

NOTICE TO SHAREHOLDERS

NOTICE is hereby given that the 15th Annual General Meeting of Herman Milkfoods Limited will be held on 5th June, 2006 at 11.00 A.M. at its Registered Office of the Company to transact the following business.

ORDINARY BUSINESS

1. To receive, consider and adopt the audited Balance Sheet as at 31st March, 2006 together with the Directors report and Auditors report thereon.
2. To appoint a Director in place of Mr. Gurmeet Singh, who retires by rotation and being eligible offers himself for re-appointment.
3. To consider and if thought fit, to pass with or without modification the following resolution:

"RESOLVED THAT pursuant to Section-224 A and other applicable provisions, if any of the Companies Act, 1956 M/s Taranjeet & Associates, Chartered Accountants, Chandigarh, the retiring Auditors of the Company, be and hereby reappointed 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 determined by Board of Directors."

SPECIAL BUSINESS

4. To consider and if thought fit to pass with or without modification following resolution as Ordinary Resolution :-

"RESOLVED THAT Mr. Ravinder Kumar Garg, who was appointed an additional director of the Company by the Board of Directors and who ceases to hold office under section 260 of the Companies Act, 1956, and in respect of whom the Company has received a notice in writing proposing his candidature for the office of director be and is hereby appointed as a director of the Company".

5. To consider and if thought fit to pass with or without modification following resolution as Ordinary Resolution :-

"RESOLVED THAT Mrs. Rachana Garg, who was appointed an additional director of the Company by the Board of Directors and who ceases to hold office under section 260 of the Companies Act, 1956, and in respect of whom the Company has received a notice in writing proposing her candidature for the office of Director be and is hereby appointed as a director of the Company".

6. To consider and if thought fit to pass with or without modification following resolution as Ordinary Resolution :-

"RESOLVED THAT pursuant to the provisions of section 269, Schedule XIII and other applicable provisions of the Companies Act, 1956 consent of the share holders be and is hereby given for the appointment of Mr. Ravinder Kumar Garg, as Joint Managing Director of the company for a period of 5 years w.e.f. 25-04-2006 without remuneration in the 1st year, to be reviewed subsequently by the Board on improvement in the performance of the company".

7. To consider and if thought fit to pass with or without modification following resolution as special resolution :-

“RESOLVED THAT pursuant to the provisions of Sections 78, 100 to 104 and any other applicable provisions of the Companies Act, 1956, and subject to the confirmation of Hon'ble Board for Industrial Finance and Reconstruction (BIFR) and the consent of other appropriate authorities, if any, as may be prescribed under the Companies Act, 1956 in this regard and such other approvals as may be required, if any, and pursuant to Articles 71 of the Articles of Association of the Company, the paid up capital of the Company be reduced from Rs. 862.22 lacs (divided into 86.22 lacs Equity shares to Rs. 10/- each) to Rs. 86.22 lacs (divided into 8.62 lacs Equity shares of Rs. 10/- each) by canceling Rs. 9/- paid per share of Rs. 10/- each.

“RESOLVED FURTHER THAT forthwith upon reduction of Capital taking effect 10 (ten) Equity shares of Rs. 10/- each fully paid up be consolidated into 1(one) Equity shares of Rs. 10/- each fully paid up so that the total number of Equity shares does not exceed 8.62 lac Equity shares of Rs. 10/- each fully paid up and correspondingly the paid up share capital shall also stand reduced and consolidated”.

“FURTHER RESOLVED THAT the existing Certificates of shares which are in physical form be cancelled and in place thereof, new certificates of shares be issued in terms of the Companies (Issue of Share Certificate) Rules, 1960”.

“RESOLVED FURTHER THAT no fractional certificates be issued by the Company in respect of fractional entitlements if any, to which the members of the Company may be entitled on reduction and cancellation of the Equity shares and the board be authorized to consolidate all fractional entitlements and thereupon issue and allot equity in lieu thereof to a director or an officer of the Company / other agency, who shall hold it in trust of in behalf of such members of the Company, with the express understanding that such director or officer / other agency to whom such Equity shares shall be allotted shall sell the same in the market at the best available price and pay the net sale proceeds (after deduction of expenses incurred in this regard) to the share holders entitled to the same in proportion to their respective entitlements”.

“RESOLVED FURTHER THAT in the event there are any pending share transfers, whether lodged or outstanding of any shareholder of the Company, the Board be and is hereby empowered in appropriate cases, even subsequent to the record date (as may be fixed by the Board) at if sole discretion, to effectuate the such transfer in the register of members of the Company, as if such changes were operative as on the record date”.

