



18th Annual Report
2009-2010

HERITAGE FOODS (INDIA) LIMITED

AN ISO 22000 COMPANY

DANISCO
First you add knowledge ...



THE GREAT INDIAN ICE CREAM CONTEST 2009

IN RECOGNITION OF THE COMMITMENT TO EXCELLENCE, INNOVATION
AND HIGH QUALITY STANDARDS IN ICE CREAMS

WE PRESENT



The Bronze Medal
HERITAGE FOODS INDIA LTD

To M/s _____

For the Category STANDARD VANILLA ICE CREAM

4th December, 2009

N. R. Bhasin
Dr. N. R. Bhasin
President, IDA



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IN RECOGNITION OF THE COMMITMENT TO EXCELLENCE, INNOVATION
AND HIGH QUALITY STANDARDS IN ICE CREAMS

WE PRESENT



The Bronze Medal
HERITAGE FOODS INDIA LTD

To M/s _____

For the Category PREMIUM (WITHOUT INCLUSION) - HERITAGE 'MANGO'

4th December, 2009

N. R. Bhasin
Dr. N. R. Bhasin
President, IDA

Sri D Seetharamaiah, Chairman



Dear Shareholders

The Financial year 2009-10 was a tough year for the industry. The economic environment became challenging in all the major markets. During the tough economic environment, we focused our efforts on gaining the knowledge and capabilities to build tomorrow's enterprises. So, We are working to minimize waste, reduce the consumption of energy and fresh water besides preserve the natural habitat.

Revenue inflow from dairy has contributed in strengthening rural purchasing power, thereby giving growth impetus to rural markets. Urban business organizations of all size and dimensions are now turning their attention towards rural consumers, in an effort to beat the economic slowdown. Higher disposable income among consumers in rural areas is leading to smart buying at value-for-money. In the current scenario, rural India is contributing most to the country's health in terms of employment, wealth and prosperity. By empowering rural India, the urban community can live comfortably and peacefully. If our policy makers continue their sustained support to rural organizations such as dairy, not only will India emerge triumphant from the current crises, but will also create an effective safety shield against future economic turbulence.

During the year under review the gross income for the year grew by 13 % to Rs.903.31 crores when compared to Rs.799.25 crores of the previous year. The growth in the Dairy business, and a healthy performance by the value added product segments in Dairy division. The retail business portfolio accounts for 24 % of the Company's gross income. The profit after tax and exceptional item for the year was Rs. 5.72 crores, when compared to Rs.34.96 crores loss of the previous year.

The strategic thrust placed on opening of Heritage Parlors in the last year has now started yielding the desired results. We had anticipated the paradigm shift in macro economic scenario and the burgeoning threat of organized retailers. Heritage Parlors will enable us to counter the potential threat from competitors. They will increase the visibility of the Heritage brand in the retail market. Our own retail outlets enable us to interface directly with consumers and provide an ideal platform to showcase our entire range of products. Our outlets have not only helped brand Heritage to become ubiquitous but also have managed to provide a very rewarding

employment opportunity to hundreds of entrepreneurs across south India. We have projected a goal of setting up more number of Heritage parlours during current year. To achieve this challenging goal, we have identified certain potential locations.

We are happy to announce a dividend of Rs. 1.80 (18%) on equity shares of Rs.10/- each. The dividend is payable on the equity shares outstanding as on record date and is subject to approval by the shareholders.

We will continue to follow our successful strategy and actively shape our future. We will focus on improving our product innovation and expanding our business in order to get closer to key markets. With the economic recovery, in step with rising population and growing economics of the developing countries the demand of our products has gone up substantially.

Over the years, the Company has reinforced its core strengths by building new competencies that efficiently serve the emerging needs of a fast paced economy. Supported by substantial investments in cutting edge technology, outstanding talent, the Company has created several trusted brands that enhance the quality of life of the discerning consumer.

We respect and value our customers. Our employees are our value creators whose efforts and bonds, we cherish. We create an environment in which our people are motivated to actualize their full potential.

I am grateful to the Board of Directors for their unwavering support and guidance. I also take this opportunity to express my gratitude to all our stakeholders, who have reposed trust in us and extended their constant support. I thank you for your continued support and look forward to the same in future also.

