



**12TH
ANNUAL
REPORT
2003-2004**

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Modern Dairies Limited



BOARD OF DIRECTORS

Chairman & Managing Director

Mr. Krishan Kumar Goyal

Dr. Bhupendra Nath Mathur

Mr. Amarjit Goyal

Mrs. Alka Goyal

Prof. Satish Kapoor

Mr. Ashok Kumar Grover (Nominee Director)

Mr. Harvinder Singh Oberoi, Director (Operations)

AUDITORS

M/s. A. Goel & Associates,

Chartered Accountants

BANKERS

Punjab National Bank

Canara Bank

HEAD OFFICE

SCO 98-99, Sub-City Centre,

Sector 34, Chandigarh-160 022

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REGISTERED OFFICE & WORKS

136 KM. G.T. Road,

Karnal - 132 001

(Haryana)

REGISTRARS & SHARE TRANSFER AGENTS

MCS Limited

Srivenkatesh Bhavan,

W-40, Okhla Industrial Area,

Phase-II,

New Delhi - 110 020



NOTICE

Notice is hereby given that the 12th Annual General Meeting of the members of the Modern Dairies Limited will be held at its Registered Office at 136 KM, G.T. Road, Karnal (Haryana) on Friday, the 24th September, 2004 at 11.00 a.m. to transact the following business:

ORDINARY BUSINESS

1. To consider and adopt the Audited Balance Sheet and Profit & Loss Account for the year ended 31st March, 2004 and the Reports of the Board of Directors and Auditors thereon.
2. To appoint a Director in place of Dr. Bhupendra Nath Mathur, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Mrs. Alka Goyal, who retires by rotation, and being eligible, offers herself for re-appointment.
4. To appoint Auditors who shall hold office from the conclusion of this meeting until the conclusion of next Annual General Meeting and to fix their remuneration. M/s A. Goel & Associates, the retiring auditors have offered themselves for re-appointment.

SPECIAL BUSINESS

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

Resolved that subject to the provisions of section 31 of the Companies Act, 1956 and other applicable provisions, the Articles of Association of the Company be and are hereby altered by inserting following Clause No 3(a) after the existing clause 3 :-

'The Company shall have power to purchase/buy-back its own shares and or other securities, subject to the limits and upon such terms and conditions and approvals as may be required under sections 77A, 77AA, 77B and other provisions of the Act and various rules, guidelines, regulations, bye-laws framed there under and in accordance with the guidelines issued by The Securities and Exchange Board of India or other statutory authorities from time to time'.

By order of the Board

Place : Chandigarh
Dated : 16th August, 2004

(Krishan Kumar Goyal)
Chairman & Mg. Director

NOTES :

1. A member entitled to attend and vote at the meeting is entitled to appoint a Proxy to attend and vote instead of himself/herself and the Proxy need not be a member of the Company. Proxy, in order to be effective, must be received by the Company not less than 48 hours before the meeting. A blank proxy form is enclosed.
2. Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of the item of special business is annexed hereto and forms part of this notice.
3. The Share Transfer Books of the company shall remain closed from 15th September 2004 to 17th September 2004 (both days inclusive).
4. All documents referred to in the accompanying notice and explanatory statement are open for inspection at the registered office of the company during office hours on all working days up to the date of Annual General Meeting.
5. MEMBERS ARE REQUESTED TO:
 - a) Notify promptly any change in their address to the Company.
 - b) Send their queries, if any, at least ten days in advance of the meeting so that the necessary information can be made available at the meeting.
 - c) Bring their copies of Annual Report at the Meeting.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956

FOR ITEM NO. 5:

The Companies (Amendment) Act, 1999 has provided the provision of authorising the company to purchase its' own securities. Thus, in order to authorise and provide powers to the company to purchase its own securities (buy back) as per provisions of The Companies Act, 1956, SEBI regulations or and other applicable Statutory provisions, it is proposed to alter and amend the Articles of Association of the company by way of inserting new Clause No 3(a) after existing clause no. 3 of Articles of Association of the Company.

None of the Directors are either concerned or interested in this resolution.