“RESOLVED FURTHER THAT the Board of Directors of the Company (hereinafter referred to as the Board which term shall be deemed to include any committee or any person which the Board may constitute / nominate to exercise its powers) be and are hereby authorized to do all such acts, matters, deeds and things as may be necessary or desirable including any directions for setting any questions or doubt or difficulty whatsoever that may arise, for the purpose of giving effect to the reduction of the share capital of the Company as placed before the meeting or to any modification thereof and in particular:

- i) To verify, sign, deal, swear, affirm, execute, make, enter into, acknowledge, record and perfect all deeds, declarations, instruments, affidavits, applications, petitions, objections, notices and writings whatsoever as may be usual, necessary, proper or expedient;
- ii) To accept services of notices or other processes which may from time to time be issued in connection with the matter aforesaid;
- iii) To produce all documents, matters or other evidence in connection with the matters aforesaid and all and any of other proceedings incidental thereto or arising thereat;
- iv) To make or prepare any applications, petitions, appeals and judges summons before any court, tribunal, or all relevant authorities and respond to the appropriate authorities;
- v) To file the requisite applications in the Hon'ble High Court of Punjab & Haryana for seeking directions, if any, required for the purpose of convening and holding a general meeting of shareholders;
- vi) To file petitions, affidavits and/or other legal documents as maybe required for confirmation of the reduction of the Share Capital of the company;
- vii) To do and perform all such other acts, matters, deeds, and things and sign all documents as may be considered necessary or desirable to give effect to this resolution;

“RESOLVED FURTHER THAT the Board be and is hereby authorized, in their absolute discretion, to make the reduction and cancellation of the share capital on such other terms and conditions as they may consider appropriate and to accept such other conditions and modifications as may be prescribed by the Hon'ble BIFR, Hon'ble High Court, Banks, Financial Institutions and other appropriate bodies / authorities while according their sanction or consent to the proposed reduction and cancellation of share capital;

“RESOLVED FURTHER THAT for the purpose of giving effect to this resolution, the Board be and is hereby authorized on behalf of the Company inter-alia to evolve, decide upon and bring into effect the capital reduction and make and give effect to any modifications, changes, variations, alterations or revision in the proposal for capital reduction from time to time or to suspend, withdraw or review the proposal for capital reduction from time to time as may be specified by any statutory authority or as the Board may suo-moto decide in its absolute discretion and to do all such acts, deeds, matters and things whatsoever, including settling any question, doubt or difficulty that may arise, as it may in its absolute discretion consider necessary, expedient, fit and proper”.

8. To consider and if thought fit to pass with or without modification following resolution as Special resolution :-

“RESOLVED THAT pursuant to provisions of section 81(1A) and other applicable provisions of the Companies Act, 1956, the Articles of Association of the Company and the listing agreement with Stock Exchanges where the shares of the company are listed and subject to the applicable Securities and Exchange Board of India guidelines (SEBI Guidelines) and subject to the Draft Rehabilitation Scheme (DRS) cum OTS as approved by the Operating Agency (OA), IFCI, on behalf of Hon'ble BIFR and such other rules and regulations, as may be applicable and subject to the approval of the Regulatory Authorities as may be necessary and subject to such conditions and modifications as may be imposed by such Regulatory Authorities, the consent of the company be and is hereby accorded to the Board of Directors of the Company to create, offer and allot upto Rs. 900 lac divided into 90 la (ninety lac) equity shares of Rs. 10/- each at par as par following details :

90 lac Equity shares of Rs. 10/- each for cash at par on Preferential basis to such persons who may or may not be the members of the company on such date under the scheme of Rehabilitation and restructuring of the company as may be approved by the Operating Agency, IFCI / Hon'ble BIFR and the appropriate authorities;

“RESOLVED FURTHER THAT the Board of Directors of the company be and is hereby authorized to accept the terms, conditions and stipulations made by regulatory authorities while granting approval to the company for issue of securities as aforesaid”.

“RESOLVED FURTHER THAT for the purpose of giving effect to this resolution, the Board be and is hereby authorized to delegate all or any of the powers herein conferred by this resolution to any director or directors or to any committee of directors or any other officer or officers of the Company and to do all such acts, matters, things and deeds and to take all such steps and do all such things and give all such directions as the Board may consider necessary, expedient or desirable and also to settle any questions or difficulties or doubts that may arise in regard to the offer / issue, allotment and utilization of the proceeds and further to do all such acts, deed, matters and things and to finalize and execute all documents and writings as may be necessary, proper, desirable or expedient as the Board, in its discretion may deem fit and take all such steps which are incidental and ancillary in this regard”.

**By Order of Board
FOR HERMAN MILKFOODS LIMITED**

Date : 09-05-2006

Place: Chandigarh

Sd/-

**(VIRSA SINGH SIDHU)
MANAGING DIRECTOR**

Notes :

1. A member entitled to attend and vote at the meeting is entitled to appoint proxy to attend and vote instead of himself and proxy need not be a member of the Company.
2. The instrument appointing proxy must be received at the Company's Registered Office not less than 48 hours before the meeting.
3. Explanatory statements pursuant to provisions of section 173(2) of the Companies Act, 1956.
4. The members register will remain closed from 29-05-2006 to 05-06-2006 (both days inclusive).

ANNEXURE TO NOTICE

EXPLANATORY STATEMENTS PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956:-

Item No. 3

Since more than 25% of the subscribed share capital of the company is held by the Public Financial Institutions, the auditors of the Company are to be appointed through Special resolution. M/s Taranjeet & Associates, Chartered Accountants, Chandigarh, the retiring auditors being eligible offers themselves for reappointment.

Item No. 4

As per the directions of the Hon'ble BIFR, the promoters can induct new co-promoter who will rehabilitate the company and also capable to settle the dues of the Financial Institution and Banks. Accordingly, the promoters had made an arrangement with the new co-promoter Mr. Ravinder Kumar Garg who has agreed that they would invest sufficient funds in the company to revive the unit. As per the agreement, Mr. Ravinder Kumar Garg has been inducted on the Board of the company as nominee of the new co-promoters. Mr. Ravinder Kumar Garg had enough of experience and expertise required for operating milk processing plant. He is the key person in the revival of the unit by virtue of investment of funds, necessary expertise and experience. He was inducted on the Board of the company as additional director and hold the office up to the date of AGM. The company has received notice pursuant to provisions of section 257 of the Companies Act, 1956 proposing his candidature for the office of Director.

Except for Mr. Ravinder Kumar Garg himself and Mrs. Rachana Garg none of the other Directors are interested in the resolution.

Item No. 5

Mrs. Rachana Garg has been appointed as additional Director on the Board of the company as nominee of new co-promoters of the company. In terms of the provision of section 260 of the Companies Act, 1956 she holds office up to the date of AGM. The company has received notice pursuant to provisions of section 257 of the Companies Act, 1956 proposing her candidature for the office of Director.

Except for Mrs. Rachana Garg herself and Mr. Ravinder Kumar Garg none of the others Directors are interested in the resolution.

Item No. 6

In view of the commitment of new co-promoters towards the revival of the sick company, it has been considered appropriate to appoint and designate Mr. Ravinder Kumar Garg as Jt. Managing Director of the company. Mr. Ravinder Kumar Garg has very rich experience of running and managing milk processing plant. He has opted not to draw any remuneration for the time being till the company is revived and start generating cash profits. In terms of the provision of the Companies Act, 1956 approval of the share holders is being solicited for his appointment as Joint Managing Director of the company.

Except for Mr. Ravinder Kumar Garg himself and Mrs. Rachana Garg non of the other directors of the company are interested in the resolution.

Item No. 7

For the last few years, the factory operations were suspended and there was no sale / purchase, as the company has been incurring cash losses and the accumulated losses of the company as at 31st March, 2006 is Rs. 3538.83 lac. Since there are no reserves and the paid up capital of the company is eroded / completely wiped off. The company has submitted the Draft Rehabilitation Scheme cum OTS to the Operating Agency, IFCI for consideration and approval of the Hon'ble BIFR for revival of the sick industrial unit and OA view is that it can not be revived in the reasonable time period so it is more appropriate to reduce 90% Equity share capital of the company so that its net worth can be turned positive within a reasonable time period. The special resolution is proposed to enable the company to start on a new slate by reduction of capital.

1. The proposed proposal is to write off 90% of the value of Equity share and thereby reducing the paid up capital of the company from Rs. 862.22 lac to Rs. 86.22 lac. This will enable the shareholders to get 10 shares of Rs. 10/- per share paid up against 100 shares as are held by them of Rs. 10/- per share paid up. The scheme of reduction of share capital is subject of the approval of Operating Agency, IFCl / Hon'ble BIFR and shall be effective upon the approval of share holders by way of Special Resolution.
2. The proposed reduction / adjustment would not adversely affect the ordinary operations of the company or the ability of the company to honour its commitments or pay its debts in the ordinary course of its business. The aforesaid reduction does not involve either diminution of liability in respect of unpaid capital or payment to any shareholder of any paid up capital. It is therefore submitted that the provisions of the section 101 of the Companies Act, 1956, are not applicable and the procedure there under is not attracted.
3. The need to reduce equity share capital is justified on the following grounds :
 - The Operating Agency, IFCl on behalf of Hon'ble BIFR have agreed to the proposal and accordingly, share holding of the company Rs. 862.22 lac shall be reduced to Rs. 86.22 lac.
 - To cancel the equity share capital which is already lost on account of accumulated losses and which depicts capital employed.
 - Post restructuring, it will be possible to service capital and declare dividend.
4. The creditors of the company are in no way affected by the proposed reduction of share capital as there is no reduction in the amount payable to any of the creditors nor does it involve reduction in the security, if any, which has been created on the assets of the company. Further no compromise or arrangements is contemplated with the creditors. The proposed reduction does not involve any financial outlay on the part of the company.

Item No. 8

As per the Draft Rehabilitation Scheme submitted by the company to the Operating Agency, IFCl for consideration and approval of the Hon'ble BIFR, the co-promoters would induct funds to the tune of Rs. 900.00 lac as equity share capital. Since preferential allotment is pursuant to the Draft Rehabilitation Scheme cum OTS, if approved by the Hon'ble BIFR, the guidelines framed by SEBI for Preferential allotment shall not be applicable. In terms of the provisions of section 81(1A) of the Companies Act, 1956 any further issue and allotment of shares on preferential basis shall require approval of share holders by way of Special resolution.

Approval of the members is therefore requested to be given to the proposed proposal.