production capacities for value added products such as Ice Cream, Pannier, Cooking Butter, Curd etc. and planning to tie up for tetra packaging in respect of Milk, Cream and Flavoured Milk.

Your Company is planning to increase its distribution network in the Kerala Market and in the upcoming markets of Andhra Pradesh and exploring the possibilities of entering into Maharashtra Market during current financial year. Further your Company plans to set up over sixty exclusive dairy parlours in Hyderabad, Visakapatnam, Bangalore and Chennai in this year.

Retail Division: During the financial year under review, your Company has ventured into a high growth retail food business and has made huge investments in all aspects of business and also has engaged Independent consultants in the key areas of business requirements in addition to recruiting best talent. As a result, your Company's presence in the market in a short span of less than half-year has been very quickly recognized as unique and one of the best retail business models in the Industry.

Your Company has launched its first retail store in the last week of November 2006 and at present your Company have opened 19 in Hyderabad, 3 in Bangalore and 4 in Chennai. The Customer response has been extremely encouraging and the average customer walk-ins have been constantly increasing month over month at a rate of over 10%.

During the current financial year, your Company plans to launch 85 more stores thus aggregating to a total of 100 stores by the end of Financial Year 2007-08 with a spread of about 30 stores each in Hyderabad, Chennai and Bangalore Cities.

Agri Division: Your Company is undertaking custom farming activity directly with farmers for certain fruits, vegetables and pulses and establishing two pack houses, with cleaning, sorting, grading, ripening, pre-cooling and cold storage facilities, one near to Hyderabad and the other in Chittoor District, which is closer to Chennai and Bangalore Markets to support the backend activities and to supply and deliver excellent quality and healthy farm produce directly to Customers to feel fresh.

Your Company's entire business expansion and diversification into retail business have been finance by term loans from Bank of Baroda and Andhra Bank. You Director's would like to thank the Company Bankers for their co-operation and support extended to the Company.



LEASING BAKERY PRODUCTION FACILITIES

Your Company is establishing Bakery Production Facilities at Hyderabad and Plans to establish similar facilities in Bangalore and Chennai for leasing out the same to a supporting manufacturer. The Bakery Products are sold in the retail stores under the brand name "Oven@Fresh".

SUBSIDIARY COMPANY

During the Financial Year under review, your Company has invested in the equity shares of Heritage Infra Developers Limited to the extent of 51% of its paid up equity share capital. The particulars relating to transactions between these two companies are provided under related party disclosures as per Accounting Standard (AS) 18.

CONSOLIDATED FINANCIAL STATEMENTS

Pursuant to Clause 41 of the Listing Agreement with the Stock Exchanges, the audited Consolidated Financial Statements and the Segment Results are provided as per AS 21, AS 17 and other applicable accounting standards.

DIRECTORS

In view of inadequacy of profits, a minimum remuneration specified under the Companies Act, 1956 read with Schedule XIII thereto will be paid to Smt N Bhuvaneswari and Dr. V Nagaraja Naidu and no commission will be paid to them for the Financial Year 2006-07. Dr. V Nagaraja Naidu continues to be a Director of the Company after resigning for the post of Managing Director with effect from 01-04-2007.

In accordance with Article 107 of the Articles of Association of your Company and provisions of Section 255, 256 and other applicable provisions, if any, of the Companies Act, 1956, Sri D Seetharamaiah and Dr. V Nagaraja Naidu, retire by rotation and being eligible, offer themselves for re-appointment.

AUDITORS

M/s. Raju & Prasad, Auditors of your Company, hold office until the conclusion of this Annual General Meeting and are eligible for re-appointment.

CONSERVATION OF ENERGY/TECHNOLOGY ABSORPTION, 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 set out in Annexure-1, which forms part of this Report.

MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis on the Industry structure, developments, opportunities, threats and review of operational performance and risk as required under clause 49 of the listing agreement with the stock exchanges, is given as a separate statement in the annual report.

FIXED DEPOSITS

Your Company has not accepted any fixed deposits from the public during the year.

CORPORATE GOVERNANCE

A separate section on Corporate Governance and a certificate from the Statutory Auditors regarding the compliance of conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreement with the Stock Exchanges, are annexed to and form part of this Annual Report.