Thank you
D Seetharamaiah
Chairman

10 Years Financials

Consistent Growth

(Rs.in crores)

| | 2009-10 | 08-09 | 07-08 | 06-07 | 05-06 | 04-05 | 03-04 | 02-03 | 01-02 | 00-01 |
|-----------------------------------------------------------|---------|---------|--------|--------|--------|--------|--------|--------|--------|--------|
| Turnover | 900.38 | 796.03 | 588.03 | 346.33 | 292.07 | 266.13 | 234.49 | 192.83 | 165.07 | 141.49 |
| Other Income | 2.93 | 3.23 | 40.13 | 1.22 | 1.27 | 0.78 | 1.35 | 0.86 | 0.42 | 0.38 |
| Total Income | 903.31 | 799.26 | 628.16 | 347.56 | 293.34 | 266.91 | 235.84 | 193.68 | 165.49 | 141.87 |
| Earnings before Depreciation, Interest and Tax (EBDIT) | 47.03 | 3.43 | 23.66 | 12.17 | 25.23 | 20.91 | 31.60 | 27.86 | 20.10 | 14.48 |
| Depreciation | 19.64 | 17.22 | 10.55 | 6.78 | 4.80 | 4.01 | 3.94 | 4.50 | 2.49 | 2.29 |
| Interest | 16.67 | 14.58 | 12.43 | 1.84 | 0.40 | 0.60 | 0.28 | 0.13 | 0.38 | 1.24 |
| Provision for Taxation (Including Deferred Tax & FBT) | 4.98 | 6.58 | (0.26) | 1.82 | 6.39 | 6.14 | 9.75 | 8.33 | 6.12 | 2.85 |
| Profit/(Loss) after Tax | 5.60 | (35.61) | 0.94 | 1.72 | 13.64 | 10.16 | 17.62 | 14.91 | 11.11 | 8.10 |
| Cash Profit/ (Loss) | 30.35 | (11.15) | 11.49 | 8.50 | 18.44 | 14.17 | 21.57 | 19.41 | 13.60 | 10.39 |
| Equity Dividend (%) | 18.00 | Nil | 18.00 | 30.00 | 30.00 | 30.00 | 27.50 | 27.50 | 20.00 | 16.00 |
| Dividend Payout (Including Tax on Dividend) | 2.42 | Nil | 2.13 | 3.51 | 3.42 | 3.42 | 3.10 | 3.10 | 2.00 | 1.90 |
| Equity Share Capital | 11.53 | 11.53 | 11.53 | 9.99 | 9.99 | 9.99 | 9.99 | 9.99 | 10.78 | 10.80 |
| Reserves and Surplus | 75.35 | 69.24 | 104.17 | 59.31 | 62.50 | 52.65 | 45.84 | 34.53 | 24.14 | 13.83 |
| Networth | 86.87 | 80.77 | 115.70 | 69.30 | 72.49 | 62.64 | 55.83 | 44.52 | 34.92 | 30.69 |
| Gross Fixed Assets | 294.24 | 264.47 | 206.45 | 128.88 | 80.15 | 72.69 | 63.87 | 53.62 | 43.77 | 40.69 |
| Net Fixed Assets | 215.24 | 203.68 | 162.41 | 95.38 | 53.33 | 50.38 | 45.49 | 38.82 | 32.96 | 32.15 |

Key Indicators

| | 2009-10 | 08-09 | 07-08 | 06-07 | 05-06 | 04-05 | 03-02 | 02-03 | 01-02 | 00-01 |
|-------------------------------|---------|---------|--------|--------|--------|--------|--------|--------|--------|--------|
| Earnings per share - Rs. | 4.85 | (30.89) | 0.92 | 1.73 | 13.65 | 10.17 | 17.64 | 14.93 | 10.29 | 7.50 |
| Cash Earnings per share - Rs. | 26.32 | (9.67) | 9.96 | 8.51 | 18.46 | 14.19 | 21.59 | 19.43 | 12.61 | 9.62 |
| Book Value per share - Rs. | 75.35 | 70.05 | 100.35 | 69.37 | 72.57 | 62.70 | 55.88 | 44.56 | 32.38 | 28.42 |
| Debt* : Equity Ratio | 1.34:1 | 1.50:1 | 0.96:1 | 0.79:1 | 0.00:1 | 0.00:1 | 0.01:1 | 0.01:1 | 0.14:1 | 0.19:1 |
| EBDIT/Turnover % | 5.22 | 0.43 | 4.02 | 3.51 | 8.63 | 7.86 | 13.48 | 14.45 | 12.18 | 10.23 |
| Net Profit Margin % | 0.62 | (4.47) | 0.16 | 0.50 | 4.65 | 3.81 | 7.47 | 7.70 | 6.71 | 5.71 |
| Return on Networth % | 6.45 | (44.09) | 0.81 | 2.48 | 18.81 | 16.22 | 31.56 | 33.49 | 31.82 | 26.39 |

