

NOTICE TO SHAREHOLDERS

NOTICE is hereby given that the 16th Annual General Meeting of Herman Milkfoods Limited will be held on 25th August, 2007 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, 2007 and profit and loss account as on that date together with the Directors report and Auditors report thereon.
2. To appoint a Director in place of Mr. Virsa 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 Statutory 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."

Date : 01-08-2007
Place: Chandigarh

By Order of Board
FOR HERMAN MILKFOODS LIMITED

Sd/-

(RACHANA GARG)
CHAIR PERSON

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. The members register will remain closed from 19-08-2007 to 25-08-2007 (both days inclusive).

DIRECTOR'S REPORT

Dear Members,

Your Directors have great pleasure in presenting the 16th Annual Report together with Audited Accounts of the company for the financial year ended on 31st March 2007.

FINANCIAL RESULTS

	<u>2006-07</u>	Rs. In lacs <u>2005-06</u>
Sales Turnover & Other Income	2633.10	38.86
Operating Profit	156.30	29.29
Interest	0.03	0.01
Depreciation	65.78	64.69
Profit before tax	90.49	(35.40)
Provision for tax including for :		
- Current year	NIL	NIL
- Earlier years	NIL	NIL
- Deferred tax	NIL	NIL
Net profit after tax	90.49	(35.40)
Appropriations :		
Proposed Dividend	NIL	NIL
Transfer to General Reserves	NIL	NIL

In view of the inadequate profits, your Directors are not in a position to recommend any dividend for the year.

DIRECTORS RESPONSIBILITY STATEMENT

As required under section 217 (2AA) of the Companies Act, 1956 the Directors state that:

1. In preparation of annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures.
2. The Directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss of the company for that period.
3. The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.

The Directors have prepared the annual accounts on going concern basis.

BUSINESS OPERATIONS

The company has restarted in business activity during the financial year. The sales turnover and other income during the financial year was Rs. 2633.10 lacs resulting in net profit of Rs. 90.49 lacs.

During the year 2006-07, the company has entered into an agreement with Mother Dairy Food Processing Ltd, New Delhi for processing of milk into various milk products. Further the, company has also entered into an agreement with the Pradeshik Cooperative Dairy Federation Ltd. (PCDF) Lucknow for processing and conversion.

The company has enhanced its milk processing capacity to 5 lacs liter per day by addition a new liquid milk plant in the existing plant.

MANAGEMENT DISCUSSIONS AND ANALYSIS REPORT

1. Outlook for the Industry

The Dairy Industry in India has the cooperative sector on the one hand which have an excellent milk procurement network. These companies are now becoming more market savvy and are launching new products and expanding their market. On the other hand the role of the private sector is also important and MNCs and large Indian companies co-exist side by side. With the government placing more emphasis on the agriculture sector the domestic dairy industry is keenly waiting for the government policy on this front.

2. Future Prospects

The company has been able to develop a strong marketing and distribution network for selling its products to Mother Dairy Food Processing Ltd., The Pradeshik Coop. Dairy Federation Ltd. and under the Herman brand name consisting of 200 distributors and 1000 retailers in various states. However the profit margin have continued to be squeezed due to competitive market conditions in the domestic dairy industry.

3. Operational vis-à-vis Financial Performance

The company manufacturers quality dairy products and certified as ISO-9001:2000 Company. The intense price competition and unfair practices have had a bad effect on Company's performance in the last few years. The financial performance / results are not commensurate with the high quality standards of the company's products.

4. Material Development in Human Resources / Industrial Relations Front

The team of people in the organization has been working with dedication, diligence, devotion, determination, dynamism, discipline and direction. The company believes that motivated employees are its most important resource and asset. Industrial relations during the year were cordial, cooperative, concerted and peaceful. As on 31-03-2007 there were about 100 employees on its rolls.

DIRECTORS

Mr. Virsa Singh is Director of the company are retiring by rotation at the forthcoming Annual General Meeting and being eligible have offered himself for re-appointment.

AUDITORS

M/s Taranjeet & Associates, Chartered Accountants, Chandigarh hold office until the conclusion of the next Annual General Meeting and are recommended for reappointment. The Company has received certificate from Auditors to the effect that their reappointment, if made, would be within the prescribed limits under section 224(1) of the Companies Act, 1956.

DEPOSITS

The company has not accepted any deposit within the meaning of section 58 A of the Companies Act, 1956 and rules made there under for the period under review.

PARTICULARS OF EMPLOYEES

None of the employee was in receipt of the remuneration over and above the limits prescribed u/s 217(2A) of the Companies Act, 1956 read with Companies (Particular of Employees) Rules, 1975 as amended.

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

The information required under 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 with respect to the conservation of energy, technology absorption and foreign exchange earning and outgo is attached.