SECRETARIAL AUDIT REPORT

In tune with your Company's belief in transparent Corporate Governance practices, your Company has voluntarily subjected to Audit all its secretarial records maintained under various statutes and rules, regulations, bye-laws etc. made there under. The Secretarial Audit report, given by Ms. Savita Jyoti, Practicing Company Secretary, forms part of this Annual Report.

PERSONNEL

Your directors would like to place on record their deep sense of appreciation of the devoted services of the executives, staff and workers of your Company. Industrial Relations continued to be cordial throughout the year at all locations. The information required under Section 217(2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975, is given in Annexure - 2 forming part of this Report.

DIRECTOR'S RESPONSIBILITY STATEMENT

In accordance with Section 217(2AA) of the Companies Act, 1956 the Directors of your Company hereby state that:

- In the preparation of the Annual Accounts, the applicable accounting standards have been followed;
- Your Directors 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 your Company at the end of the financial year and of the profit or loss of your Company for that period;
- Your Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act for safeguarding the assets of your Company and for preventing and detecting fraud and other irregularities; and
- Your Directors have prepared the annual accounts on a going concern basis.

ACKNOWLEDGEMENTS

Your Directors would like to express their grateful appreciation for the continued co-operation, support and patronage received from the Customers, Shareholders, Suppliers, Bankers, Legal Advisors, and Consultants.

For and on behalf of
HERITAGE FOODS (INDIA) LIMITED

Place : Hyderabad
Date : June 29, 2007

D. SEETHARAMAIAH
Chairman


ANNEXURE - 1
FORM A

(Form for disclosure of particulars with respect to Conservation of Energy)

	2006-07	2005-06
A. POWER AND FUEL CONSUMPTION		
1. Electricity		
a. Purchased		
Units - KWH	12961081	12897257
Total Amount	52233155	51842060
Rate/Unit - Rs.	4.03	4.02
b. Own generation		
Through Diesel generator		
Units - KWH	1206544	2549127
Unit per liter of diesel oil	3.10	3.09
Cost/Unit - Rs.	10.44	10.33
2. Furnace Oil		
Quantity (Ltr)	1118963	1200586
Total cost	22809480	21672858
Average rate - Rs.	20.38	18.05
B. CONSUMPTION PER UNIT OF PRODUCTION STANDARD		
Electricity (KWH/Ltr of milk)	0.08	0.08
Furnace oil (Ltr of milk)	0.01	0.01

FORM B

(Form for disclosure of particulars with respect to absorption)

	(Rs.)
	2006-07
Research & Development (R & D)	Nil
Technology absorption, adaptation & innovation	Nil
Foreign Exchange Earnings	Nil
Foreign Exchange Outgo	87022243
(\$118855 paid to JDA ASIA towards Retail software fee and service charges)	8981

ANNEXURE - 2

Information as per Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 and forming part of Director's Report for the year ended March 31, 2007.

(a). Employed throughout the year:

Name of the Employee	Age (Yrs.)	Designation & Nature of Duties	Remuneration (Rs.)	Qualification	Experience (Yrs.)	Date of Commencement of Employment	Last Employment
N Bhuvaneswari	45	Vice Chairman & Managing Director	4200000	B.A	12	12.12.1994	—
V Nagaraja Naidu	59	Managing Director	4200000	M.Com, PhD	35	01.02.1995	Director Dr B R Ambedkar University
M Sambasiva Rao	50	President	5400199	M.Sc., Ph.D. in Zoology	23	23-01-2006	Joint Secretary, Department of Commerce, Ministry of Commerce and Industry

(b). Employed for part of the year:

Name of the Employee	Age (Yrs.)	Designation & Nature of Duties	Remuneration (Rs.)	Qualification	Experience (Yrs.)	Date of Commencement of Employment	Last Employment
Santhosh Unnikrishnan	38	Head - Operations & Marketing	3273420	B.Com, PGDIM	15	05-06-2006	Business Head - US AFT GmbH, Bangalore
S. Jagadish	35	Vice President	2732733	MS (CM)	12	03-10-2006	Business Head - Retail Cavinkare Group, Chennai



Forward Looking Statements

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

"We have grown, and intend to grow, focusing on harnessing our willingness to experiment and innovate, our ability to transform, our drive towards excellence in quality, our people-first attitude and our Strategic direction. The future of the Organization rests on these enablers, which shall be the investment Heritage makes for carving itself."

Background

Your Company has been in Dairy Business successfully for more than a decade and presently it is one of the leading dairies in India. During the last Financial Year your Company has ventured into a high growth retail food business under the brand name "fresh@" and has made huge investments in all aspects of business and also engaged Independent Top-notch consultants in the key areas of business requirements in addition to acquiring best talent. As a result, HFIL's presence in the market has been very quickly recognized as unique and one of the best retail business models in the Industry.

DAIRY BUSINESS

Industry Structure and Developments

India's Annual Milk production has gone up from about 20 million tonnes in 1950-51 to nearly 100 million tonnes this year (2006-07), thereby taking India to the first position in the world in milk production. The milk production in India accounted for more than 13% of the world's total output and 57% of Asia's total production. However the animal productivity in India is very low as compared to Western Countries. The world's average milk yield per animal per year is 2100 kgs whereas India's average milk yield per animal per year is 1000 kgs.

Dairying in India is exemplary of smallholder dairying as practiced in much of Asia and Africa-with some wrinkles. Also typical of smallholder dairying, a majority of the milk produced (more than 80 percent) is distributed as drinking milk or home-based manufactured products through an informal marketing system. Reportedly, one-third of the milk produced is retained on the farm for food and feed. Of the two-thirds leaving the farm, approximately 75 percent goes to the unorganised or informal sector and the remaining 25 percent is handled by the formal sector.

The unique aspects of dairying in India include:

- Production of milk from buffalo exceeds cow milk production. Buffalo yield less milk than crossbreed cows, but are well adapted to the extreme heat and humidity of India. Moreover, many Indians prefer buffalo milk over cow milk because of its higher butterfat content
- Feed for Indian dairy animals consists mainly of crop residues and by-products. Forage and feed grain production is limited due to pricing incentives to grow cereals and pulses to feed India's vast population.
- India has an extensive government-supported dairy cooperative structure. Cooperatives not only market their members' milk, but also supply feeds and many dairy services. Private dairy companies tend to duplicate the operating procedures of the cooperatives.

Opportunities

India is the world's 4th largest economy in terms of Purchasing Power Parity, after USA, China and Japan. There has been sharp increase in the urban population due to strong growth of Indian Economy both in Industrial and Service sectors, particularly the Business Process Outsourcing (BPO) and Information Technology (IT). This year, the urban population is expected to increase by more than 100 million to touch 340 million a growth rate of about 30 percent. The expected rise in urban population and their purchasing power would be a boon to Indian Dairy. Also out of the 3700 cities and towns in India, only about 800 cities and towns are served by the organized milk sector. This leaves the organized sector with huge untapped market. As your company is predominantly in the liquid milk market, there exists a vast opportunity for increasing the share in the liquid milk market. The newly started retail business is also major opportunity to sell the value added dairy products through the retail stores.

Threats

The unpredictable Monsoon conditions and populist government policies are testing times for the existence of Dairy Industry.

Outlook

Considering the growth potential in the liquid milk market, your company has drawn plans to increase its market share in the existing markets and to enter into new markets thereby doubling revenues in Dairy Business in the next three years. To achieve this object, your Company is undertaking major expansion in Dairy Business by investing over Rs.20 Crores during 2006-07 and over Rs.10 Crores during the current year to strengthen the Milk Procurement.

Product / Market wise Performance

The total Turnover is Rs.341 crores during the financial year 2006-07 against the turnover of 292.02 crores in 2005-06. Today Heritage distributes quality milk and milk products in the States of Andhra Pradesh, Karnataka, Kerala and Tamil Nadu.

During the year 2006-07 liquid milk sales was Rs. 28329.79 lakhs against Rs. 24525.23 lakhs in the previous year. The Sales of Milk Products including Bulk sales of Cream, Ghee, and Butter were recorded Rs. 5781.59 lakhs against Rs. 4677.21 lakhs.



Milk Sales: 23% growth was recorded in A.P-2.38 Lakh Liters per day (LLPD) in 2006-07 against 1.93 LLPD in 2005-06. 13% growth was recorded in Tamilnadu-1.53 LLPD in 2006-07 against 1.35 LLPD in 2005-06. Overall growth of 6% was recorded- 5.49 LLPD in 2006-07 against 5.16 LLPD. Flavoured milk sales recorded a growth rate of 77% over 2005-06. Pouch Curd sales have increased by 79% over 2005-06. Butter Milk sales have gone up by 45% over 2005-06.

Risks and Concerns

The advent of the WTO regime has opened the gates to the global market. Competition will intensify with the relaxation of the MMPO legislation and the MNC's entering the milk market in metro cities in the Country. But then competition has to be faced as a ground reality. New challenges will emerge testing your Company's ability to grow in the Competitive market. Your company existing operations are also exposed to volatility of prices of products and raw materials.

Retail Business

Indian retail industry, as per the recent estimates, accounts for 10% of the GDP and 8 percent of employment although it is still one of the least developed sectors. The retail market in India has been growing at an average of 10 percent since 2000. The sheer size of the population demands attention from retailers worldwide and the potential for growth is tremendous. According to a study conducted by the Associated Chambers of Commerce and Industry (ASSOCHAM), the annual retail sale is close to USD 6 billion currently and is expected to reach USD 17 billion by 2010. Indian organized retailing constitutes only 3.5% of the total Indian retail market, but is estimated to grow at the rate of 25-30% per annum in the next five years.

In developed markets the share of organized retail is as high as 80% and even for the semi-developed markets, the typical share of organized retailing is in the range of 20-40%. Moreover the Indian economy is growing at a staggering pace, which is mainly fueled by private consumption. Private consumption accounts for 64% of the GDP in which retail has a 56% contribution.

The total urban market is estimated to be Rs 3.7 Lakh Crores with 38% of total market and the total rural market making up for the balance Rs. 6.2 Lakh Crores i.e.62% of the total market.

On the urban side the shopping environment is currently dominated by over the counter sales and there are very few pan-India organized retailers operating in the country. Whereas on the rural side, there has been significant rise in the consumption of FMCG products along with the commodities. The current need gaps in the rural areas are in quality and hygiene standards and depth and width of product.

Hence a large opportunity exists in the retail sector particularly in the Food & Grocery retailing that can be capitalized by your Company.

Strengths

- Better Understanding of ' Fresh' as a category including supply chain because of Dairy business.
- Established credentials and linkages with farmer community.
- Established organisation credentials in the Milk business.
- Store Format & Positioning.

Weakness

- Seen as a relatively regional / niche player in terms of both expansion plans, pace and geographical spread. This at times leads to challenges in recruitment.
- Size and scale of operations in comparison to current and expected future entrants

Opportunity

- To take the largest chunk of growth of organised retail in the city that we are present on account of store format and positioning.
- To realise better gross margins than competitors led by the backward integration effort and business mix
- To structure home delivery as a service differentiator and attractive revenue stream

Threats

- From existing strong city based historical chains who have relatively low cost structures and established consumer base
- Existing large players rapidly expanding in all areas and threatening market share
- Imminent entry of big MNC retail organisation once FDI policy on retail is liberalised further

Organized food retail current scenario & our preposition: -

The majority of organized players operate at city/region level, with very few national players. Some of the big retailers with somehow national footprint in grocery business with outlets mainly located in larger cities like Mumbai, Bangalore, and Hyderabad, where they compete with local/regional players.

We have planned a retail foray into the Food & Grocery sector with a business objective of creating an integrated solution for both rural & urban customers by leveraging the consumer reach, distribution agents & brand proposition.

FRESH@

Fresh@ is a unique chain of retail stores, designed to meet the needs of the modern Indian consumer. The store rediscovers the taste of nature everyday, making grocery shopping a never before experience.

The unique and distinctive feature of Fresh@ is that it offers the widest range of fresh fruits and vegetables which are directly handpicked from the farms. Freshness lies in their merchandise and the customers are always welcomed with fresh fruits and vegetables no matter what time they walk in.