By order of the Board

Place : Chandigarh
Dated : 16th August, 2004

(Krishan Kumar Goyal)
Chairman & Mg. Director

**INFORMATION REGARDING DIRECTORS SEEKING RE-APPOINTMENT AS REQUIRED UNDER
CLAUSE 49 VI(A) OF LISTING AGREEMENT**

| | | | |
|---------------------|-----------------------------|---------------------|--------------------|
| 1. Name of Director | : Dr. Bhupendra Nath Mathur | 2. Name of Director | : Mrs. Alka Goyal |
| Date of Birth | : 17th October, 1943 | Date of Birth | : 5th August, 1960 |
| Date of Appointment | : 18th September, 1993 | Date of Appointment | : 22nd April, 1992 |

Dr. B. N. Mathur, Ph. D (Dairy Technology) has a vast experience in the field of Dairy Technology. He has served as Director, National Dairy Research Institute, Karnal and has retired as Director, National Academy of Agricultural Research and Management, Hyderabad. He possesses a vast experience in Management and Administration. He does not hold office of Director in any other Company. He is Chairman of Remuneration Committee and Member of Audit Committee of the Company.

Mrs. Alka Goyal, B.A., has been associated with your company as Director since its inception. She has good experience of Management. She is Director of following Companies and in addition is member of Remuneration Committee of Chandigarh Infotech Centre Ltd.

1. Chandigarh Infotech Centre Ltd.
2. Mala Builders Pvt. Ltd.
3. Chandigarh Finance Pvt. Ltd.



DIRECTORS REPORT

Dear Members,

Your Directors are pleased to present their 12th Annual Report and audited accounts of the Company for the year ended 31st March, 2004.

PERFORMANCE

During the year under review, the Company achieved a turnover of Rs.119 crores as compared to Rs. 116 crores during the previous year. It has earned profit before tax of Rs. 402 lacs as compared to Rs. 304 lacs during last year.

The year under review witnessed acute shortage of raw milk, particularly at the start of flush season, that resulted in unprecedented hike in raw milk price and margins remained under pressure. This abnormal market scenario affected working of dairy industry throughout the year.

The Directors would also like to report that one of our major customers Britannia New Zealand Foods Pvt. Ltd. (BNZF) took decision to stop liquid milk supply operation in Delhi and consequently the company stopped packing liquid milk for them from early December 2003.

As reported last year, the Company started its business with Nestle for supply of Table Butter from May, 03. The operation went off smoothly throughout the year and the Company looks forward to better volumes in future. The Company also got another opportunity to work with Mother Dairy, Delhi for supply of packed liquid milk w.e.f Dec, 03. We believe that business with these institutions will increase in times to come.

CURRENT OPERATIONS

The current year has begun on a difficult note with raw milk prices fluctuating abnormally, resulting in unstable market for the products. During the first quarter of the current financial year, the Company has achieved a turnover of Rs. 20 crores as compared to Rs.24 crores during the same period in previous year. The profit before tax during the period was Rs. 9 lacs as compared to a loss of Rs. 31 lacs during same period last year.

ACCREDITATIONS:

ISO 9001, HACCP, AND ISO 14001

Your Company's manufacturing facilities continue to maintain the prestigious ISO 9001, ISO 14001 and HACCP Certifications by DNV, the Netherlands, a leading International Certification Company. This shows the company's commitment for quality, food safety and maintaining environment standards.

DIRECTORS

Dr. Bhupinder Nath Mathur and Mrs. Alka Goyal, Directors, retire by rotation at the ensuing Annual General Meeting. They being eligible, offer themselves for re-appointment.

AUDITORS

M/s. A. Goel & Associates, Statutory Auditors of the Company, hold office until the conclusion of the forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment.

Your Directors have appointed M/s. V. Kumar & Associates as Cost Auditors for the year 2004-2005 to conduct the cost audit subject to the approval of the Central Government.

AUDITOR'S REPORT

All the comments of Statutory Auditors on the Annual Accounts of the company are self explanatory and require no further comments.

DEPOSITS

The outstanding deposits at the end of the fiscal year under review amount to Rs. 137 lacs (Previous Year Rs. 328 lacs). There are no overdue deposits.