BIFR STATUS

During the year, the company had reduced its equity share capital by 90% following the order of Hon'ble BIFR under rehabilitation scheme and induction of fresh equity share capital upto Rs. 900.00 lacs. The rehabilitation scheme approved by Hon'ble BIFR has been successfully implemented. The entire loan of Punjab National Bank has been repaid and company has entered into One Time Settlement with IFCI for repayment of their loan. IFCI term loan will be repaid upto 31st March, 2008 as per the sanctioned scheme. After implementation of the scheme as on 31st March, 2007, the net worth of the company turn positive and hence the company is not a sick industrial company within the meaning of section 3(1)(o) of the SICA Act, 1985. Accordingly, after getting the audited Balance Sheet from the auditors, the company will apply to Hon'ble BIFR for its de-registration.

AUDITORS REPORT

The observations in the Auditors report have been dealt with in notes to accounts and same being self explanatory, do not requires further clarification.

LISTING AGREEMENT:

The company was a sick industrial company and due to non-payment of listing fees and non-compliance of corporate governance, the compliance of listing agreement could not be made. Therefore the stock exchanges have suspended the trading of shares of the company. Now the management is making all efforts to revoke the suspension of trading of shares of the company.

ACKNOWLEDGEMENT

The Directors, place on record their appreciation for the support and assistance received from financial institutions, banks and government authorities for their valuable support. Your directors also wish to place on record their gratitude to the valued shareholders of the company. The Board also records their appreciation to the contribution of their dedicated employees and dealers, milk suppliers and all concerned during the period under review.

Date: 01-08-2007
Place: Chandigarh

For and on behalf of the Board
HERMAN MILKFOODS LIMITED.

Sd/-
(RACHANA GARG)
CHAIRPERSON

AUDITOR'S REPORT**To the members of HERMAN MILKFOODS LTD.**

We have audited the attached Balance Sheet of M/s HERMAN MILKFOODS LTD. as at 31st March, 2007 and also the Profit & Loss Account of the Company for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

1. As required by the Companies (Auditor's Report) Order, 2003, issued by the Ministry of Finance and Company Affairs (Deptt. of Company affairs) of Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 & 5 of the said order.
2. Further to our comments in the Annexure referred to the above, we report that :
 - a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - b) In our opinion, proper books of accounts as required by law have been kept by the company, so far as appears from our examination of those books;
 - c) The Balance Sheet and Profit & Loss Account dealt with by this report are in agreement with the books of account;
 - d) In our opinion the Balance Sheet and Profit & Loss Account dealt with by this report comply with the accounting standards referred to in the sub-section (3C) of the section 211 of the Companies Act, 1956.
 - e) On the basis of representations from the directors, as at 31-03-2007 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31-03-2007 from being appointed as director, in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956.
 - f) The company was a sick industrial company within the meaning of section 3(1)(o) of the Sick Industrial Companies (Special provisions) Act, 1985. The proceedings are going on before the Board for Industrial and Financial Reconstruction (BIFR). The Hon'ble BIFR has sanctioned the scheme on 4th December, 2006 and accordingly the company has initiated effective steps which include payment of dues of Punjab National Bank, Ludhiana. As explained to us further dues of IFCI Ltd. shall be paid up to 31st March, 2008 as per the sanctioned scheme. Reduction of proportionate Equity Share Capital against the losses has also been effected as on 31st March, 2007.

Considering the implementation of the Rehabilitation Scheme as on 31st march, 2007, the net-worth becomes positive. The company needs to apply to Hon'ble BIFR for de-registration of the company as a Sick Company. After obtaining the necessary approval, the company would no longer be a Sick Company.

- ii. All parties accounts including sundry debtors, sundry creditors, loans & advances and others etc. are subject to verification & confirmation.

In our opinion, subject to the information dealt with in the proceeding paragraph f(i) and other qualification as f(ii) and point no. XI in Annexure to this report, and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956 (as amended), in the manner so required, and give a true and fair view in conformity with the accounting principles generally accepted in India.

- i. In the case of the Balance Sheet, of the state of affairs of the company as at 31st March, 2007 and
- ii. In the case of the Profit and Loss Account of the profit for the year ended on the date.

Date: 01-08-2007
Place: Chandigarh

For TARANJEET & ASSOCIATES,
CHARTERED ACCOUNTANTS,

Sd/-

(TARANJEET SINGH)
PROPRIETOR

ANNEXURE TO AUDITOR'S REPORT

Annexure referred to in paragraph 1 of the Auditor's Report to the members of HERMAN MILKFOODS LTD. on the Accounts for the period ended 31st March, 2007.

- I.
 - a. The company has maintained reasonable records showing details of fixed assets;
 - b. Most of the fixed assets have been physically verified by the management. We have been informed that no material discrepancies were noticed on such verification.
 - c. No substantial part of fixed assets have been disposed off during the year.
- II.
 - a. The inventory has been physically verified by the management during the year.
 - b. In our opinion, the procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the company and the nature of its business.
 - c. On the basis of our examination of the inventory records, in our opinion, the company is maintaining proper records of inventory. The discrepancies noticed on physical verification of inventory as compared to book records were not material.