* Long Term Debt



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**Board of Directors:**

| | |
|---------------------|-------------------------------------------------|
| Sri D Seetharamaiah | <i>Non Executive Independent Chairman</i> |
| Sri N P Ramakrishna | <i>Independent Director</i> |
| Dr N R Sivaswamy | <i>Independent Director</i> |
| Dr A Appa Rao | <i>Independent Director</i> |
| Dr V Nagaraja Naidu | <i>Non Executive Director</i> |
| Sri K Kannan | <i>Independent Director</i> |
| Smt N Bhuvanewari | <i>Vice Chairperson & Managing Director</i> |
| Sri N Lokesh | <i>Executive Director</i> |

Company Secretary:

CS Umakanta Barik

Senior Management :

| | |
|---------------------------|-------------------------------------------------------------|
| Dr M Sambasiva Rao | <i>President</i> |
| CA A Prabhakara Naidu | <i>Sr.GM- Finance & Accounts</i> |
| Sri K Durga Prasad Rao | <i>Chief Operating Officer-Dairy Division</i> |
| Sri S Jagdish Krishnan | <i>Chief Operating Officer-Retail & Bakery Division</i> |
| Sri Anil Kumar Srivastava | <i>Chief Operating Officer-Agri Division</i> |

Board Committees**Audit Committee**

Sri D Seetharamaiah, Chairman
Dr N R Sivaswamy
Dr A Appa Rao
Dr V Nagaraja Naidu
Sri K Kannan

Remuneration Committee

Sri D Seetharamaiah, Chairman
Dr N R Sivaswamy
Dr A Appa Rao
Sri N Lokesh

Share Transfer & Shareholders/Investors' Grievance Redressal Committee

Sri D Seetharamaiah, Chairman
Dr A Appa Rao
Dr V Nagaraja Naidu
Smt N Bhuvanewari

Management Committee

Sri D Seetharamaiah, Chairman
Smt N Bhuvanewari
Sri N Lokesh

| | |
|--------------------------------------|--------------------------------------------------------------------------------------------------------------------------|
| Registered Office | : 6-3-541/C, Panjagutta, Hyderabad-500082. |
| Statutory Auditors | : M/s. Raju & Prasad, Chartered Accountants 401, "DIAMOND HOUSE" Adj. Amrutha Hills, Panjagutta, Hyderabad - 500 082. |
| Bankers | : Bank of Baroda, Andhra Bank, ICICI Bank Limited. |
| Listed with | : Bombay Stock Exchange Limited, Mumbai, National Stock Exchange of India Limited. |
| Registrar and Transfer Agents | : M/s Karvy Computershare Private Limited. Plot no.17 to 24, Vittal Rao Nagar, Madhapur, Hyderabad - 500 081. |
| Website | : www.heritagefoods.co.in, www.freshat.in |

Members of Heritage Foods (India) Limited are hereby given notice for the 18th Annual General Meeting of the Company, the schedule of which and the business to be transacted therein, are given below:

Day and Date : **Friday, 30th July, 2010**
 Time : **11.00 a.m.**
 Venue : **Auditorium Hall, 2nd Floor,
 Training Block,
 National Institute for Micro,
 Small and Medium Enterprises
 (formerly NISIET), Yousufguda,
 Hyderabad-45
 Ph.No. 040-2360 8577**

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March 2010 and Profit and Loss Account for the year ended as on that date together with 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 Sri N P Ramakrishna, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint Auditors of the Company and to fix their remuneration.

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

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

UMAKANTA BARIK
 Company Secretary

Date: May 27, 2010

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/HERSELF 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 of the Company.
4. The Register of Members and the Transfer Books of the Company will remain closed from Monday, the 26th July, 2010 to Friday, the 30th July 2010 (both days inclusive).
5. The dividend as recommended by the Board of Directors for the year ended 31st March 2010, when declared at the Annual General Meeting will be paid 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 record date after giving effect to all valid share transfers in physical form which would be received by the Company up to end of business hours on record date.
6. In order to provide protection against fraudulent encashment of the Dividend 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. National Electronic Clearing Service (NECS) Facility:
 With respect to payment of dividend, the Company provides the facility of NECS to the shareholders.
 Shareholders holding shares in physical form, who wish to avail NECS facility, may authorize the Company with their NECS mandate in the prescribed form given at the end of this Annual Report and requests for payment of dividend through NECS should be lodged with M/s Karvy Computershare Private Limited.
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 2001-02 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 |
|-----------------------------|----------------------------------------|-----------------------------------------------|
| 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 |
| 2006-07 | 22-08-2007 | 21-08-2014 |
| 2007-08 | 26-09-2008 | 25-09-2015 |

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 authorized 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. Consequent upon the introduction of Section 109A of the Companies Act, 1956, shareholders are entitled to make nomination in respect of shares held by them in physical form. Shareholders desirous of making nominations are requested to send their request in Form No. 2B in duplicate to the company.
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. Members seeking any information relating to the Accounts may write to the Company at 6-3-541/C, Punjagutta, Hyderabad - 500082, for attention of Company Secretary at the earliest.
16. All the documents referred to in the Notice will be available to the members at the Registered office of the company between 10.30 A.M to 12.30 P.M on all working days from the date hereof up to the date of the Meeting.
17. At the ensuing Annual General Meeting, Sri.D.Seetharamaiah and Sri N P Ramakrishna retire by rotation and being eligible offer themselves for re-appointment. The information or details pertaining to these directors are provided in terms of Clause 49 of the Listing Agreement with the Stock Exchanges.

PURSUANT TO CLAUSE 49 OF THE LISTING AGREEMENT WITH THE STOCK EXCHANGES, FOLLOWING INFORMATION IS FURNISHED ABOUT THE DIRECTORS PROPOSED TO BE APPOINTED / RE - APPOINTED

Brief resume of the Directors, nature of their expertise in specific functional areas, names of Companies in which they hold directorships and memberships/chairmanships of Board Committees and their shareholding in the Company are provided below:

- a) **Sri.D.Seetharamaiah**, aged 84 years is B.com and also a Fellowship member of The Institute of Chartered Accountants of India and has over 56 years of experience in the field of Taxation, Finance. He is in practice for last five decades and a leading Chartered Accountant in Andhra Pradesh. He is a senior Partner of M/s. Brahmaya & Co. He is also Director in several other Public and private limited Companies. He is a member of the Audit Committee of the Board of Directors of M/s Tera Software Limited and Jeevan softech Limited. He does not hold any shares in the Company as on 31st March 2010.
- b) **Sri N P Ramakrishna**, aged 61 years, is a P.U.C (B.Sc), has substantial experience in transport business, has a thorough understanding of the systems of milk procurement and transportation and has enabled Heritage Foods to strengthen its main milk procurement base at Chittoor, Bangalore and nearby areas. He is also the Managing Director of Hotel Ramakrishna Private Limited situated at Chittoor. He holds 49,000 (0.42%) equity shares in the Company as on 31st March 2010.

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

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

Date : May 27, 2010

UMAKANTA BARIK
Company Secretary

Dear Shareholders,

Your Directors have pleasure in presenting the 18th Annual Report of the Company together with the audited statement of accounts for the year ended 31st March 2010.

FINANCIAL RESULTS

The financial performance for the Financial year 2009-10 is summarised in the following table:

(Rupees in lakhs)

| Particulars | 2009-10 | 2008-09 |
|-------------------------------------------------|-----------------|-----------|
| Net Sales / Income from Operations | 90038.47 | 79602.86 |
| Add: Other Income | 292.59 | 322.56 |
| Less: Total Expenditure | 85628.49 | 79925.42 |
| Profit before Interest, Depreciation and Tax | 4702.57 | 342.86 |
| Less: Interest | 1667.47 | 1458.31 |
| Depreciation & Amortisation | 1964.25 | 1722.43 |
| Profit before tax | 1070.85 | (2837.87) |
| Less: Provision for current taxation | 195.52 | 0.00 |
| Less: Provision for deferred taxation | 302.95 | 612.89 |
| Less: Provision for Fringe Benefit Tax | 0.00 | 45.02 |
| Profit/(loss) after tax | 572.38 | (3495.77) |
| Less: Prior period expenses & taxation | 12.79 | 65.52 |
| Profit after prior period expenses | 559.59 | (3561.29) |
| Balance brought forward | 0.00 | 1210.70 |
| Amount available for appropriation | 559.59 | (2350.59) |
| Appropriations | | |
| General Reserve | 50.00 | 0.00 |
| Dividend | 207.53 | 0.00 |
| Tax on Dividend | 34.47 | 0.00 |
| Balance carried to Balance Sheet | 267.59 | (2350.59) |
| Total | 559.59 | (2350.59) |

The above figures are standalone figures, as two subsidiary companies which are yet to commence the business therefore consolidated figures are not given.

DIVIDEND

The Board of Directors are happy to recommend a dividend of Rs. 1.80 per Equity Share (18 percent) aggregating to Rs. 2.42 Crores (including dividend tax) for the year 2009-10. The dividend, if approved at the forthcoming Annual General Meeting, will be paid to all eligible equity shareholders on or after 30th July 2010 (within the statutory time limit of 30 days). The dividend pay out for the year under review has been formulated in accordance with the Company's policy of striving to pay stable dividend linked to performance. Your Directors believe that this would increase shareholders value and eventually lead to a higher return and wealth creation to all the stakeholders.

OPERATING RESULTS

During the year under review your Company registered a turnover (Net Sales) of Rs 900.38 crores an increase of 13.11% over that of the previous year. Your Company registered a gross profit of Rs.47.03 Crores, as compared to previous year's profit of Rs 3.43 Crores.

OPERATIONS

The financial year 2009-10 was significant for the company in terms of growth. The company has further strengthened its leadership position in the fields of Dairy, Retail and Agri Divisions. Last half of the year has witnessed a unexpected floods in the state of Andhra Pradesh, where your company has substantially operation with respect to Dairy and Retail Division and there is no material impact of the operations of the business of the company due to floods in the state of Andhra Pradesh during the year under review.

EQUITY SHARE CAPITAL

The Authorised Capital of the Company is Rs.20, 00,00,000 (Rupees Twenty Crores only) divided into 1,80,00,000 (One Crore Eighty Lakhs) Equity Shares of Rs.10 (Rupees Ten only) each and 20,00,000 (Twenty Lakhs) Preference Shares of Rs.10 (Rupees Ten only) each. 2,60,500 convertible warrants issued/ allotted to Smt.N.Bhuvanewari and 8,00,000 convertible warrants issued / allotted to Sri Nara Lokesh were forfeited during the year under review due to non-payment of balance amount within the time prescribed.

BUSINESS REVIEW

Dairy Business: During the year milk and various milk products were launched and new areas in the States of Maharashtra, Kerala and Orissa have been covered. New facilities for making various products such as Cup curd, Doodh Peda, Paneer, Ice Cream, Ghee are added in the existing plants. Your Company's market share with respect to milk and milk products in South India increased during the year under review.

During the current financial year, your Company proposes to invest over Rs.22.95 Crores for setting up of 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 and planning to tie up for UHT packaging for Milk, Cream and Flavoured Milk.

The major thrust areas in the current financial year would be in the domestic Dairy Ingredients, Milk Products and Ice Cream apart from Milk. This will help your Company to diversify its product profile and enable it to maintain its leadership position.

Retail Business: The retail industry is going through difficult time in the country in general and with the global meltdown adversely affecting the Indian economy. In response to the difficult external environment, your company focused on factors that are under its control viz: i) restricting the roll out of new stores to ensure alignment with business model ii) monitoring and control of inventory and iii) vigorous pursuit of various cost reduction initiatives undertaken

including closure / shifting of non performing and unviable stores, rationalising manpower in line with sales, rent/size reduction in stores, reduction in rent/surrender of office space, brokerage and restrictions on travel etc. All these efforts not only helped the company in minimizing the cash burden in the short term but has built a strong foundation to enable delivery of improved performance on sustainable basis in the future. Your company also taken the steps to take the advantages of Hygenic, good quality and modern bakery products demand to met at the retail stores and outside of the retail stores through bakery division of the company.

Private Label: Your Company is renowned for its high quality, private label offering. This is a key driver of footfalls at Heritage retail stores. A key focus is to further improve private label offering by introducing new unique products. Your company is committed to significantly increase the share of private labels of its total business and has initiated countrywide marketing and promotional efforts in this direction.

Brand enhancement: Your Company has the benefit of a strong 18 years old brand which is uniquely positioned in the minds of the South Indian consumer.

Agri Division: Your Company has undertaken custom farming activity directly with farmers for certain fruits, vegetables and established two pack houses and cold storage facilities, one is near Hyderabad and the other in Chittoor District of Andhra Pradesh.

SUBSIDIARY COMPANIES

Ministry of Corporate Affairs, Government of India has granted approval that the requirement to attach various documents in respect of subsidiary companies, as set out in sub-section (1) of Section 212 of the Companies Act, 1956, shall not apply to the Company. Accordingly, the Balance Sheet, Profit and Loss Account and other documents of the subsidiary companies are not being attached with the Balance Sheet of the Company. Financial information of the subsidiary companies, as required by the said approval, is disclosed in the Annual Report. The Company will make available the Annual Accounts of the subsidiary companies and the related detailed information to any member of the Company who may be interested in obtaining the same. The annual accounts of the subsidiary companies will also be kept open for inspection at the Registered Office of the Company and that of the respective subsidiary companies.

CONSOLIDATED FINANCIAL STATEMENTS

Pursuant to Clause 32 of the Listing Agreement with Stock Exchanges, applicable provisions of the Companies Act, 1956 and as per Accounting Standard (AS) 21, (AS) 17 and other applicable accounting standards, Consolidated Financial Statements and the Segment Reporting for the year ended on 31st March 2010 have been provided

DIRECTORS

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 Sri N.P.Ramakrishna retire by rotation and being eligible, offer themselves for re-appointment.

AUDITORS

M/s. Raju & Prasad, Chartered Accountants, Statutory Auditors of the company hold office until the conclusion of the ensuing Annual General Meeting and are eligible for re-appointment. The company has received letters from the Auditors to the effect that their re-appointment, if made, would be within the prescribed limits under section 224 (1B) of the Companies Act, 1956 and that they are not disqualified for such re-appointment within the meaning of Section 226 of the said act.

The notes on accounts referred to in the Auditors' Report are self-explanatory and therefore do not call for any further comments.

CORPORATE SOCIAL RESPONSIBILITY

Your Company has co-ordinated various Community Development Activities during the year. Your Company has organized free eye camps at various places and has made arrangements for clean drinking water, Ready to eat food packets, clothes etc., in flood-affected areas in the states of Andhra Pradesh and Karnataka.

Your company created/ generated small ENTREPRENEURS through the Heritage Parlour where the huge employment potential was generated. Your company also helped the MARGINAL AND SMALL FARMERS cultivate in a modern Agri format by using latest technology and cost effective under the custom farming format. During the year your company also established a trust for the welfare of the farmers for providing the facilities such as education, health, drinking water and commodity development activities.

INTERNAL CONTROL SYSTEMS

The company has established a good system of internal controls in all spheres of its activities. These have been designed to provide reasonable assurance with regard to recording and providing reliable financial and operational information, complying with applicable statutes, safeguarding the assets from unauthorised uses (or losses), executing the operations with proper authorisation and ensuring compliance of corporate policies.

The company has also appointed Chartered Accountant firms across the business locations to oversee and carryout internal audit of the company's activities. The audit is based on the internal audit plan, which is reviewed each year in consultation with the Statutory Auditors and the Audit Committee.

The Audit committee met the Company's Statutory Auditors to ascertain inter alia, their views on the adequacy of the internal control systems in the company and keep the Board of Directors informed of its observations from time to time.

INDUSTRIAL RELATIONS

Industrial relations in all the units and branches remained cordial and peaceful throughout the year.

DEPOSITORY SYSTEM

As the Shareholders are aware, your Company's Shares are tradable in electronic form and the Company has established connectivity with both the Depositories i.e. National Securities Depository Limited and Central Depository Services (India) Limited. In view of the advantages offered by the Depository System, the shareholders are requested to avail of the facility of dematerialization of the Company's shares.