CORPORATE GOVERNANCE AND MANAGEMENT DISCUSSION & ANALYSIS

A separate report on Corporate Governance and Management Discussion & Analysis is attached as annexure to this report.

HUMAN RESOURCES

Harmonious employee relations prevailed throughout the year. Your Directors place on record their

appreciation of all categories of employees for their hard work and dedication.

The statement showing particulars of employees as required under Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rule 1975 as amended is enclosed as Annexure A' and forms part of this report.

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

Information as per Section 217 (1) (e) of the Company's Act, 1956 read with Companies (Disclosure of particulars in the Report of Board of Directors) Rule 1988, is given in the annexure and form part of this report.

DIRECTOR'S RESPONSIBILITY STATEMENT

Pursuant of section 217 (2AA) of the Companies Act, 1956, the Directors confirm that:

- i. In the preparation of annual accounts for the financial year ended 31st March 2004, the applicable accounting standards have been followed and that there were no material departures;
- ii. The accounting policies selected by them have been applied consistently, and they have made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of the company as on 31st March 2004 and profit of the company for the year ended 31st March 2004.
- iii. They have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the company and for preventing and detecting frauds and other irregularities.
- iv. The annual accounts have been prepared on a going concern basis.

APPRECIATION

Your Directors wish to place on record their sincere appreciation for the continued support from its banks and all business associates.

By order of the Board

Place : Chandigarh (Krishan Kumar Goyal)
Dated : 16th August, 2004 Chairman & Mg.Director

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY STRUCTURE & DEVELOPMENTS

India continues to remain as the largest producer of milk in the world with a production of 88 million tons during the year 2002-03. Only 16% of this milk is handled by the organised sector. The milk is mainly produced by millions of small and marginal farmers and thus, has a profound social impact.

Our Company is one of the leading manufacturers of Quality Dairy Products in North India. Bulk of its products are sold to prestigious institutions/ corporates.

OPPORTUNITY AND THREATS

In our country there is a need to diversify from agriculture to improve socio- economic conditions of rural India. Dairy development would play an important role in this. The Govt. of India is giving thrust for development of Dairy Industry in the country and to promote this Industry, recently Govt. of India in the fiscal budget 2004-05 waived off excise duty on Dairy Machinery. Due to higher literacy and exposure to electronic media, the demand for nutritional and safe products is improving thereby resulting in an increase in the share of organised dairy sector.

There is threat of import of Dairy Products into the country due to the export subsidies enjoyed by the Dairy Industry in the developed countries.

RISK & CONCERN

The Dairy Industry is dependent on the vagaries of nature which affect the production of milk.



INTERNAL CONTROL SYSTEM AND THEIR ADEQUACY

Modern Dairies Ltd. has a proper and adequate system of internal controls to ensure that transactions are properly recorded, authorised and reported.

The Company has in place well documented and structured systems and procedures in line with the best of practices and well defined roles and responsibilities for people in all functions at various levels. The Company is certified as ISO 9001:2000 (Quality System), HACCP (Food Safety System) and ISO 14001 (Environment System) by DNV, the Netherlands.

There is adequate MIS information flow system to the management. Management review meetings are held periodically to monitor and control functions of the Company. Internal audit on regular basis is carried out to ensure proper control.

FINANCIAL PERFORMANCE AND RESULTS OF OPERATIONS

During the year under review, the Company achieved turnover of Rs.119 crores as against Rs.116 crores in the previous year.

The fiscal year witnessed uncertain market condition, which prevailed due to the drought like conditions and failing monsoon in many part of the country in the previous year, adversely affecting the milk availability for the dairy sector. Your directors report that the company was able to achieve profit before tax of Rs. 402 lacs as against Rs. 304 lacs in the previous year and net profit of Rs.255 lacs as against Rs.189 lacs in the previous year.

HUMAN RESOURCES

The Company regards its employees as the most valuable asset and continuously reviews and evolves policies and procedures to attract and retain its pool of technical and managerial personnel through a conducive work environment.

CAUTIONARY STATEMENT

The Management Discussion and Analysis report may contain certain statements that might be considered forward looking. These statements are subject to certain risks and uncertainties. Actual results may differ materially from those expressed in the statement as important factors could influence the Company's operations such as Government policies, local, political and economic development, risks inherent to the Company's growth and such other factors.

Annexure 'A' to Directors' Report

Statement pursuant to section 217(2A) of the Companies Act, 1956 and the Companies (Particulars of Employees) Rules, 1975

| Sr. No. | Name | Age (Year) | Designation/ Nature of Duties | Gross Remuneration Rs. | Qualifications | Total Experience (Years) | Date of Commencement of Employment | Previous employment/ position held. |
|---------|-------------------------|------------|-------------------------------|---------------------------|----------------|--------------------------|------------------------------------|--------------------------------------|
| 1. | Mr. Krishan Kumar Goyal | 47 | Chairman & Mg. Director | 31,68,000 | B.Com LLB | 24 | 22.04.92 | Managing Director Modern Steels Ltd. |

- Notes :
- (1) Gross remuneration comprises salary, allowances monetary value of perquisites, and the Company's contribution to Provident and Superannuation Funds but excludes contribution to Gratuity Fund on the basis of actuarial valuation as separate figures are not available.
 - (2) Mr. Krishan Kumar Goyal was appointed as Whole Time Director in Modern Steels Ltd. in 1980 and was elevated to Managing Director of that company in 1984. He is continuing in the same position.
 - (3) The nature of employment is contractual.

Annexure 'B' to Directors' Report

Information as per section 217(1) (e) read with Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988 and forming part of the directors' report for the year ended 31st March, 2004.

FORM A

| A. POWER & FUEL CONSUMPTION | CURRENT YEAR 2003-04 | PREVIOUS YEAR 2002-03 |
|--|---------------------------------|----------------------------------|
| POWER | | |
| a) Electricity Power | | |
| Purchase Units (Kwh) | 53,22,330 | 54,82,672 |
| Total Amount (Rs.) | 2,10,31,311 | 2,15,68,266 |
| Rate per unit (Rs.) | 3.95 | 3.93 |
| b) Other Generation Through Diesel Generators | | |
| Units (kwh) | 2,33,465 | 5,71,126 |
| Total Amount (Rs.) | 12,93,615 | 27,23,021 |
| Unit per litre of Diesel oil | 3.38 | 3.40 |
| Cost/Unit (Rs.) | 5.54 | 4.76 |
| FUEL | | |
| Quantity (M.T.) | 14,953 | 11,940 |
| Total Amount (Rs.) | 1,95,92,671 | 1,67,26,123 |
| Rate/Unit (Rs. per M.T.) | 1310.28 | 1400.84 |

B. CONSUMPTION PER UNIT OF PRODUCTION

Products : Liquid Milk, Skimmed Milk Powder, Whole Milk Powder, Dairy Whitener, Pure Ghee, Butter, Paneer & Lassi etc.

| | | |
|----------------------------------|-----------|-----------|
| Unit per kgs. of milk processed. | 1000 Kgs. | 1000 Kgs. |
| Electricity (Kwh) | 70.59 | 64.52 |
| Fuel Quantity (Kgs.) | 189.99 | 127.26 |

NOTE

As the company manufactures several products, it is impracticable to apportion the utilities to different products. However, consumption of electricity and fuel has been given per thousand Kgs. of milk processed.

FORM B**I RESEARCH & DEVELOPMENT (R & D),**

Research & development in regard to acceptability of Dairy Whitener in term of consumer acceptance.

II. TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

Infrastructure improved as mozzarella cheese to further improve its quality and capacity.

III FOREIGN EXCHANGE EARNING AND OUTGO

Particulars with regard to Foreign Exchange earning and outgo appear on the relevant Schedule of the Balance Sheet.

For & on behalf of the Board

Place : Chandigarh
Dated : 16th August, 2004

KRISHAN KUMAR GOYAL
Chairman & Mg. Director



CORPORATE GOVERNANCE REPORT

COMPANY'S PHILOSOPHY ON GOVERNANCE

Modern Dairies Limited is committed in adopting the best practices of Corporate Governance. The Company endeavours to act on the principles of transparency, accountability, trusteeship and integrity. The ultimate objective being of realising long term share holder value, while taking into account the interest of other stakeholders.

BOARD OF DIRECTORS

Composition of the Board of Directors and related information as on 31st March, 2004 is as under:

| Name of the Director | Category | No. of Board Meetings Attended | Whether attended AGM held on 18.09.02 | No. of Directorships in other Public companies | | No. of Committee position held in other Board Committees | |
|------------------------|--|--------------------------------|---------------------------------------|--|----------|--|--------|
| | | | | Chairman | Director | Chairman | Member |
| Mr. Krihan Kumar Goyal | Promoter Executive Chairman & Mg. Director | 5 | YES | 1 | 1 | NIL | 1 |
| Dr. B.N. Mathur | Independent Non-executive-Director | 4 | NO | NIL | NIL | 1 | 1 |
| Prof. Satish Kapoor | Independent Non-executive-Director | 4 | YES | NIL | NIL | 2 | 1 |
| Mr. Amarjit Goyal | Promoter Non-executive-Director | 5 | YES | 1 | NIL | NIL | NIL |
| Mrs. Alka Goyal | Promoter Non-executive-Director | 5 | NO | NIL | 1 | NIL | NIL |
| Mr. A.K. Grover | Independent Nominee | 5 | NO | NIL | NIL | NIL | 2 |
| Mr. H.S. Oberoi | Director Operations | 5 | YES | NIL | NIL | NIL | 1 |

Board Meetings held during the year : During the year 2003-04, Five Board meetings were held on 19th May 2003, 17th July 2003, 11th October 2003, 8th November 2003, and 14th January 2004.

AUDIT COMMITTEE

The Company has Audit Committee constituted as per provisions of the listing agreement consisting of three Directors all being independent and non-executive directors, namely Prof. Satish Kapoor, Dr. B.N.Mathur and Mr. A.K.Grover. The chairman of the committee is Prof. Satish Kapoor, who is an independent director.

The broad terms of reference of the Audit Committee are:

The functioning and terms of reference of the Audit Committee are as prescribed under the Listing Agreement including their role, powers and duties, quorum for meeting and frequency of meetings.

The broad terms of reference of the Audit Committee are:

The functioning and terms of reference of the Audit Committee are as prescribed under Section 292A of the Companies Act, 1956 and the Listing Agreement with the Stock Exchanges including their role, powers and duties, quorum for meeting and frequency of meetings.

The Committee met four times during the year on 19th May 2003, 17th July 2003, 11th October 2003 and 14th January 2004. All the members were present during these meetings. The Chairman of Committee Prof. Satish Kapoor was present at previous Annual General Meeting held on 1st September 2003.

Remuneration Committee

The Company has constituted a Remuneration Committee comprising of three Independent, Non-Executive Directors viz. Dr. B.N.Mathur, Mr. A.K.Grover and Prof. Satish Kapoor. Dr. B.N. Mathur is Chairman of the Committee. The Remuneration Committee has been constituted to recommend/ review the remuneration packages of managerial personnel within the overall ceilings as per Schedule XIII of the Companies Act, 1956 as prescribed under the Listing Agreement. No meeting of the committee was held during the year.

Details of Remuneration to Directors for the year

The aggregate value of salary and perquisites paid for the year ended 31st March,2004 to the Chairman & Managing Director and Director(Operations) are as follows:

| Name & Designation | Salary (Rs.) | Benefits (Rs.) | Perquisites | Stock Option | Gross Remuneration |
|--|--------------|----------------|-------------|--------------|--------------------|
| Mr. Krishan Kumar Goyal Chairman & Mg. Director | 24,00,000 | 3,31,369 | 4,80,000 | NIL | 32,11,369 |
| Mr. H.S. Oberoi Director (Operations) | 5,74,354 | NIL | 4,05,194 | NIL | 9,79,548 |

The Company was paying sitting fees at the rate of Rs.2000/- for each Board/ Board Committee meeting to all Non-executive Directors, which was further raised to Rs. 5000/- per such meeting w.e.f. July 2003onwards. The sitting fees paid for the year ended 31st March, 2004 (including Board Committee meeting fees) to the Non- Executive Directors is as follows: