

HATSUN

AGRO PRODUCT LIMITED

BOARD OF DIRECTORS

R.G. CHANDRAMOGAN
Chairman and Managing Director

K.S. THANARAJAN
Joint Managing Director

C. SATHYAN
Executive Director - Operations

P. VAIDYANATHAN

KIRTI P. SHAH

S. THIAGARAJAN

B.S. MANI

N. CHANDRASEKARAN

COMMITTEES OF THE BOARD

AUDIT COMMITTEE

P. VAIDYANATHAN

S. THIAGARAJAN

B.S. MANI

SHAREHOLDERS' / INVESTORS' GRIEVANCE COMMITTEE

S. THIAGARAJAN

P. VAIDYANATHAN

K.S. THANARAJAN

REMUNERATION COMMITTEE

P. VAIDYANATHAN

S. THIAGARAJAN

B.S. MANI

COMPANY SECRETARY

B.V. NATH

REGISTERED & CORPORATE OFFICE

5-A, VIJAYARAGHAVA ROAD
T.NAGAR, CHENNAI - 600 017.
Phone: 091-044-28150014, Fax: 091-044-28152508
Website: www.hatsun.com
E-mail: secretarial@hatsun.com

FACTORIES

1. ATTUR MAIN ROAD
KARUMAPURAM VILLAGE
SALEM - 636 106
TAMIL NADU.
2. TIMMASAMUDRAM VILLAGE
CHENNAI-BANGALORE HIGHWAY
KANCHEEPURAM TALUK
KANCHEEPURAM - 631 502
TAMIL NADU.
3. NO.114, ANGADU ROAD
NALLUR
CHENNAI - 600 067
TAMIL NADU.
4. NO.277/2, DESUR VILLAGE
BELGAUM - 590 014
KARNATAKA.
5. NO.109/2, KUNDUR VILLAGE
HONNALI TALUK, DAVANGERE DISTRICT
HONNALI, KARNATAKA.

BRANCHES / DEPOTS

- ◆ ANANTHAPUR
- ◆ AVINASHI
- ◆ BANGALORE
- ◆ MADURAI
- ◆ SALEM
- ◆ VIJAYAWADA

STATUTORY AUDITORS

BSR & CO.
CHARTERED ACCOUNTANTS
"WESCARE TOWERS", NO.16, CENOTAPH ROAD, TEYNAMPET, CHENNAI - 600 018.

BANKERS

STATE BANK OF INDIA • ICICI BANK LTD • STANDARD CHARTERED BANK
AXIS BANK (Formerly UTI BANK LTD.) • PUNJAB NATIONAL BANK • THE BANK OF RAJASTHAN LTD.

22nd ANNUAL GENERAL MEETING

DATE : 19th SEPTEMBER, 2007
DAY : WEDNESDAY
TIME : 11.00 A.M.
VENUE : ANDHRA SOCIAL & CULTURAL ASSOCIATION
NO.44, VIJAYARAGHAVA ROAD,
T.NAGAR,
CHENNAI - 600 017.

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NOTICE TO SHAREHOLDERS

NOTICE is hereby given that the Twenty Second Annual General Meeting of HATSUN AGRO PRODUCT LIMITED will be held on Wednesday, the 19th September 2007 at 11.00 a.m. at Andhra Social and Cultural Association, No.44, Vijayaraghava Road, T.Nagar, Chennai - 600 017 to transact the following business :

ORDINARY BUSINESS

1. To receive, consider and adopt the audited Balance Sheet as at 31st March, 2007 and the Profit & Loss Account of the Company for the year ended on that date and the Reports of the Directors and the Auditors thereon.
2. To ratify the Interim Dividend of 20% declared and paid for the year ended 31st March 2007.
3. To declare pro-rata dividend on 8% Non-Convertible Cumulative Redeemable Preference Shares.
4. To appoint a Director in place of Mr. Kirti P. Shah, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint a Director in place of Mr. S. Thiagarajan, who retires by rotation and being eligible, offers himself for re-appointment.
6. To appoint a Director in place of Mr. B.S. Mani, who retires by rotation and being eligible, offers himself for re-appointment.
7. To consider and if thought fit, to pass the following resolution as an Ordinary Resolution:

“RESOLVED that M/s. S.R. Batliboi & Associates, Chartered Accountants be and are hereby appointed as Statutory Auditors of the Company to hold office from the conclusion of this Annual General Meeting upto the conclusion of the next Annual General Meeting of the Company in the place of existing Statutory Auditors of the Company, M/S. BSR & Co., Chartered Accountants on such remuneration as may be decided by the Board of Directors of the Company.”

SPECIAL BUSINESS

8. To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions:
“RESOLVED that pursuant to Section 198, 269, 309 and other applicable provisions, if any, of the Companies Act, 1956 read with Schedule XIII of the said Act, including any statutory modification(s) or re-enactment(s) thereof, the Company hereby approves the payment of the following remuneration to Mr. R.G. Chandramogan, Chairman and Managing Director, with effect from 1st September, 2007 until further revision is made.
I. SALARY : Rs. 2,00,000/- (Rupees Two Lakhs only) per month.
II. PERQUISITES : The perquisites are classified into three Categories, Category A, B and C – as follows :

CATEGORY ‘A’

1) HOUSING

House Rent Allowance shall be subject to a ceiling of 50% of the Salary. If the Company provides the accommodation, the expenditure on hiring furnished accommodation shall be subject to 50% of the salary.

2) MEDICAL BENEFITS

Reimbursement of actual medical expenses incurred for self and family subject to a ceiling of half a month's salary in a year. Reimbursement of special medical expenses, if any, shall be subject to the approval of the Board of Directors.

3) LEAVE TRAVEL ALLOWANCE

Leave Travel Concession for self and family once in a year in accordance with the rules specified by the Company subject to a ceiling of one month's salary.

4) CLUB FEES

Fees for clubs subject to a maximum of two clubs. This will not include admission and life membership fee.

5) INSURANCE COVER

Personal Accident Insurance cover for self, the actual premium for which does not exceed Rs.5,000/- per annum.

Explanation : For the purpose of Category ‘A’, ‘family’ means the spouse, dependant children and dependant parents.

CATEGORY 'B'

- 1) The Benefit of the Company's Provident Fund and Superannuation Scheme in accordance with the rules for the time being in force. Contribution to Provident Fund and Superannuation Fund will not be included in the computation of the ceiling of perquisites to the extent these either singly or put together are not taxable, under the Income-tax Act, 1961. Gratuity payable will not exceed half a month's salary for each completed year of service.
- 2) Leave : Mr. R.G. Chandramogan will be allowed leave and encashment thereof as per the Rules of the Company.

CATEGORY 'C'

The Company shall provide a car with driver and telephone facility at the residence of Mr. R.G. Chandramogan. Provision of a car for use on Company's business and telephone at residence will not be considered as perquisites. Personal distance calls on telephone shall be billed by the Company to Mr. R.G. Chandramogan. Use of car for personal purpose shall be valued in accordance with the income-tax Rules for such use if any and shall be treated as taxable income.

The aggregate remuneration inclusive of salary, bonus, incentives, perquisites and allowances and other benefits payable to Mr. R.G. Chandramogan, shall always be subject to the overall ceilings laid down in Sections 198 and 309 and other applicable provisions of the Companies Act, 1956.

Minimum remuneration

Where in any financial year during the tenure of Mr. R.G. Chandramogan, the Company incurs a loss or its profits are inadequate, the Company shall pay to Mr. R.G. Chandramogan the above remuneration by way of salary, perquisites and others as a minimum remuneration subject to the limits specified under Section II of Part II of Schedule XIII of the Companies Act, 1956 (including any statutory modifications or re-enactments thereof, for the time being in force), or such other limits as may be prescribed by the Government from time to time as minimum remuneration. If such minimum remuneration is in excess of ceiling, if any, prescribed under Schedule XIII to the Companies Act, 1956, the Company shall seek permission of Central Government as may be necessary in accordance with the provision governing payment of remuneration in force at the relevant point of time.

The appointment is terminable by three months' notice or by payment of three months' salary in lieu thereof by either party."

"**RESOLVED FURTHER** that the Board of Directors of the Company be and is hereby authorized to vary, alter or modify the different components of the above remuneration as may be agreed to by the Board of Directors and Mr. R.G. Chandramogan."

9. To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions:

"**RESOLVED** that pursuant to Section 198, 269, 309 and other applicable provisions, if any, of the Companies Act, 1956 read with Schedule XIII of the said Act, including any statutory modification(s) or re-enactment(s) thereof, the Company hereby approves the payment of the following remuneration to Mr. K.S.Thanarajan, Joint Managing Director, with effect from 1st September, 2007 until further revision is made.

- I. **SALARY** : Rs. 2,00,000/- (Rupees Two Lakhs only) per month.
- II. **PERQUISITES** : The perquisites are classified into three Categories, Category A,B and C – as follows :

CATEGORY 'A'

1) **HOUSING**

House Rent Allowance shall be subject to a ceiling of 50% of the Salary. If the Company provides the accommodation, the expenditure on hiring furnished accommodation shall be subject to 50% of the salary.

2) **MEDICAL BENEFITS**

Reimbursement of actual medical expenses incurred for self and family subject to a ceiling of half a month's salary in a year. Reimbursement of special medical expenses, if any, shall be subject to the approval of the Board of Directors.

3) **LEAVE TRAVEL ALLOWANCE**

Leave Travel Concession for self and family once in a year in accordance with the rules specified by the Company subject to a ceiling of one month's salary.

4) CLUB FEES

Fees for clubs subject to a maximum of two clubs. This will not include admission and life membership fee.

5) INSURANCE COVER

Personal Accident Insurance cover for self, the actual premium for which does not exceed Rs.5,000/- per annum.

Explanation : For the purpose of Category 'A', 'family' means the spouse, dependant children and dependant parents.

CATEGORY 'B'

- 1) The Benefit of the Company's Provident Fund and Superannuation Scheme in accordance with the rules for the time being in force. Contribution to Provident Fund and Superannuation Fund will not be included in the computation of the ceiling of perquisites to the extent these either singly or put together are not taxable, under the Income-tax Act, 1961. Gratuity payable will not exceed half a month's salary for each completed year of service.
- (2) Leave : Mr. K.S.Thanarajan will be allowed leave and encashment thereof as per the Rules of the Company.

CATEGORY 'C'

The Company shall provide a car with driver and telephone facility at the residence of Mr. K.S.Thanarajan. Provision of a car for use on Company's business and telephone at residence will not be considered as perquisites. Personal distance calls on telephone shall be billed by the Company to Mr. K.S.Thanarajan. Use of car for personal purpose shall be valued in accordance with the income-tax Rules for such use if any and shall be treated as taxable income.

The aggregate remuneration inclusive of salary, bonus, incentives, perquisites and allowances and other benefits payable to Mr. K.S.Thanarajan, shall always be subject to the overall ceilings laid down in Sections 198 and 309 and other applicable provisions of the Companies Act, 1956.

Minimum remuneration

Where in any financial year during the tenure of Mr. K.S.Thanarajan, the Company incurs a loss or its profits are inadequate, the Company shall pay to Mr. K.S.Thanarajan the above remuneration by way of salary, perquisites and others as a minimum remuneration subject to the limits specified under Section II of Part II of Schedule XIII of the Companies Act, 1956 (including any statutory modifications or re-enactments thereof, for the time being in force), or such other limits as may be prescribed by the Government from time to time as minimum remuneration. If such minimum remuneration is in excess of ceiling, if any, prescribed under Schedule XIII to the Companies Act, 1956, the Company shall seek permission of Central Government as may be necessary in accordance with the provision governing payment of remuneration in force at the relevant point of time.

The appointment is terminable by three months' notice or by payment of three months' salary in lieu thereof by either party."

"RESOLVED FURTHER that the Board of Directors of the Company be and is hereby authorized to vary, alter or modify the different components of the above remuneration as may be agreed to by the Board of Directors and Mr. K.S.Thanarajan"

10. To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions:

"RESOLVED that pursuant to Section 198, 269, 309 and other applicable provisions, if any, of the Companies Act, 1956 read with Schedule XIII of the said Act, including any statutory modification(s) or re-enactment(s) thereof, the Company hereby approves the payment of the following remuneration to Mr. C. Sathyan, Executive Director, with effect from 1st September, 2007 until further revision is made.

- I. **SALARY** : Rs. 1,00,000/- (Rupees One Lakh only) per month.
- II. **PERQUISITES** : The perquisites are classified into three Categories, Category A,B and C – as follows :

CATEGORY 'A'

1) HOUSING

House Rent Allowance shall be subject to a ceiling of 50% of the Salary. If the Company provides the accommodation, the expenditure on hiring furnished accommodation shall be subject to 50% of the salary.

2) MEDICAL BENEFITS

Reimbursement of actual medical expenses incurred for self and family subject to a ceiling of half a month's salary in a year. Reimbursement of special medical expenses, if any, shall be subject to the approval of the Board of Directors.

3) LEAVE TRAVEL ALLOWANCE

Leave Travel Concession for self and family once in a year in accordance with the rules specified by the Company subject to a ceiling of one month's salary.

4) CLUB FEES

Fees for clubs subject to a maximum of two clubs. This will not include admission and life membership fee.

5) INSURANCE COVER

Personal Accident Insurance cover for self, the actual premium for which does not exceed Rs.5,000/- per annum.

Explanation : For the purpose of Category 'A', 'family' means the spouse, dependant children and dependant parents.

CATEGORY 'B'

- 1) The Benefit of the Company's Provident Fund and Superannuation Scheme in accordance with the rules for the time being in force. Contribution to Provident Fund and Superannuation Fund will not be included in the computation of the ceiling of perquisites to the extent these either singly or put together are not taxable, under the Income-tax Act, 1961. Gratuity payable will not exceed half a month's salary for each completed year of service.
- 2) Leave : Mr. C. Sathyan will be allowed leave and encashment thereof as per the Rules of the Company.

CATEGORY 'C'

The Company shall provide a car with driver and telephone facility at the residence of Mr. C. Sathyan. Provision of a car for use on Company's business and telephone at residence will not be considered as perquisites. Personal distance calls on telephone shall be billed by the Company to Mr. C. Sathyan. Use of car for personal purpose shall be valued in accordance with the income-tax Rules for such use if any and shall be treated as taxable income.

The aggregate remuneration inclusive of salary, bonus, incentives, perquisites and allowances and other benefits payable to Mr. C. Sathyan, shall always be subject to the overall ceilings laid down in Sections 198 and 309 and other applicable provisions of the Companies Act, 1956.

Minimum remuneration

Where in any financial year during the tenure of Mr. C. Sathyan, the Company incurs a loss or its profits are inadequate, the Company shall pay to Mr. C. Sathyan the above remuneration by way of salary, perquisites and others as a minimum remuneration subject to the limits specified under Section II of Part II of Schedule XIII of the Companies Act, 1956 (including any statutory modifications or re-enactments thereof, for the time being in force), or such other limits as may be prescribed by the Government from time to time as minimum remuneration. If such minimum remuneration is in excess of ceiling, if any, prescribed under Schedule XIII to the Companies Act, 1956, the Company shall seek permission of Central Government as may be necessary in accordance with the provision governing payment of remuneration in force at the relevant point of time.

The appointment is terminable by three months' notice or by payment of three months' salary in lieu thereof by either party."

"RESOLVED FURTHER that the Board of Directors of the Company be and is hereby authorized to vary, alter or modify the different components of the above remuneration as may be agreed to by the Board of Directors and Mr. C. Sathyan."

Place : Chennai
Date : 30th July, 2007

Registered Office:
5-A, Vijayaraghava Road,
T. Nagar, Chennai - 600 017.

By order of the Board
for **HATSUN AGRO PRODUCT LIMITED**
Sd/-
B.V. NATH
Company Secretary

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. A PROXY NEED NOT BE A MEMBER OF THE COMPANY. Proxies, in order to be effective, must be received at the Company's Registered Office not less than 48 hours before the commencement of the Annual General Meeting.
2. The Register of Members and the Share Transfer Books of the Company will remain closed for the purpose of the ensuing Annual General Meeting from 14th September, 2007 to 19th September, 2007 (both days inclusive).
3. Shareholders are requested to notify our Registrar and Share Transfer Agent, M/s Alpha Systems Private Limited No.30, Ramana Residency, 4th Cross Street, Sampige Road, Malleswaram, Bangalore – 560 003, any change in their address, to ensure prompt receipt of all correspondence.
4. All correspondence with respect to transfer of shares, change of address, conversion of physical shares into Demat form etc., may be sent to the Registrar and Share Transfer Agent.
5. SHAREHOLDERS ARE ADVISED, IN THEIR OWN INTEREST THAT ALL THE COMMUNICATIONS TO THE COMPANY WHICH WOULD HAVE THE EFFECT OF AMENDING THE PERMANENT DETAILS OF THE LEDGER FOLIO SHOULD BE SIGNED BY ALL THE SHAREHOLDERS.
6. Shareholders may visit Company's website : www.hatsun.com and contact us at e-Mail: secretarial@hatsun.com.
7. Shareholders who are holding shares in more than one folio are requested to intimate to the Registrar the details of all folio numbers for consolidation into a single folio.
8. Shareholders are requested to check whether they have encashed Dividend Warrants for the earlier years. If the Dividend Warrants have become time-barred / lost, please apply for revalidation / fresh dividend warrant before the last dates indicated below:

Dividend for the year ended	Rate of Dividend	Record Date	Date on which unpaid amount is required to be transferred to IE&PF	Shareholders should apply latest by
1999-00	20%	21/09/2000	04/11/2007	15/10/2007
2000-01	20%	08/09/2001	09/10/2008	19/09/2008
2002-03	30%	28/09/2002	29/10/2009	09/10/2009
2003-04	20%	29/09/2003	30/10/2010	10/10/2010
2005-06	20%	14/07/2006	25/07/2013	05/07/2013
2006-07	20%	06/07/2007	27/07/2014	07/07/2014

During the 2006-07, an amount of Rs.7,200/- being unclaimed dividend pertaining to the accounting year 1998-99 was transferred to Investor Education and Protection Fund (IE & PF).

In terms of Section 205C of the Companies (Amendment) Act, 1999, all dividend amounts, which remain unclaimed and unpaid for a period of seven years will be transferred to the IE & PF. Shareholders will not be entitled to claim the dividend amounts once transferred to IE & PF.

9. Explanatory statement pursuant to Section 173(2) for Item Nos. 8, 9 and 10 forms part of this notice. This notice may also be construed as a notice u/s.302(2) of the Companies Act, 1956 with reference to Item Nos. 8, 9 and 10.

PROFILE OF THE DIRECTORS BEING REAPPOINTED / APPOINTED

- **Mr. Kirti P Shah**, is a Non-Resident Indian and is associated with the Board of Hatsun for the past eight years. He is an engineer by profession and is managing business establishment in Indiana, USA. He has extensive knowledge in various fields of business.

Mr. Kirti P Shah holds 50,800 Equity shares of Rs. 10/- each and 5,08,000 Preference Shares of Rs. 100/- each as at 31st March, 2007.

- **Mr. S. Thiagarajan**, is a post graduate in Economics and a Certified Associate of Indian Institute of Bankers (CAIIB). He has over four decades of experience in financial services sector and has held senior positions in financial institutions. His areas of specialization include initiation of projects and its documentation, venture capital and preparation of business plans etc. He is associated with Hatsun since 26th May 2003, when he joined the Board as an Additional Director.

- **Mr. B S Mani**, is a post graduate in Tamil Literature and has a Diploma in Journalism from Cardiff, England. He has over 4 decades of experience in the field of journalism and is the Chairman of Karnataka Publications (P) Limited which publishes a Tamil daily outside Tamil Nadu. He joined Hatsun as an Additional Director on 29th March, 2004.

Mr. B.S. Mani holds 300 shares of Rs. 10/- each as at 31st March, 2007.

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

Item No.8

Mr. R G Chandramogan was re-appointed as Managing Director for a period of five years effective 1st April, 2004 without change in terms of remuneration at the Annual General Meeting of the Company held on 15th September, 2004. Upon the recommendation of the Remuneration Committee, the Board of Directors at their meeting held on 30th July, 2007, have fixed the remuneration payable to Mr. R.G. Chandramogan.

The detailed terms of remuneration is given in the resolution.

The members are requested to consider and if thought fit, to approve the resolution.

None of the Directors except Mr. R G Chandramogan and Mr. C Sathyan is deemed to be interested in this resolution.

Item No.9

Mr. K. S. Thanarajan was re-appointed as Joint Managing Director for a period of five years effective 1st March, 2004 without change in terms of remuneration at the Annual General Meeting of the Company held on 15th September, 2004. Upon the recommendation of the Remuneration Committee, the Board of Directors at their meeting held on 30th July, 2007, have fixed the remuneration payable to Mr. K.S. Thanarajan

The detailed terms of remuneration is given in the resolution.

The members are requested to consider and if thought fit, to approve the resolution.

None of the Directors except Mr. K.S.Thanarajan is deemed to be interested in this resolution.

Item No.10

Mr. C. Sathyan was re-appointed as Executive Director – Operations, for a period of five years effective 1st June, 2006 without change in terms of remuneration at the Annual General Meeting of the Company held on 19th September, 2006. Upon the recommendation of the Remuneration Committee, the Board of Directors at their meeting held on 30th July, 2007, have fixed the remuneration payable to Mr. C. Sathyan.

The detailed terms of remuneration is given in the resolution.

The members are requested to consider and if thought fit, to approve the resolution.

None of the Directors except Mr. R G Chandramogan and Mr. C Sathyan is deemed to be interested in this resolution.

Place : Chennai

Date : 30th July, 2007

Registered Office:

5-A, Vijayaraghava Road,

T. Nagar, Chennai - 600 017.

By order of the Board
for **HATSUN AGRO PRODUCT LIMITED**

Sd/-

B.V. NATH

Company Secretary

DIRECTORS' REPORT

To
The Members

Your Directors are delighted to present their Report along with the Audited Accounts of the Company for the year ended 31st March, 2007.

FINANCIAL RESULTS

The financial performance of your Company for the year ended 31st March, 2007 is summarised below:

(Rs. in Lakhs)		
	Current Year ended 31 st March, 2007	Previous Year ended 31 st March, 2006
Income		
Net Sales	58,528.28	54,034.42
Other Income	694.72	763.70
	59,223.00	54,798.12
Profit		
a) Profit before Depreciation	2,724.59	2,378.67
b) Less : Depreciation	1,578.56	1,548.72
c) Profit after depreciation	1,146.03	829.95
d) Less : Income-tax - Current Period	362.30	152.20
Deferred Tax - Current Period	24.30	170.95
Reversal of Prior Period tax	(111.81)	—
Fringe Benefit Tax	56.64	82.27
e) Profit after Taxes	814.60	424.53
f) Add : Balance brought forward from previous year	204.80	414.59
h) Balance available for appropriation	1,019.40	839.12
Appropriation		
a) Dividend		
- Dividend paid on Equity Shares	135.78	135.77
- Proposed Dividend on Preference Shares	54.12	19.71
b) Corporate Dividend Tax		
- Equity	23.08	19.04
- Preference	9.20	2.76
c) Transfer to General Reserve from current year profits	61.10	457.04
d) Balance carried to Balance Sheet	736.12	204.80
	1,019.40	839.12

PERFORMANCE OF THE COMPANY

OPERATING RESULTS

During the year, your Company registered a turnover (Net Sales) of Rs.58,528.28 Lakhs representing an increase of 8.32% over that of the previous year. Your Company registered a gross profit of Rs.1,146.03 Lakhs, with an increase of 38% over the previous year. This has been achieved through rigorous cost control measures and enhanced realization combined with a strong supply chain management and optimum collection system.

EXPORTS

The value of exports during the year under review was Rs.5,411 Lakhs representing 9.25 % of Net Sales. Your Company is a Net Foreign Exchange Earner.

SEGMENTWISE PERFORMANCE

DAIRY SEGMENT

Your Company is a leading private Company in the dairy sector in the Country. Milk continues to have the major share in your Company's revenue. The revenue in the milk and milk products segment increased by 6.68% over that of the previous year. The profit in this segment grew by 26.30% over the previous year.

ICE CREAM SEGMENT

Though the revenue in this segment showed an increase of 16.65% over the previous year, the segmental profit was reduced by 8.2% due to heavy increase in basic raw material cost. The exemption of excise duty has been passed on to the ultimate consumers by revision of prices. Your Company is implementing stringent cost control techniques to improve the returns from this segment. This segment is poised for good growth in the coming years with the increasing disposable income of the population.

FUTURE PLAN

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

DIVIDEND

EQUITY SHARES

Your Company has declared and paid an Interim Dividend of Rs.2/- per Equity Share (20%) on 21st June 2007 on Equity Share Capital, for shareholders whose names appear on the Register of Members as at 6th July, 2007 (Record Date), absorbing Rs.1,58,85,155/- (Dividend - Rs. 1,35,77,636/-; Corporate Dividend Tax – Rs. 23,07,519/-) and your Directors recommend the same to be deemed as the final dividend for the year ended 31st March, 2007.

PREFERENCE SHARES

As per the terms of the issue of 8% Non-convertible Cumulative Redeemable Preference Shares of Rs.100/- each, your Directors recommend a Dividend on the Preference Share Capital absorbing Rs.63,31,705/- (Dividend – Rs. 54,11,945/-; Corporate Dividend Tax – Rs. 9,19,760/-).

COMMUNITY DEVELOPMENT AND CHARITABLE WORK

Your Company has co-ordinated various Community Development Activities during the year. Your Company has organized free eye camps at Attur, Palacode, Edappady, Rasipuram and Valapatty. Your Company has also distributed stationery to school students.

DIRECTORS

In accordance with the provisions of the Articles of Association of the Company, three of your Directors, Mr. Kirti P Shah, Mr. S.Thiagarajan and Mr. B S Mani, are liable to retire by rotation at the forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment.

The profile of Directors seeking re-appointment is furnished in the Notice of the ensuing Annual General Meeting.

DIRECTORS' RESPONSIBILITY STATEMENT

Your Directors confirm

- i) that in the preparation of the annual accounts for the financial year ended 31st March, 2007, the applicable accounting standards have been followed and that there are no material departures;

- ii) that 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 the Company at the end of the financial year and of the profit of the Company for the period;
- iii) that your 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;
- iv) that your Directors have prepared the annual accounts on a 'going concern' basis.

FINANCE

During the year under review the Company had to maintain its borrowings to run the operations. However, your company has taken care to ensure that such of the Company borrowings are obtained at very competitive rates.

In terms of the provisions of Investor Education and Protection Fund Rules 2001, Rs.7,200/- of unclaimed dividend pertaining to the accounting year 1998-99 was transferred to Investor Education and Protection Fund during the year.

ALLOTMENT OF PREFERENCE SHARES

During the year, your Company issued 5,00,000, 8% Non-convertible Cumulative Redeemable Preference Shares of Rs.100/- each aggregating to Rs.500 Lakhs. The said preference shares were redeemed during August 22, 2006. The preference share dividend includes dividend on the said preference shares for the part of such 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.

FIXED DEPOSITS

The total amount of Fixed Deposits from the Public and Shareholders of the Company outstanding as at 31st March, 2007, was Rs.278.93 Lakhs out of which a sum of Rs.155.14 Lakhs represent 565 accounts of Fixed/Non Cumulative Deposits and Rs.123.79 Lakhs represent 413 accounts of Cumulative Deposits. A sum of Rs.8.59 Lakhs under 31 accounts was unclaimed as on that date. Out of the above, Rs.8.43 Lakhs representing 30 accounts were since claimed and paid.

AUDITORS & AUDITORS' REPORT

The Auditors, M/s. BSR & Co., Chartered Accountants, who retire at the Completion of the ensuing Annual General Meeting have expressed their desire not to be re-appointed as the auditors of the Company. In view of this, your Directors recommend the appointment of M/s. S.R. Batliboi & Associates, Chartered Accountants, Chennai as the Statutory Auditors of the Company in the forthcoming Annual General Meeting.

EXPLANATION TO AUDITORS' REMARKS

Point No. 3 of the Auditors' Report

As more fully described in Note 2 (b)(iii) of Schedule 20 to the financial statements, certain income tax matters (financial estimate by the management of Rs.15 millions in respect of the financial year ended 31st March, 1996 are being contested by the Company and the matter is pending with the High Court of Judicature, Chennai. Pending a final resolution of uncertainties in this connection, no provision towards tax and other consequential adjustment, if any, have been considered in the financial statements.

Clarifications on the above point have been provided in the Notes on Accounts under Schedule 20(2)(b)(iii).

Point No. 17 of Annexure to the Auditors' Report

In our opinion and according to the information and explanations given to us, and on an overall examination of the Balance Sheet of the Company, we report that the funds raised on short-term basis estimated Rs.5,31,299 have been used for long-term investment.

As informed in the earlier years' Annual Reports, the Company has a centralised treasury function where all the term loans and other borrowings in addition to the cash generated from operations are pooled through common bank accounts to optimally use funds and reduce the interest cost to the Company. It is also to be mentioned here that the Company obtains loans from banks, which inherently permit it, to be used interchangeably for long term and short term purposes.

INDUSTRIAL RELATIONS

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

PARTICULARS OF EMPLOYEES UNDER SECTION 217(2A)

None of the employees of your Company were in receipt of remuneration, which in the aggregate exceeded the limits, fixed under sub-section (2A) of Section 217 of the Companies Act, 1956.

CONSERVATION OF ENERGY AND TECHNOLOGY ABSORPTION

The information required to be given under these heads in accordance with the provisions of 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, has been set out in the Annexure to this Report.

FOREIGN EXCHANGE EARNINGS AND OUTGO

The Foreign Exchange Earnings from Exports during the year 2006-07 amounted to Rs. 5,334.26 Lakhs.

Total outgo of Foreign Exchange during the year amounted to Rs.259.83 Lakhs.

CORPORATE GOVERNANCE

Your Company has complied with all mandatory provisions of Corporate Governance as prescribed under the Listing Agreement of Bombay Stock Exchange Limited with which the Company is listed.

The Management Discussion and Analysis Report and Corporate Governance Report form part of this Annual Report.

ACKNOWLEDGEMENT

Your Directors thank the Company's Bankers and the Financial Institutions for their help and co-operation extended throughout the year. Your Directors place on record their appreciation for the support and co-operation that the Company received from its stakeholders and in specific its channel partners. Your Directors also record their appreciation for the excellent operational performance of the staff of the Company that contributed to the achievements of the Company. The Directors also acknowledge with much gratitude, the continued trust and confidence reposed by the shareholders of the Company.

For and on behalf of the Board of Directors

Sd/-

R.G. CHANDRAMOGAN

Chairman & Managing Director

Place : Chennai

Date : 30th July, 2007

ANNEXURE TO THE DIRECTORS' REPORT

FORM - A — DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY

Energy conservation measures are being taken within our plants as an ongoing exercise, although, the Company's operations are not power intensive.

1. Power and Fuel Consumption:	2006-2007	2005-2006
ELECTRICITY:		
a) Purchased		
Units	2,65,44,289	2,33,91,835
Total Amount (Rs.)	12,49,50,960	10,58,80,586
Rate / Unit (Rs.)	4.71	4.53
b) Through Diesel Generation		
Units	19,72,523	24,35,437
Total Amount (Rs.)	2,56,85,500	2,32,14,965
Cost/Unit (excluding Overheads & Depreciation) (Rs.)	13.02	9.53
Units per Litre of Diesel Oil	2.67	3.32
c) Furnace Oil		
Quantity (KL)	8,58,566	39,09,984
Total Amount (Rs.)	1,81,94,305	7,47,48,764
Average Rate (Rs. / Litre)	21.19	19.12
d) Coal		
Quantity (Kg.)	79,27,000	—
Total Amount (Rs.)	1,61,60,631	—
Average Rate (Rs./kg.)	2.04	—
2. Consumption per Unit of Products, i.e., per Litre of Milk:		
Electricity (Units) - Milk	0.0594	0.0649
- Ice Cream	0.7306	0.6860
Furnace Oil (Litres) - Milk	0.0024	0.0098
Coal (Kg) - Milk	0.0190	—

FORM - B — DISCLOSURE OF PARTICULARS WITH RESPECT TO TECHNOLOGY ABSORPTION

a) Research and Development (R & D)

1. Specific areas in which R & D carried out by the Company

Process Development
Product Diversification
Quality enhancement to achieve International Standards.

2. Benefits Derived

Continuous upgradation of the quality of products has resulted in better acceptance of the products by all classes of consumers.

3. Future Plan of Action

More importance will be given on product / process development / innovation, to bring down cost without compromising on product quality and to achieve international standards in quality and taste.

4. Expenditure on Research & Development

a) Capital	NIL
b) Recurring	NIL
c) Total	NIL
d) Total R & D expenditure as a % of total turnover	NIL

b) Technology Absorption, Adaptation and Innovation

1. Efforts Made

The Company has undertaken efforts to absorb the best available technology for the processing of milk and manufacturing related products.

2. Benefits

Absorption of the best technology reflects in Company's products, which are clearly differentiated from its competitors and its processes that consistently deliver more with less expenditure.

For and on behalf of the Board of Directors
Sd/-

R.G. CHANDRAMOGAN
Chairman & Managing Director

Place : Chennai
Date : 30th July, 2007

REPORT ON CORPORATE GOVERNANCE

Your Company has complied with the requirements of Corporate Governance code as per the provisions of the listing agreement.

COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE

Your Company has been committed to maximizing the shareholder value on a sustained basis, while catering to the welfare of multiple stakeholders. Your Directors perceive their role as a trustee of the stakeholders in particular and the society at large, inculcating a culture of transparency, accountability and integrity across the Company.

Your Company has been maintaining high standards of auditing, disclosure and reporting. These standards and the innate transparent culture continue to define your Company's corporate governance philosophy based on strong systems, policies and procedures.

BOARD OF DIRECTORS

Composition of Board

The Board consists of eight Directors as at 31st March, 2007. Apart from the Chairman & Managing Director, who is an Executive Promoter Director, the Board comprises of two Executive Directors, one of whom is a Promoter Director and five non-executive Directors, four of whom are independent Directors. The composition of the Board is in conformity with Clause 49 of the listing agreement, which stipulates that not less than fifty percent of the Board should comprise of non-executive Directors and if the Chairman is an Executive Director, atleast half of the Board should be independent.

Number of Board Meetings

The Board of Directors met nine times during the year on 22nd April, 2006, 31st May, 2006, 21st June, 2006, 27th June 2006, 22nd July, 2006, 28th July 2006, 19th September, 2006, 31st October, 2006 and 30th January, 2007. The maximum gap between any two meetings was less than 3 months.

Table 1. Composition of the Board of Directors of Hatsun

Name of the Director	Designation	Category	Attendance particulars			No. of Other Directorships & committee memberships /Chairmanships		
			No. of Board Meetings		Last AGM	Other Directorships	Committee Memberships	Committee Chairmanships
			Held	Attended	(Yes/No)			
R.G. CHANDRAMOGAN	Chairman & Managing Director	Promoter/Executive Director	9	7	Yes	1	0	0
K.S. THANARAJAN	Joint Managing Director	Executive Director	9	8	Yes	0	0	0
C. SATHYAN	Executive Director-Operations	Promoter/Executive Director	9	9	Yes	1	0	0
P. VAIDYANATHAN	Director	Non-Executive/ Independent Director	9	8	Yes	5	1	1
KIRTI P. SHAH	Director	Non-Executive/ Director	9	0	No	1	0	0
S. THIAGARAJAN	Director	Non-Executive Independent Director	9	9	Yes	2	0	0
B.S. MANI	Director	Non-Executive Independent Director	9	6	Yes	1	0	0
N. CHANDRASEKARAN	Director	Non-Executive Independent Director	9	5	Yes	7	6	0

None of the Directors is a member of more than ten Board level committees or Chairman of more than five such committees as per Clause 49 requirement.

Equity Shares held by Non – Executive Directors.

Mr. Kirti P Shah holds 50,800 Equity Shares of Rs. 10/- each and 5,08,000 Preference Shares of Rs. 100/- each and Mr. B. S. Mani holds 300 Equity Shares of Rs. 10/- each, in the Company.

Information supplied to the Board

The Board has complete access to all information, with the Company. Inter-alia, the following information is regularly provided to the Board, whenever applicable and materially significant, either as a part of the agenda papers well in advance of the Board meetings or tabled in the course of the Board meeting or tabled before the appropriate Committees of the Board.

- Annual Operating plans & budgets and any updates thereof.
- Capital budgets and any updates thereof.
- Quarterly results for the Company and operating divisions and business segments.
- Minutes of the meetings of audit committee and other committees of the Board.
- The information on recruitment and remuneration of senior officers just below the Board level, including the appointment or removal of Chief Financial Officer and Company Secretary.
- Materially important show cause, demand, prosecution notices and penalty notices.
- Fatal or serious accidents, dangerous occurrences, any material effluent or pollution problems.
- Any material default in financial obligations to and by the Company, or substantial non-payment for goods sold by the Company.
- Any issue, which involves possible public or product liability claims of substantial nature, including any judgment or order which, may have passed strictures on the conduct of the Company or taken an adverse view regarding another enterprise that can have negative implications on the Company.
- Details of any joint venture or collaboration agreement.
- Transactions that involve substantial payment towards goodwill, brand equity or intellectual property.
- Significant labour problems and their proposed solutions. Any significant development in human resources/industrial relations front like signing of wage agreement, implementation of voluntary retirement scheme etc.
- Sale of material nature, of investments, subsidiaries, assets, which is not in the normal course of business.
- Quarterly details of foreign exchange exposures and the steps taken by the management to limit the risks of adverse exchange rate movement, if material.
- Non-compliance of any regulatory, statutory nature or listing requirements and shareholders service such as non-payment of dividend, delay in share transfer etc.

The Board has established procedures to enable the Board to periodically review compliance reports of all laws applicable to the Company as well as steps taken by the Company to rectify instances of non-compliances.

Risk Management

The Company has established a robust risk assessment and minimization procedures, which are reviewed by the Board periodically. Hatsun has a structure in place to identify and mitigate the various risks that would be faced by it from time to time. At every Board meeting the risks are reviewed, new risks if any, are identified, assessed, and control measures are designed to put in place within a fixed timeline for mitigating the risk.

AUDIT COMMITTEE

The Audit Committee of the Board comprises of three Directors, all of whom are non-promoter, non-executive and independent Directors. They are Mr. P Vaidyanathan(Chairman), who is a Fellow member of the Institute of Chartered Accountants of India, Mr. S Thiagarajan and Mr. B S Mani. The Audit Committee met six times during the year on 22nd April, 2006, 21st June,

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2006, 27th June, 2006, 28th July, 2006, 31st October, 2006 and 30th January, 2007. The time gap between any two meetings was less than four months.

Table:2. Attendance record of Audit Committee.

Name of Members	Category of Directors	Status	No. of Meetings	
			Held	Attended
P. Vaidyanathan	Independent	Chairman	6	5
S. Thiagarajan	Independent	Member	6	6
B.S. Mani	Independent	Member	6	5

The functions of the Audit Committee include the following

- Oversight of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
- Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.
- Approval of payment to statutory auditors for any other services rendered by the statutory auditors.
- Reviewing, with the management, the annual financial statements before submission to the Board for approval, with particular reference to:
 - Matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of clause (2AA) of Section 217 of the Companies Act, 1956.
 - Changes, if any, in accounting policies and practices and reasons for the same.
 - Major accounting entries involving estimates based on the exercise of judgment by management.
 - Significant adjustments made in the financial statements arising out of audit findings.
 - Compliance with listing and other legal requirements relating to financial statements.
 - Disclosure of any related party transactions.
 - Qualifications in the draft audit report.
- Reviewing, with the management, the quarterly financial statements before submission to the Board for approval.
- Reviewing, with the management, performance of statutory and internal auditors, and adequacy of the internal control systems.
- Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
- Discussion with internal auditors any significant findings and follow up there on.
- Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.
- Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.
- To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.
- To review the functioning of the Whistle Blower mechanism, in case the same exists.
- Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

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The Audit Committee is empowered to

- Investigate any activity within its terms of reference.
- Seek information from any employee.
- Obtain outside legal or other professional advice.
- Secure attendance of outsiders with relevant expertise, if it considers necessary.

The Company has systems in place to ensure that the Audit Committee reviews:

- Management discussion and analysis of financial condition and results of operations;
- Statement of significant related party transactions (as defined by the audit committee), submitted by management;
- Management letters / letters of internal control weaknesses issued by the statutory auditors;
- Internal audit reports relating to internal control weaknesses; and
- The appointment, removal and terms of remuneration of the Chief internal auditor shall be subject to review by the Audit Committee

REMUNERATION COMMITTEE

The Remuneration Committee of the Board comprises of three Directors, all of whom are non-executive and independent directors. They are Mr. P Vaidyanathan(Chairman), Mr. S Thiagarajan and Mr. B S Mani. The Committee met on 22nd April, 2006, during the year.

Table:3. Attendance record of Remuneration Committee.

Name of Members	Category of Directors	Status	No. of Meetings	
			Held	Attended
P. Vaidyanathan	Independent	Chairman	1	1
S. Thiagarajan	Independent	Member	1	1
B.S. Mani	Independent	Member	1	1

The Remuneration Committee of the Company recommends to the Board, the compensation terms of the Executive Directors and its responsibilities include:

- Dealing with appointments, remuneration, promotion and other related aspects in respect of the Managing Director and other Executive Directors of the Company
- Reviewing the Remuneration policy of the Company from time to time. This is in consonance with the existing industry practice i.e. directed towards rewarding performance, based on review of achievement on a periodical basis.

Compensation Philosophy in respect of Non-Executive Directors

The objective of the Compensation Philosophy is to attract and retain high calibre individuals and motivate them towards the achievement of exceptional performance that enhances the value of the Company.

At present a sitting fee of Rs.5,000/- (Rupees Five thousand only) is being paid to all Non-executive Directors of the Board, attending the Board meeting.

Table.4. Remuneration paid to Executive Directors

Name	Salary & Allowances (Rs.)	Contribution to P.F. & Other Funds	Other Benefits (Rs.)
Mr. R.G. Chandramogan	11,52,000	10,800	55,600
Mr. K.S. Thanarajan	11,52,000	86,400	1,03,055
Mr. C. Sathyan	10,56,000	26,820	52,767

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Note: All the Executive Directors are covered under the Company's Group Gratuity Scheme along with the other employees of the Company. Proportionate amount of gratuity is included in the above disclosure.

Table.5. Sitting fee paid to Non-Executive Directors

Name of the Director	Sitting Fees (Rs.)
Mr. P Vaidyanathan	40,000
Mr. Kirti P Shah	—
Mr. S Thiagarajan	45,000
Mr. B S Mani	30,000
Mr. N Chandrasekaran	25,000

SHAREHOLDERS / INVESTORS GRIEVANCE COMMITTEE

The Shareholders / Investors Grievance Committee of the Board of Directors comprises of three members, namely Mr. S. Thiagarajan (Chairman), Mr. P. Vaidyanathan and Mr. K.S. Thanarajan, two of whom are independent and non-executive Directors, the Committee met four times during the year on 27th June, 2006, 28th July, 2006, 31st October, 2006 and 30th January, 2007.

Table.6. Attendance record of Shareholders'/Investors' Grievance Committee

Name of Members	Category of Directors	Status	No. of Meetings	
			Held	Attended
S. Thiagarajan	Independent	Chairman	4	4
P. Vaidyanathan	Independent	Member	4	3
K.S. Thanarajan	Executive	Member	4	4

The Committee supervises the mechanism for redressal of Investor grievances and ensures cordial investor relations. The Committee takes care of investor greivances on the following matters:

- Transfer/Transmission of shares.
- Split-up/Sub-division and Consolidation of shares.
- Issue of new and duplicate share certificates.
- Registration of Power of Attorneys, Probate Letters of transmission or similar other documents.
- Redressal of Shareholders' and investors' complaints like transfer of Shares, non-receipt of Balance Sheet, non receipt of declared dividend etc.
- Oversee the performance of the Registrar & Transfer Agent and recommends measures for overall improvement of the quality of service.
- Any allied matter(s) out of and incidental to these functions and not here in above specifically provided for.

There were no pending complaints as on 31st March 2007.

Details of Complaints

Number of complaints received from investors	-	50
Number not solved to the satisfaction of investors	-	Nil
Number of Share Transfers pending	-	Nil

Table.7. Nature of complaints received and attended during 2006-07

Sl. No.	Nature of Complaints	Received & Redressed during the year
1.	Correspondence regarding demat / general	8
2.	Correspondence regarding loss of shares and issuance of duplicate Share Certificates	9
3.	Correspondence regarding non-receipt of share certificate, transmission of shares	2
4.	Revalidation of dividend warrants / Non-receipt of dividend warrants	14
5.	Correspondence regarding Deposits	17

Compliance Officer

Mr. T. Kannan resigned from the office of Company Secretary and Compliance Officer of the Company with effect from the close of work on 26th August, 2006. Mr. B.V. Nath, was appointed as Company Secretary and Compliance Officer, of the Company with effect from 5th September 2006. His contact details are as follows:

Phone No. : 091-044-28150014
 Fax No. : 091-044-28152508,
 e-mail ID : secretarial@hatsun.com

SHARE TRANSFER COMMITTEE

The Committee comprises of Mr. R G Chandramogan (Chairman), Mr. K S Thanarajan and Mr. P Vaidyanathan. Transfer of shares are processed and registered within the stipulated time, provided all the documents are valid and complete in all respects. As on 31st March, 2007, there were no share transfers pending for registration for more than 30 days.

During the Financial Year 2006-2007, Share Transfer Committee met sixteen times on the following dates namely, 14th April, 2006, 28th April, 2006, 11th May, 2006, 26th May, 2006, 30th June, 2006, 14th July, 2006, 28th July, 2006, 11th August, 2006, 20th September, 2006, 6th October, 2006, 3rd November, 2006, 15th December, 2006, 12th January, 2007, 16th February, 2007, 2nd March, 2007 and 16th March, 2007.

SUB-COMMITTEE OF BOARD

The Sub-Committee of the Board of Directors of the Company comprises of four Directors viz., Mr. K S Thanarajan(Chairman), Mr. R.G.Chandramogan, Mr. C Sathyan and Mr. B S Mani.

During the Financial Year 2006-2007, the Committee met nineteen times on the following dates, 10th April, 2006, 24th April, 2006, 3rd July, 2006, 10th July, 2006, 3rd August, 2006, 29th August, 2006, 8th September, 2006, 19th September, 2006, 5th October, 2006, 1st November, 2006, 22nd November, 2006, 7th December, 2006, 20th December, 2006, 8th January, 2007, 22nd January, 2007, 5th February, 2007, 19th February, 2007, 8th March, 2007 and 19th March, 2007.

The Committee is assigned the following roles:

- To review the position of funds of the Company, borrow monies required for the purpose of business, negotiate and finalize the terms of borrowings with the lenders, approve borrowings and look into its repayments.
- To exercise generally all such powers and to do all such acts and things as the Board of Directors may delegate from time to time.

CORE COMMITTEE

The Core Committee for implementation of SEBI (Prohibition of Insider Trading) Regulations includes Mr. R.G.Chandramogan(Chairman), Mr. K S Thanarajan and Mr. C Sathyan. During the year the Committee met on 30th January, 2007. There were no cases involving insider trading in the Company during the year.

The Company has instituted a comprehensive Code of Conduct for its management and staff. The code lays down guidelines, which advises them on procedures to be followed and disclosures to be made, while dealing with shares of **Hatsun** and cautioning them of the consequences of violations.

MANAGEMENT

Management discussion and analysis report has been included and forms part of this Annual Report.

Disclosure

Disclosures on materially significant related party transactions i.e. transactions of the Company of material nature, with its promoters, the Directors or the management, their subsidiaries or relatives etc., that may have potential conflict with the interests of the Company at large.

Dealings in Company's shares on the part of persons in management have been reported to Board periodically.

Related party transactions

None of the transactions with any of the related parties were in conflict with the interests of the Company.

Dealings in Company's shares on the part of persons in management are being reported to the Core Committee.

Key Management Personnel and their Relatives

Key management personnel and the statement of transactions are provided under Schedule 20(2)(g) of the Annual Accounts Statements.

There were no relatives of key management personnel who were paid remuneration during the year.

Details of non-compliance by the Company

Hatsun has complied with all the requirements of regulatory authorities. No penalties/strictures were imposed on the Company by the Bombay Stock Exchange, where the shares are listed, or by SEBI or by any other statutory authority on any matter related to capital market during the last three years.

Code of Conduct

The Board has laid down a Code of Conduct for its members and Senior Management Personnel of the Company. The code of conduct is available on the website of the Company www.hatsun.com. All Board members and senior management personnel have affirmed compliance with the Code of Conduct.

The CEO has affirmed to the Board that this Code of Conduct has been complied by the Board members and Senior Management.

Code for prevention of insider trading practices

In compliance with the SEBI regulation on prevention of insider trading, the Company has instituted a comprehensive code of conduct for its management and staff. The code lays down guidelines, which advises them on procedures to be followed and disclosures to be made, while dealing with shares of Hatsun, and cautioning them of the consequences of violations.

Disclosure of accounting treatment in preparation of financial statements

Hatsun has followed the guidelines of accounting standards laid down by the Institute of Chartered Accountants of India (ICAI) in preparation of its financial statements.

CEO/CFO Certification

The CEO and CFO certification of the financial statements and the cash flow statement for the year is enclosed and forms part of this report.

SHAREHOLDERS

Reappointment of Directors

As per the Articles of Association of Hatsun, one-third of its Directors retire every year and, if eligible, offer themselves for re-election at every Annual General Meeting. Accordingly, Mr. Kirti P Shah, Mr. S.Thiagarajan and Mr. B. S. Mani are liable to retire at the ensuing Annual General Meeting and being eligible, are offering themselves for re-appointment, in accordance

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with the provisions of the Companies Act, 1956. The brief Resume of each of the Directors who are proposed to be reappointed is given below:

- **Mr. Kirti P Shah**, is a Non-Resident Indian and is associated with the Board of Hatsun for the past eight years. He is an engineer by profession and is managing business establishment in Indiana, USA. He has extensive knowledge in various fields of business.
- **Mr. S Thiagarajan**, is a post graduate in Economics and a Certified Associate of Institute of Indian Bankers (CAIIB). He has over four decades of experience in financial services sector and has held senior positions in financial institutions. His areas of specialization include initiation of projects and its documentation, venture capital and preparation of business plans etc. He is associated with Hatsun since 26th May 2003, when he joined the Board as an Additional Director.
- **Mr. B S Mani**, is a post graduate in Tamil Literature and has a Diploma in Journalism from Cardiff, England. He has over 4 decades of experience in the field of journalism and is the Chairman of Karnataka Publications (P) Limited which publishes a Tamil daily outside Tamil Nadu. He joined Hatsun as an Additional Director on 29th March, 2004.

Means of Communication

Hatsun has its own website and all vital information relating to the Company and its performance including quarterly results are posted on that website, www.hatsun.com.

The quarterly, half yearly and annual results of the Company's performance are published in leading English and Vernacular newspapers like The Financial Express (English) and Malai Murasu(Tamil). The results are also posted in the EDIFAR link in the website of Securities and Exchange Board of India. Hatsun also comply with such other dissemination of information as specified by the Listing Agreement from time to time.

COMPLIANCE

The Certificate dated 23rd July, 2007 obtained from Company's Secretarial Auditor, Mr. T.P. Sridhar, Practising Company Secretary, regarding compliance of conditions of corporate governance forms part of this report.

GENERAL BODY MEETINGS

Details of the last three Annual General Meetings are given in Table 8.

Table.8. Date, time and venue of the last three AGMs.

Financial Year	Date	Time	Venue
2003-04	15 th September, 2004	11.30 hrs	Andhra Social & Cultural Assn., Chennai.
2004-05	29 th September, 2005	11.00 hrs	Andhra Social & Cultural Assn., Chennai.
2005-06	19 th September, 2006	11.00 hrs	Andhra Social & Cultural Assn., Chennai.

No Postal ballots were used/invited during the year.

GENERAL SHAREHOLDER INFORMATION

Annual General Meeting

- Date and Time : 19th September, 2007 at 11.00 a.m.
- Venue : Andhra Social & Cultural Association, No.44, Vijayaraghava Road, T.Nagar, Chennai – 600 017, Tamil Nadu.

Compliance Report

Hatsun is fully compliant with the applicable mandatory requirements of the revised Clause 49.

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Table 9. Compliance Report

	Particulars	Clause of listing agreement	Compliance status
I.	Board of Directors	49 I	
	(A) Composition of Board	49 (IA)	Yes
	(B) Non executive Directors Compensation and disclosures	49 (IB)	Yes
	(C) Other provisions as to Board And Committees	49 (IC)	Yes
	(D) Code of Conduct	49 (ID)	Yes
II.	Audit Committee	49 (II)	
	(A) Qualified & Independent Audit Committee	49 (II A)	Yes
	(B) Meeting of Audit Committee	49 (II B)	Yes
	(C) Powers of Audit Committee	49 (II C)	Yes
	(D) Role of Audit Committee	49 (II D)	Yes
	(E) Review of Information by Audit Committee	49 (II E)	Yes
III.	Subsidiary companies	49 (III)	N.A.
IV.	Disclosures	49 (IV)	
	(A) Basis of related party transactions	49 (IV A)	Yes
	(B) Disclosure of Accounting Treatment	49 (IV B)	Yes
	(C) Board disclosures	49 (IV C)	Yes
	(D) Proceeds from public, rights, Preference issues etc.	49 (IV D)	N.A.
	(E) Remuneration of Directors	49 (IV E)	Yes
	(F) Management	49 (IV F)	Yes
	(G) Shareholders	49 (IV G)	Yes
V.	CEO/CFO Certification	49 (V)	Yes
VI.	Report on Corporate Governance	49 (VI)	Yes
VII.	Compliance	49 (VII)	Yes

Financial Calendar

Financial Year : 1st April to 31st March

For the year ended 31st March 2007, results were announced on

- o First Quarter : 28th July, 2006
- o Half Year : 31st October, 2006
- o Third Quarter : 30th January, 2007
- o Annual : 21st June, 2007

For the year ending 31st March, 2008, results will be announced in

- o First Quarter : End July, 2007
- o Half Year : End October, 2007
- o Third Quarter : End January, 2008
- o Annual : End June, 2008

Book Closure date

The date of book closure is from 14th September, 2007 to 19th September, 2007, inclusive of both days.

Dividend payment

An Interim Dividend of Rs.2/- per Equity Share was paid to those shareholders whose name appeared in the Register of Members as on 6th July 2007.

Listing

At present, the Equity Shares of the Company are listed on Bombay Stock Exchange Limited(BSE). The annual listing fee for the year 2007-08 has been paid.

Hatsun Agro Product Limited

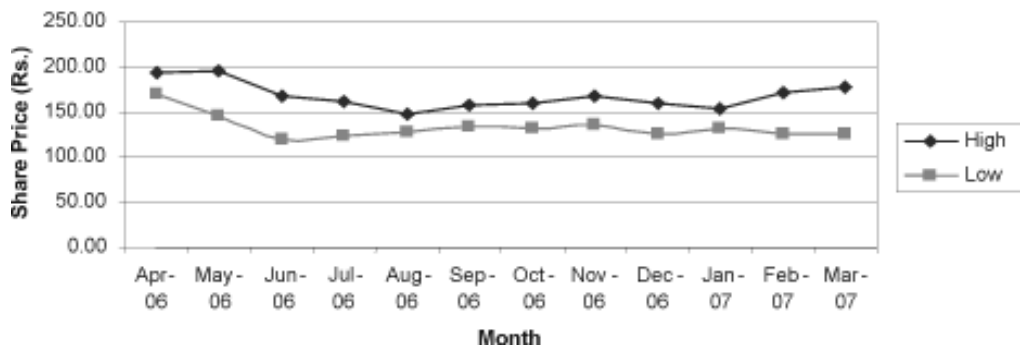
Hatsun's Stock Exchange Codes

ISIN No. INE473B01019
BSE Stock Code 531531

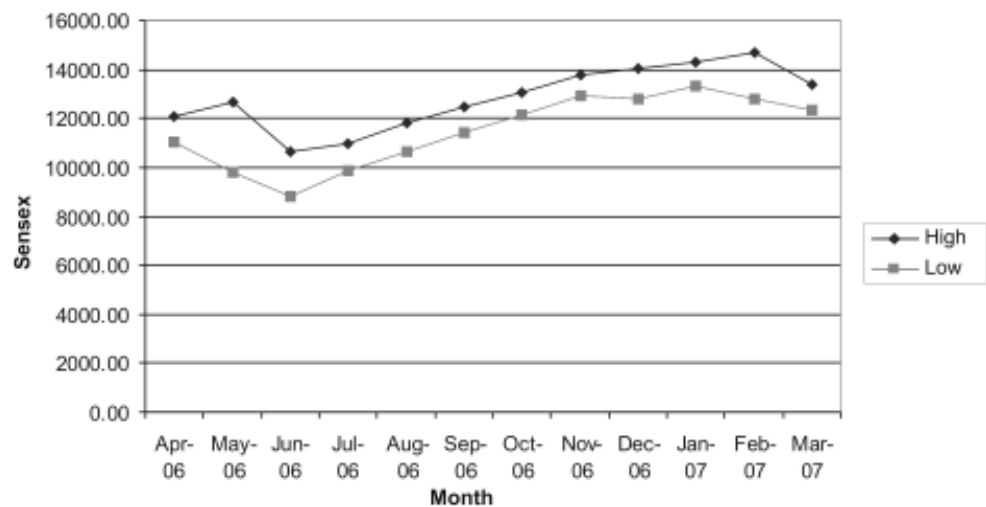
Table. 10. Stock Market Data.

Month	Bombay Stock Exchange Limited		BSE Indices - Sensex	
	High (Rs.)	Low (Rs.)	High	Low
April 2006	194.50	170.00	12102.00	11008.43
May 2006	196.95	146.15	12671.11	9826.91
June 2006	167.95	121.00	10626.84	8799.01
July 2006	162.00	123.15	10940.45	9875.35
August 2006	149.00	128.50	11794.43	10645.99
September 2006	158.35	134.00	12485.17	11444.18
October 2006	161.00	131.10	13075.85	12178.83
November 2006	169.00	135.95	13799.08	12937.30
December 2006	160.00	126.25	14035.30	12801.65
January 2007	155.00	132.00	14325.92	13303.22
February 2007	172.50	125.55	14723.88	12800.91
March 2007	177.50	127.00	13386.95	12316.00

Share Price Movement



Market Performance - Broad-based Indices



Registrar and Transfer Agents

As per the requirement of Securities and Exchange Board of India, M/s. Alpha Systems Private Limited has been appointed as the Registrar and Transfer Agent to take care of all work related to Share Registry. The contact details of the Registrar and Transfer Agent are given below:

M/s. ALPHA SYSTEMS PRIVATE LIMITED,

30, Ramana Residency, 4th Cross
Sampige Road, Malleswaram, Bangalore – 560 003.
Tel : 091 - 080 - 23460815 – 818
Fax : 091 - 080 - 23460819
E-mail : vijayagopal@123alpha.com

All communication on share transfers, share certificates, changes of address, dividends and any other query relating to shares should be addressed to the above Registrar and Transfer Agents.

Share Transfer System

The share transfers in physical form are presently processed and the share certificates returned within a period of 30 days from the date of receipt, subject to the documents being clear in all respects. M/s Alpha Systems Private Limited, a SEBI approved Registrar and Share Transfer Agent has been appointed to effect the transfer of shares and other related jobs. The transfer of shares in physical mode is approved by the Share Transfer Committee.

Table 11. Distribution of Shareholding as on 31st March, 2007

No. of Shares held	No. of folios/ Shareholders	No. of folios/ Shareholders(%)	No. of Shares	Shareholding (%)
001 – 100	2350	68.39	146333	2.15
101 – 200	641	18.66	125119	1.84
201 – 300	81	2.36	23612	0.34
301 – 400	39	1.13	15339	0.23
401 – 500	59	1.72	28985	0.43
501 – 1000	111	3.23	83582	1.23
1001 – 5000	80	2.33	178275	2.63
5001 – 10000	32	0.93	236755	3.49
10001 & above	43	1.25	5950818	87.66
Total	3436	100	6788818	100

Dematerialisation of Shares

About 91.56% of the shares are being held in dematerialised form as at 31st March, 2007.

Table 12. Distribution of Shares with break-up of Physical and Electronic form as on 31st March, 2007.

Sl. No.	No. of Equity Shares	No. of folios/ Shareholders		No. of folios/ Shareholders (%)		No. of Shares		Shareholding %	
		Phy.	Elect.	Phy.	Elect.	Phy.	Elect.	Phy.	Elect.
1.	001 - 100	1121	1229	32.63	35.77	101805	44528	1.50	0.65
2.	101 - 200	476	165	13.86	4.80	94580	30539	1.39	0.45
3.	201 - 300	52	29	1.52	0.84	15600	8012	0.23	0.12
4.	301 - 400	20	19	0.58	0.55	8000	7339	0.12	0.11
5.	401 - 500	30	29	0.87	0.84	15000	13985	0.22	0.21
6.	501 - 1000	67	44	1.95	1.28	50700	32882	0.75	0.48
7.	1001 - 5000	21	59	0.61	1.72	52900	125375	0.78	1.85
8.	5001 - 10000	9	23	0.26	0.67	57950	178805	0.85	2.63
9.	10001 & ABOVE	11	32	0.32	0.93	177000	5773818	2.61	85.05
	Total	1807	1629	52.60	47.40	573535	6215283	8.45	91.55

Hatsun Agro Product Limited

Table 13. Shareholding Pattern as at 31st March 2007

Sl. No.	Category	No. of folios/ Shareholders	No. of Shares held	Shareholding (%)
1.	Promoters	8	4668626	68.77
2.	Directors and their relatives	*12	321700	4.74
3.	Overseas Body Corporate	1	339300	5.00
4.	Other Bodies Corporate	56	248648	3.66
5.	NRIs	10	8859	0.13
6.	Others	3349	1201685	17.70
	Total	3436	6788818	100.00

* A Non-Resident Director holding 50,800 shares accumulating to 0.75% is classified under Directors and relatives.

Location of Plants

1. Attur Main Road, Karumapuram Village
Salem - 636 106
Tamil Nadu.
2. Timmasamudram Village (White Gate)
Chennai-Bangalore Highway
Kancheepuram - 631 502
Tamil Nadu.
3. No.114, Angadu Road
Nallur, Chennai - 600 067
Tamil Nadu.
4. No.277/2, Desur Village
Belgaum - 590 014
Karnataka.
5. No.109/2, Kundur Village
Honnali Taluk, Davangere District
Honnali, Karnataka.

Address for Correspondence.

For share transfer, share certificates, changes of address, dividends and any other query relating to shares,

M/s. ALPHA SYSTEMS PRIVATE LIMITED

30, Ramana Residency, 4th Cross

Sampige Road, Malleswaram

Bangalore – 560 003.

Tel: 091 - 080 - 23460815 – 818

Fax: 091 - 080 - 23460819

E-mail: vijayagopal@123alpha.com

For Investors' Assistance

Mr. B. V. Nath

General Manager (Accounts) and Company Secretary

Hatsun Agro Product Limited

No.5-A, Vijayaraghava Road

T.Nagar, Chennai – 600 017

Tamil Nadu.

Phone: 091 - 044 - 28150014

Fax: 091 - 044 - 28152508

e-Mail: secretarial@hatsun.com

Website: www.hatsun.com

NON MANDATORY REQUIREMENTS

1. Remuneration Committee

The Company has constituted a Remuneration Committee comprising of three independent directors.

2. Shareholder Rights

The statements of quarterly / yearly results are being published in the Press.

3. Postal Ballot

The Company has had no occasion to use the postal ballot during the year.

4. Whistle-Blower Policy

Hatsun has put in place an un-codified system through which employees and business associates may report unethical business practices at work place without the fear of reprisal. The Company has set up a direct contact initiative under which all employees/business associates have direct access to the Chairman of the Audit Committee. The "Whistle Blower Protection Policy" aims to:

- Allow and encourage employees and business associates to bring to the management's notice concerns about suspected unethical behaviour, malpractice, wrongful conduct, fraud, violation of policies etc.
- Ensure timely and consistent organizational response.
- Build and strengthen a culture of transparency and trust.
- Provide protection against victimisation.

**CERTIFICATE ON CORPORATE GOVERNANCE
TO THE MEMBERS OF
HATSUN AGRO PRODUCT LIMITED**

I have examined the compliance of conditions of Corporate Governance by Hatsun Agro Product Limited ("the Company") for the year ended 31st March, 2007 as stipulated in Clause 49 of the Listing Agreement of the said Company with Bombay Stock Exchange Limited.

The Compliance of conditions of Corporate Governance is the responsibility of the Management. My examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance.

In my opinion and to the best of my information and according to the explanations given to me, I hereby certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

I state that no investor grievances are pending for a period exceeding one month against the Company as per the records maintained by the Shareholders'/Investors' Grievance Committee, except in cases of any legal dispute or constraints.

I further state that, such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

Sd/-
T P Shridhar
Company Secretary
C.P. No. 4530

Place : Chennai
Date : 23rd July, 2007

**CERTIFICATION BY
CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER**

We, R.G.Chandramogan, Chairman and Managing Director and S. Subramanian, Chief Financial Officer of Hatsun Agro Product Limited, certify that

1. We have reviewed the financial statements for the year and that to the best of our knowledge and belief
 - a) these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
 - b) these statements present a true and fair view of the state of affairs of the Company and of the results of operations and cash flows. The financial statements have been prepared in conformity, in all material respects, with the existing generally accepted accounting principles including Accounting Standards, applicable laws and regulations;
2. There are, to the best of our knowledge and belief, no transactions entered into by the Company during the year, which are fraudulent, illegal or violative of the Company's code of conduct.
3. We accept the responsibility for establishing and maintaining internal controls for financial reporting. The same is monitored by the internal audit function, which encompasses examination and evaluation of adequacy and effectiveness. Internal Audit works with all levels of management and statutory auditors, and reports significant issues to the Audit Committee of the Board. The auditors and audit committee are apprised of any corrective action taken with regard to significant deficiencies and material weakness.
4. We indicate to the auditors and to the audit committee
 - a) significant changes in internal control over financial reporting during the year;
 - b) significant changes in accounting policies during the year;
 - c) instances of significant fraud of which we have become aware of and which involve management or other employees who have significant role in the Company's internal control system over financial reporting.

However, during the year there were no such changes or any such instances.

Place : Chennai
Date : 21st June, 2007

Sd/-
R.G. Chandramogan
Chairman & Managing Director

Sd/-
S. Subramanian
Chief Financial Officer

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

India has emerged as the eleventh largest economy of the world with its GDP surpassing one trillion dollars and an overall growth of the economy by 9.2%. This trend is expected to sustain, if not improve in the coming years. In India, the agriculture sector has a share of 18.5% in the GDP and of the same, milk is the only agro based commodity that offers immediate marketability, more stable prices and consistent revenue to the farmers. The agriculture sector has reported a growth of 2.7% during the year. As per the statistics of 2005-06, dairy industry has contributed to 1/4th of the share of agriculture in GDP which roughly works out to 5% of the total GDP. The development of India is largely dependent on the development of rural India, which account for more than 57% of India's population. This rural population primarily contributes to the agriculture sector, and by implication to the dairy industry. Our nation can achieve development only when our villages witness a favourable impact on their per capita income and on the other basic amenities that they are able to receive and use, and this is where the role of the dairy industry is of paramount importance.

India still holds the position of the largest milk producing country in the world, producing 100 million tons of milk during 2006-07. The total annual production of milk in the world for 2006 is reported to be 657 million tons. The milk production is growing at a pace of about 4% in India as against the growth rate of 1.2% in the world. Against this backdrop our Company is poised to take our rightful position as one of the significant players in the private sector in the dairy industry.

The unsatisfactory performance in agriculture and the hardening of international prices for primary commodities, mainly agro based commodities, pushed up the inflationary trend for most part of the year. Over the years, India is developing into a major player in the export of dairy ingredients contrary to the situation a few years ago when India was importing the bulk of its Dairy ingredients' requirements. The recent ban on export of milk powders has adversely affected this growth causing opportunity loss to the farmers. Though it is the responsibility of the Government to check inflation since it hurts the weaker section the most, it should also be kept in mind that the impact of ban on the exports is seen to be more severe on the dairy farmers as their purchasing power is affected with their inability to sell their produce at attractive prices due to the ban.

In today's competitive scenario, the Government should take necessary steps to ensure that Indian milk producers get a fair chance to sell their produce in the global market making use of India's competitive strengths in the dairy sector.

Overall, the economic environment has been stable, supportive and in the right direction with continuing thrust on inclusive growth. Your Company is stable and is focused on long term, sustainable and profitable growth. This stability lies in the strength of its brands, in its varied portfolio, which have over the years built a relationship of trust and confidence with consumers. Your Company remains confident of its long term business prospects and its ability to sustain fair return to the shareholders.

OPPORTUNITIES

Continuous positive development on the economic front, rapid changes in the retail environment and an increasing demand for FMCG products are all favourable indicators for your Company. The growing per capita income, the growing and young population, the rising middle class incomes, the changes in life styles and aspirations etc., present tremendous opportunities for your Company. However, all these factors have resulted in a more complex and competitive environment that calls for greater understanding of consumer needs and trends, as well as the ability to address them in a sustained and competitive manner.

Your Company offers high quality and safe food products at affordable prices, endorsed by stringent quality standards to the optimal satisfaction of the consumers. Your Company has a diversified product range and the strong and well differentiated brands have found places in the minds of the consumers which in turn have created strong brand equity. Your Company is constantly continuing to innovate on their product portfolio to suit the changing needs of the consumers. This leads to creation of value that can be sustained over the long term, by offering high quality products at affordable prices. The improvement in the standard of living of consumers and the higher disposable incomes has increased the demand for high quality dairy products that provide nutrition and health, thus opening up more avenues for introduction of such products. Milk is known to offer a variety of products, the potential for which is not yet fully exploited.

Your Company has an efficient and effective supply chain. The distribution structure allows wide reach and coverage in the target markets. Your Company also has capable and committed human resources who work as a team to the attainment of organizational objectives. The production infrastructure is constantly upgraded to match international standards.

In the dairy ingredients market, South East and West Asia is the major importer. Your Company can leverage on the natural advantage of geographical proximity by providing high class products at extremely competitive rates. Even the domestic market has high potential for expansion through penetration and extension of operations that can progressively encompass the entire country.

THREATS

The dairy industry is still considered to be a non organized sector. An organized consumer awareness campaign is required to tackle this threat by educating consumers about the safety of milk and milk products from the organized sector.

Milk, the basic raw material, used in the dairy industry is a highly perishable commodity and requires an efficient cold chain management. Many new processes are being developed to improve the quality of milk so processed and to extend its shelf life.

In spite of various programmes being implemented with a view to create awareness among farmers in increasing the yield, we continue to have milch animals with very low yields. However, genetic improvement, scientific feeding, properly managed animal husbandry practices etc. should improve the milk yield. Your Company is sourcing the good quality feed to be supplied to the farmers and is working with experts in the field to see the possibilities of increasing productivity. Towards this end your Company has launched a White Gold Project which provides technical inputs to dairy farmers to improve the yield per animal and to make the dairy operations as an occupation viable and profitable.

Rising prices of fuels and power has increased the distribution costs alarmingly. Your Company has a good cold chain network which is being expanded taking into account these requirements so that quality milk is offered to the customers. This is being achieved by increasing the number of chilling centres and by using refrigerated vehicles to preserve the quality of milk that is being transported.

The industry has become a highly competitive environment with diverse players. Your Company is well positioned to face these challenges as it has already created the infrastructure to leverage on economies of scale.

Apart from these, attraction and retention of human resources, and changes in fiscal benefits/laws all stand as threats to the development of this industry which have to be managed effectively. Your company is confident of surmounting these challenges given its strong management team and pool of talented manpower.

Outlook and risks & concerns are covered under Opportunities and Threats.

Performance of the Company

During the year 2006-07, your Company's processed milk output was 2,684 Lakhs valued at Rs. 43,233 Lakhs. The ice cream segment contributed a sales of Rs. 3,886 Lakhs during the year. Tamil Nadu accounted for the maximum sales of Arokyia and Hatsun Toned milk followed by Karnataka and Kerala. The Company has a market share of about 18% in Tamil Nadu and 8% in Karnataka. The market share for ice cream in South India is around 30%. Your Company recorded a turnover of Rs.10,570 Lakhs in the dairy ingredient section in both export and domestic market.

The financial year under review witnessed a strong growth in profits with a marginal growth in the revenues.

The turnover for the year increased by 8.32% to Rs. 58,528.28 Lakhs from Rs. 54,034.42 Lakhs. Profit before interest, depreciation and tax increased by 12.58% to Rs.3,732.44 Lakhs from Rs. 3,315.38 Lakhs. Profit before tax has increased by 38% to Rs. 1,146.03 Lakhs from Rs. 829.95 Lakhs. Provision for taxation increased to Rs. 443.24 Lakhs (including a fringe benefit tax of Rs. 56.64 Lakhs) from Rs. 405.42 Lakhs(including a fringe benefit tax of Rs. 82.27 Lakhs). Profit after tax increased by 91.88% to Rs. 814.60 Lakhs from Rs. 424.53 Lakhs.

Though the turnover for the year had gone up by only 8.32%, your Company has been able to reap the benefits of the steps it had taken in terms of capacity creation and utilisation, cost reduction and efficient operations to almost notch up a 100% rise in its profit after tax. This has been achieved by savings on power cost through better technology, optimum utilization of distribution chain and overall cost control.

Internal Control

Your Company has an adequate system of internal controls to ensure that transactions are properly recorded, authorised and reported apart from safeguarding its assets. The internal control system is supplemented by well-documented policies, guidelines and procedures and review carried out by the Company's internal audit department, which submits reports periodically to the Audit Committee of the Board and the Management. The Audit Committee reviews significant observations made in the internal audit reports along with actions initiated and reports to the Board periodically.

Information technology

Your Company is using the ERP package of Oracle Applications. This facilitates an effective online MIS system, which facilitates control of operations at all the units of the Company. Constant upgradation is being done in this area to increase operational efficiency and reduce the cost. Your Company is committed to leverage the benefits of IT to enhance and optimize benefits to itself and its customers.

Human resources

Your Company has a favourable work environment that motivates performance, customer focus and innovation while adhering to the highest degree of quality and integrity. Your Company provides congenial working atmosphere which will foster creative thinking. As part of manpower development and to enhance operational efficiency, training programmes have been organized for employees at all levels, wherever necessary. Your Company values its human resource as the most significant asset and the key focus is to attract, retain and develop talent as a resource. The total strength of the Company as on 31st March 2007 was 1192.

Futuristic Statements

Statements in this report describing the Company's objectives, projections, estimates and expectations may constitute "forward looking statements" within the meaning of applicable laws and regulations. Such statements represent the intention of the Management and the efforts being put into place by them to achieve certain goals. Actual results might differ materially from those either expressed or implied in the statement depending on the circumstances. Therefore the investors are requested to make their own independent assessments and judgements by considering all relevant factors before making any investment decision.

AUDITORS' REPORT

To the members of **Hatsun Agro Product Limited**

1. We have audited the attached Balance Sheet of Hatsun Agro Product Limited ("the Company") as at 31 March 2007, the Profit and Loss account and also the Cash Flow statement 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.
2. 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 a 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.
3. *As more fully described in Note 2 (b) (iii) of Schedule 20 to the financial statements, certain income tax matters (financial estimate by the management of Rs 15 million) in respect of the financial year ended 31 March 1996 are being contested by the Company and the matter is pending with the High Court of Judicature, Chennai. Pending a final resolution of the uncertainties in this connection, no provision towards tax and other consequential adjustment, if any, have been considered in the financial statements.*
4. Without qualifying our opinion, we draw attention to Note 2 (a) of Schedule 20 to the financial statements. The funds received by the Company under the farmer loan schemes of ICICI Bank, UTI Bank and ING Vysya Bank ('the Banks') are required to be disbursed to the farmers in accordance with the Management and Agency agreements entered with the Banks. However, the Company has utilised the funds received under such farmer loan schemes in their capacity as an agent, to make payments against the trade payables. Accordingly, such funds are treated as unsecured loan funds and the interest is expended thereon.
5. As required by the Companies (Auditor's Report) Order, 2003, issued by the Central 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 and 5 of the said Order.
6. Further to our comments in the annexure referred to above in paragraph 5, 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 purpose of our audit;
 - (b) in our opinion, proper books of account as required by law have been kept by the Company, so far as appears from our examination of the books of account;
 - (c) the Balance Sheet, Profit and Loss account and Cash Flow statement dealt with by this report are in agreement with the books of account;
 - (d) in our opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;
 - (e) on the basis of written representations received from the directors as on 31 March 2007 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31 March 2007 from being appointed as director in terms of clause (g) of sub-section (1) of Section 274 of the Act; and
 - (f) in our opinion, to the best of our information and according to the explanations given to us, *subject to the effect of adjustments, if any, that may be required had the outcome of the matter referred to paragraph 3 above been known*, the said accounts give the information required by the Act, 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;
 - (ii) in the case of the Profit and Loss account, of the profit of the Company for the year ended on that date; and
 - (iii) in the case of Cash Flow statement, of the cash flows for the year ended on that date.

For BSR & CO.
Chartered Accountants,
Sd/-
S. SETHURAMAN
Partner
Membership No.203491

Place : Chennai
Date : 21st June, 2007

ANNEXURE TO AUDITORS' REPORT

The Annexure referred to in the Auditors' Report to the members of Hatsun Agro Product Limited (the Company) for the year ended 31 March 2007. We report that:

1. (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
(b) The Company has a regular programme of physical verification of its fixed assets by which all fixed assets are verified in a phased manner over a period of two years except for cans and crates as the nature of trade does not permit physical verification. In our opinion, this periodicity of physical verification is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies were noticed on such verification.
(c) Fixed assets disposed off during the year were not substantial and therefore do not affect the going concern assumption.
2. (a) The inventory, except goods-in-transit, has been physically verified by the management during the year. In our opinion, the frequency of such verification is reasonable.
(b) The procedures for the physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
(c) The Company is maintaining proper records of inventory. The discrepancies noticed on verification between the physical stocks and the book records were not material.
3. The Company has neither granted nor taken any loans, secured or unsecured, to or from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.
4. In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to purchase of inventories and fixed assets and with regard to the sale of goods. The Company's activities do not involve rendering of services. We have not observed any major weakness in the internal control system during the course of the audit.
5. In our opinion and according to the information and explanations given to us, there are no contracts and arrangements, the particulars of which need to be entered into the register maintained under section 301 of the Companies Act, 1956.
6. In our opinion and according to the information and explanations given to us, the Company has complied with the provisions of Sections 58A, 58AA or other relevant provisions of the Companies Act, 1956 and the rules framed thereunder / the directives issued by the Reserve Bank of India (as applicable) with regard to deposits accepted from the public. Accordingly, there have been no proceedings before the National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal in this matter and no order has been passed by any of the aforesaid authorities.
7. In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.
8. The Central Government has not prescribed the maintenance of cost records under section 209(1)(d) of the Companies Act, 1956 for any of the products manufactured by the Company.
9. (a) According to the information and explanations given to us and on the basis of our examination of the records of the Company, amounts deducted/accrued in the books of account in respect of undisputed statutory dues including Provident Fund, Employees' State Insurance, Income-tax, Sales-tax, Wealth tax, Service Tax, Customs duty and other material statutory dues have been regularly deposited during the year by the Company with the appropriate authorities. As explained to us, the Company did not have any dues on account of Excise duty and Investor Education and Protection Fund.

There were no dues on account of cess under section 441A of the Companies Act, 1956 since the aforesaid section has not yet been made effective by the Central Government.

According to the information and explanations given to us, no undisputed amounts payable in respect of Provident Fund, Employees' State Insurance, Income tax, Wealth tax, Sales tax payable, Service tax, Customs duty and other material statutory dues were in arrears as at 31 March 2007 for a period of more than six months from the date they became payable.

- (b) According to the information and explanations given to us, the following dues of Income tax and Sales tax have not been deposited by the Company on account of disputes.

Hatsun Agro Product Limited

Name of the Statute	Nature of the Dues	Amount (Rs thousands)	Period to which the amount relates	Forum where dispute is pending
Income tax Act	Disallowance of non compete fees	**	1996-97	High Court of Judicature, Chennai
Income tax Act	Disallowance of expenses and reduction of deduction under Chapter VIA	535	2003-04	Commissioner of Income Tax (Appeals)
Income tax Act	Income Tax in dispute	11,788	2002-03	Income-tax Appellate Tribunal
Sales tax Act as applicable in Tamil Nadu	Sales tax in dispute	36	1993-94	Commercial Tax officer
Sales tax Act as applicable in Tamil Nadu	Sales tax in dispute	119	1995-96	Sales Tax Appellate Tribunal
Sales tax Act as applicable in Tamil Nadu	Sales tax in dispute	3,638	1995-96	Commercial Tax Officer - Tamil Nadu
Sales tax Act as applicable in Tamil Nadu	Sales tax in dispute	932	1996-97	Commercial Tax Officer - Tamil Nadu
Sales tax Act as applicable in Tamil Nadu	Sales tax in dispute	1,083	1996-97	Appellate Assistant Commissioner
Sales tax Act as applicable in Tamil Nadu	Sales tax in dispute	42	1997-98	Appellate Assistant Commissioner
Sales tax Act as applicable in Tamil Nadu	Sales tax in dispute	39	1998-99	Appellate Assistant Commissioner
Sales tax Act as applicable in Tamil Nadu	Sales tax in dispute	235	1999-00	Appellate Tribunal
Sales tax Act as applicable in Tamil Nadu	Sales tax in dispute	4,010	2000-01	High Court of Judicature, Chennai
Central Sales Tax	Sales tax in dispute	172	2000-01	Appellate Tribunal
Sales tax Act as applicable in Tamil Nadu	Sales tax in dispute (Incl. Penalty)	1,076	2001-02	Appellate Assistant Commissioner
Sales tax Act as applicable in Tamil Nadu	Sales tax in dispute	630	2001-02	Appellate Assistant Commissioner
Sales tax Act as applicable in Tamil Nadu	Penalty in dispute	527	2003-04	Appellate Assistant Commissioner and High Court of Judicature, Chennai

** - Refer to note 2(b)(iii) of Schedule 20 to the financial statements.

10. The Company does not have any accumulated losses at the end of the financial year and has not incurred cash losses in the financial year and in the immediately preceding financial year.
11. In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to its bankers or to any financial institutions. The Company did not have any outstanding debentures during the year.
12. The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

Hatsun Agro Product Limited

13. In our opinion and according to the information and explanations given to us, the Company is not a chit fund or a nidhi/ mutual benefit fund/ society.
14. According to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments.
15. According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions.
16. In our opinion and according to the information and explanations given to us, the term loans taken by the Company have been applied for the purpose for which they were raised.
17. In our opinion and according to the information and explanations given to us and on an overall examination of the Balance Sheet of the Company, we report *that the funds raised on short-term basis estimated at Rs 531,299 have been used for long-term investment, which primarily represent short term loans and increase in current liabilities.*
18. The Company has not made any preferential allotment of shares to companies/firms/parties covered in the register maintained under Section 301 of the Companies Act, 1956.
19. The Company did not have any outstanding debentures during the year.
20. The Company has not raised any money by public issues during the year.
21. According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the year.

Place : Chennai
Date : 21st June, 2007

For BSR & CO.
Chartered Accountants,
Sd/-
S. SETHURAMAN
Partner
Membership No.203491

BALANCE SHEET AS AT MARCH 31, 2007

(Rs. in '000s)

	Schedule No.	As at 31 st March, 2007	As at 31 st March, 2006
SOURCES OF FUNDS			
Shareholders' Funds			
Share capital	1	118,721	118,721
Reserves and surplus	2	242,010	186,907
		<u>360,731</u>	<u>305,628</u>
Loan Funds			
Secured loans	3	523,582	702,485
Unsecured loans	4	350,217	213,346
		<u>873,799</u>	<u>915,831</u>
Deferred Income		13,966	14,889
Deferred tax liability	20(2)(h)	97,912	97,583
		<u>1,346,408</u>	<u>1,333,931</u>
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	5	2,092,664	1,747,581
Less: Accumulated depreciation		(698,251)	(555,097)
Net block		<u>1,394,413</u>	<u>1,192,484</u>
Capital work-in-progress		41,628	144,983
		<u>1,436,041</u>	<u>1,337,467</u>
Investments	6	—	5
Current Assets, Loans and Advances			
Inventories	7	169,675	104,644
Sundry debtors	8	52,549	64,030
Cash and bank balances	9	34,554	36,560
Loans and advances	10	123,814	112,760
		<u>380,592</u>	<u>317,994</u>
Current Liabilities and Provisions			
Current liabilities	11	(409,790)	(289,392)
Provisions	12	(60,435)	(32,143)
		<u>(470,225)</u>	<u>(321,535)</u>
Net Current Assets / (Current Liabilities)		<u>(89,633)</u>	<u>(3,541)</u>
Significant accounting policies and notes to the financial Statements	20	<u>1,346,408</u>	<u>1,333,931</u>

The Schedules referred to above and the notes thereon form an integral part of these Financial Statements.

For and on behalf of the Board of Directors

As per our report attached of even date

For BSR & CO.

Chartered Accountants

Sd/-

S. Sethuraman

Partner, Membership No.203491

Sd/-

R.G. CHANDRAMOGAN

Chairman & Managing Director

Sd/-

K.S. THANARAJAN

Joint Managing Director

Sd/-

B.V. NATH

Company Secretary

Place : Chennai

Date : 21st June, 2007

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2007

(Rs. in '000s)

	Schedule No.	Year ended 31 st March, 2007	Year ended 31 st March, 2006
INCOME			
Sales (Gross)	13	5,852,828	5,448,186
Less: Excise Duty		—	44,744
Net		5,852,828	5,403,442
Other income	14	69,472	76,370
		5,922,300	5,479,812
EXPENDITURE			
Cost of manufactured goods	15	4,377,888	4,070,587
Cost of traded goods	16	60,289	33,239
Employee costs	17	169,052	148,892
Manufacturing, administrative and selling expenses	18	941,827	895,557
Interest and finance charges	19	100,785	93,670
Depreciation		157,856	154,872
		5,807,697	5,396,817
Profit before tax		114,603	82,995
Provision for tax - Current tax		36,230	15,220
- Fringe benefit tax		5,664	8,227
- Deferred tax expense		2,430	17,095
Reversal of provision pertaining to earlier years		(11,181)	—
Profit after tax		81,460	42,453
Balance brought forward from previous year		20,480	41,459
Profit available for appropriation		101,940	83,912
Appropriations:			
Transfer to General reserve		6,110	45,704
Transfer to Capital redemption reserve		50,000	—
Dividend - Proposed dividend on equity shares		13,578	13,577
- Proposed dividend on preference shares		5,412	1,971
Corporate dividend tax - Equity		2,308	1,904
- Preference		920	276
Balance carried to Balance Sheet		23,612	20,480
		101,940	83,912
Earnings per share: - Basic & Diluted (Rs.) (Refer to Note 2 (q) of schedule 20)		11.07	5.92
- Weighted average number of equity shares outstanding		6,788,818	6,788,818
- Par value of equity shares (Rs.)		10	10
Significant accounting policies and notes to the financial Statements	20		

The Schedules referred to above and the notes thereon form an integral part of these Financial Statements.

For and on behalf of the Board of Directors

As per our report attached of even date

For BSR & CO.

Chartered Accountants

Sd/-

S. Sethuraman

Partner, Membership No.203491

Sd/-

R.G. CHANDRAMOGAN

Chairman & Managing Director

Sd/-

K.S. THANARAJAN

Joint Managing Director

Sd/-

B.V. NATH

Company Secretary

Place : Chennai

Date : 21st June, 2007

CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2007

(Rs. in '000s)

	Year ended 31 st March, 2007	Year ended 31 st March, 2006
A Cash Flow from Operating Activities		
Net profit before tax	114,603	82,995
<i>Adjustments for:</i>		
Depreciation	157,856	154,872
Bad debts written off	157	2,147
Profit on sale of assets (Net of loss)	(5,007)	(820)
Interest income	(3,101)	(1,018)
Subsidy received from Government	(923)	(531)
Interest and finance charges	100,785	93,670
	<u>249,767</u>	<u>248,320</u>
Operating profit before working capital changes	364,370	331,315
<i>Adjustments for:</i>		
(Increase)/Decrease in inventories	(65,031)	(16,176)
(Increase)/Decrease in sundry debtors	11,324	(28,186)
Decrease/(Increase) in loans and advances	(11,035)	(60,123)
(Decrease)/Increase in current liabilities	117,524	7,860
(Decrease)/Increase in provisions	1,524	(640)
Cash generated from operations	418,676	234,050
Income tax paid	(14,675)	(12,946)
Net cash from operating activities (A)	404,000	221,104
B Cash Flow from Investing Activities		
Purchase of fixed assets	(265,474)	(238,417)
Sale of fixed assets	16,920	9,064
Purchase of investments	—	(5)
Sale of investments	5	—
Net cash used in investing activities (B)	(248,549)	(229,358)

(Rs. in '000s)

	Year ended 31 st March, 2007	Year ended 31 st March, 2006
C Cash Flow from Financing Activities		
Increase/(Decrease) in borrowings from financial institutions	(183,483)	37,463
Issue of Redeemable Preference Shares	50,000	50,800
Redemption of Redeemable Preference Shares	(50,000)	—
Increase in borrowings	152,307	(21,521)
Acceptance/(repayments) of public deposits net	(11,528)	(8,408)
Subsidy received from Government	—	5,000
Interest and finance charges paid	(100,192)	(93,390)
Interest income	3,082	1,194
Dividend paid (including dividend distribution tax)	(17,644)	—
Net cash from financing activities (C)	(157,458)	(28,862)
Net Increase/(Decrease) in cash and cash equivalents (A+B+C)	(2,006)	(37,116)
Cash and cash equivalents at the beginning of the year (Refer to Schedule 9)	36,560	73,676
Cash and cash equivalents at end of the year (Refer to Schedule 9)	34,554	36,560
Cash and cash equivalents include the following, which in the view of the management are restricted in nature:		
- in designated bank accounts towards security for repayment of public deposits	4,100	4,900
- in unpaid dividend account	308	273
	4,408	5,173

Significant accounting policies and notes to the financial Statements 20

The Schedules referred to above and the notes thereon form an integral part of these Financial Statements.

For and on behalf of the Board of Directors

As per our report attached of even date

For BSR & CO.

Chartered Accountants

Sd/-

S. Sethuraman

Partner, Membership No.203491

Sd/-

R.G. CHANDRAMOGAN

Chairman & Managing Director

Sd/-

K.S. THANARAJAN

Joint Managing Director

Sd/-

B.V. NATH

Company Secretary

Place : Chennai

Date : 21st June, 2007

SCHEDULES FORMING PART OF THE FINANCIAL STATEMENTS

	As at 31 st March, 2007 (Rs. in '000s)	As at 31 st March, 2006 (Rs. in '000s)
1. Share Capital		
Authorised		
10,000,000 (31 st March, 2006 : 10,000,000) equity shares of Rs.10/- each	100,000	100,000
2,000,000 (31 st March, 2006 : 2,000,000) preference shares of Rs.100/- each	200,000	200,000
	<u>300,000</u>	<u>300,000</u>
Issued and Subscribed		
6,801,818 (31 st March, 2006 : 6,801,818) equity shares of Rs.10/- each	68,018	68,018
508,000 (31 st March, 2006 : 508,000) 8% Non-Convertible Cumulative Redeemable Preference Shares of Rs.100/- each	50,800	50,800
	<u>118,818</u>	<u>118,818</u>
Paid-up		
6,788,818 (31 st March, 2006 : 6,788,818) equity shares of Rs.10/- each fully paid-up	67,888	67,888
508,000 (31 st March, 2006 : 508,000) 8% Non-Convertible Cumulative Redeemable Preference Shares of Rs.100/- each	50,800	50,800
13,000 equity shares partly paid-up, forfeited	33	33
	<u>118,721</u>	<u>118,721</u>
Paid-up equity shares of the Company include:		
a) 30,728 (31 st March 2006: 30,728) equity shares of Rs.10/- each, allotted pursuant to amalgamation of Hatsun Foods Company Limited, for consideration other than cash		
b) 69,090 (31 st March 2006: 69,090) equity shares of Rs.10/- each, allotted pursuant to amalgamation of Ajith Dairy Industries Limited, for consideration other than cash.		
c) 1,058,400 (31 st March 2006: 1,058,400) equity shares of Rs.10/- each, issued as fully paid up bonus shares in July 1995, pursuant to capitalisation of surplus in the Profit and Loss Account and free reserves.		
d) Redemption terms for preference shares: The 8% Non-Convertible Cumulative Redeemable Preference Shares are redeemable at par in three equal half yearly instalments of Rs. 16,933, the first instalment falling due on 5 th October, 2009.		
2. Reserves and Surplus		
Securities Premium Account	86,722	86,722
Capital reserve		
Balance brought forward	7,445	7,445
	<u>7,445</u>	<u>7,445</u>
Capital Redemption Reserve		
Balance brought forward	25,000	25,000
Add: Additions during the year (Refer to note 2(s) of Schedule 20)	50,000	—
	<u>75,000</u>	<u>25,000</u>
General Reserve		
Balance brought forward	47,260	1,556
Add: Appropriation from Profit and Loss Account	6,110	45,704
	<u>53,370</u>	<u>47,260</u>
Less: Pursuant to adoption of AS - 15 (Revised) (Refer to note 2(r) of Schedule 20)	4,139	—
	<u>49,231</u>	<u>47,260</u>
Balance in Profit and Loss Account	23,612	20,480
	<u>242,010</u>	<u>186,907</u>

Hatsun Agro Product Limited

	As at 31 st March, 2007 (Rs. in '000s)	As at 31 st March, 2006 (Rs. in '000s)
3. Secured Loans		
Term Loans from Banks (Secured by a charge on the fixed assets and movable assets of the Company) (including interest accrued and due: Rs.1,838) (31 st March 2006: Rs.1,166)	385,409	591,335
Working Capital loans from banks (Secured by charge on the entire current assets and fixed assets of the Company)	99,554	76,439
Finance Lease Obligations (Secured by assets acquired on lease)	26,923	34,711
Others (Secured by certain Plant and Machinery of the Company)	11,696	—
	<u>523,582</u>	<u>702,485</u>
4. Unsecured Loans		
Short Term Loans from Banks	50,000	50,000
Public Deposits [(Include unclaimed deposits : Rs.859) (31 st March, 2006 : Rs.557)]	27,893	39,421
Interest-free sales tax deferral loan	—	11,794
Others	272,324	112,131
	<u>350,217</u>	<u>213,346</u>
Of the above secured and unsecured loans, Managing Director has given personal guarantee (including those by pledge of equity shares) for the following:		
Term loans	385,409	491,375
Working capital loans	99,554	76,439
Short term loans from banks	50,000	50,000
Others	70,674	79,962

5. Fixed Assets

(Rs. in '000s)

Description	Gross Block				Accumulated depreciation				Net Block	
	As at 1 st April 2006	Additions	Deletions	As at 31 st March 2007	As at 1 st April 2006	For the Year	Deletions	As at 31 st March 2007	As at 31 st March 2007	As at 31 st March 2006
Intangibles:										
Software	18,886	749	—	19,635	10,054	3,851	—	13,905	5,730	8,832
Goodwill	32,488	—	—	32,488	32,488	—	—	32,488	—	—
Non-Compete Fees	23,947	—	—	23,947	23,947	—	—	23,947	—	—
Arun Brand	21,198	—	—	21,198	21,198	—	—	21,198	—	—
Tangibles:										
Freehold land	124,348	9,594	2,473	131,469	—	—	—	—	131,469	124,348
Buildings	325,870	57,886	—	383,756	36,455	12,468	—	48,923	334,833	289,415
Plant and machinery	1,065,751	287,315	14,640	1,338,426	393,294	128,735	10,783	511,246	827,180	672,457
Furniture and fixtures	14,688	1,632	—	16,320	7,989	1,529	—	9,518	6,802	6,699
Office equipment	15,816	2,072	149	17,739	4,884	1,182	17	6,049	11,690	10,932
Vehicles	31,559	6,566	5,510	32,615	12,315	3,300	2,681	12,934	19,681	19,244
Leasehold Improvements	1,422	—	—	1,422	455	258	—	713	709	967
Leased Assets:										
Computers	21,146	—	—	21,146	6,724	3,419	—	10,143	11,003	14,422
Vehicles	14,786	5,885	3,844	16,827	3,125	1,226	1,221	3,130	13,697	11,661
Plant and Machinery	35,676	—	—	35,676	2,169	1,888	—	4,057	31,619	33,507
Total	1,747,581	371,699	26,616	2,092,664	555,097	157,856	14,702	698,251	1,394,413	1,192,484
31st March 2006	1,581,247	183,155	16,821	1,747,581	408,802	154,872	8,577	555,097	1,192,484	1,172,445

Hatsun Agro Product Limited

	As at 31 st March, 2007 (Rs. in '000s)	As at 31 st March, 2006 (Rs. in '000s)
6. Investments		
Long Term Investments (Non Trade, Unquoted, at cost)		
Shares in Earth Oil and Fuel India Limited	—	5
	—	5
7. Inventories		
Raw Materials and Packing Materials	50,519	45,073
Work-in-process	19,672	15,274
Finished Goods		
- manufactured	74,990	27,162
- traded	1,789	2,067
Stores, Spares and Loose Tools	22,705	15,068
	<u>169,675</u>	<u>104,644</u>
8. Sundry Debtors		
<i>Unsecured, considered good</i>		
Debts outstanding for a period exceeding six months	4,588	452
Other debts	23,002	44,039
	<u>27,590</u>	<u>44,491</u>
<i>Secured, considered good</i>		
Debts outstanding for a period exceeding six months	315	213
Other debts	24,644	19,326
	<u>24,959</u>	<u>19,539</u>
	<u>52,549</u>	<u>64,030</u>
9. Cash and Bank Balances		
Cash in hand	2,302	5,582
Balances with Scheduled Banks		
- in Current Accounts	23,402	14,480
- in Deposit Accounts	4,442	11,325
- in Unpaid Dividend Accounts	308	273
- in Designated Bank Accounts towards security for Repayment of Public Deposits	4,100	4,900
	<u>34,554</u>	<u>36,560</u>
10. Loans and Advances		
<i>Unsecured, considered good</i>		
Advances recoverable in cash or in kind or for value to be received	39,590	62,985
Deposits	65,219	33,459
Advance to Suppliers	18,986	16,316
Accrued Interest	19	—
	<u>123,814</u>	<u>112,760</u>

Hatsun Agro Product Limited

	As at 31 st March, 2007 (Rs. in '000s)	As at 31 st March, 2006 (Rs. in '000s)
11. Current Liabilities		
Sundry Creditors		
- dues to small scale industrial undertakings (Refer to note 2 (o) of Schedule 20)	19,732	15,468
- dues to others	255,806	171,938
Security Deposits	111,608	83,155
Advance from Customers	11,015	7,802
Other Liabilities	9,674	9,551
Unclaimed Dividend	307	223
Bank Overdraft	472	—
Interest Accrued and not due	1,176	1,255
	<u>409,790</u>	<u>289,392</u>
12. Provisions		
For Gratuity and Leave Encashment	11,000	3,236
For Tax (net of tax deducted at source and advance tax)	23,122	4,952
For Fringe Benefit Tax	4,095	6,227
For Proposed Dividend for Equity share capital	13,578	13,577
For Proposed Dividend on Preference share capital	5,412	1,971
For Dividend tax payable	3,228	2,180
	<u>60,435</u>	<u>32,143</u>
13. Sales		
Milk	4,323,309	3,718,490
Ice cream	388,570	354,984
Milk products	1,057,031	1,324,649
Others	83,918	50,063
	<u>5,852,828</u>	<u>5,448,186</u>
14. Other Income		
Interest Income [Tax deducted at source - Rs.669 (31 March 2006: Rs.261)]	3,101	1,018
Profit on Sale of Assets, net	5,007	820
Foreign Exchange Gain, net	18,007	—
Royalty	1,256	2,143
Export Benefits	27,867	45,061
Miscellaneous Income	14,234	27,328
	<u>69,472</u>	<u>76,370</u>
15. Cost of Manufactured Goods		
<i>Consumption of raw materials and packing materials</i>		
Opening inventory	45,073	28,476
Add: Purchases	4,435,560	4,072,657
	<u>4,480,633</u>	<u>4,101,133</u>
Less: Closing Inventory	50,519	45,073
	<u>4,430,114</u>	<u>4,056,060</u>
Add: Opening Inventory		
Work-in-process	15,274	2,598
Finished Goods	27,162	54,365
Less: Closing inventory		
Work-in-process	19,672	15,274
Finished Goods	74,990	27,162
	<u>4,377,888</u>	<u>4,070,587</u>

Hatsun Agro Product Limited

	Year ended 31 st March, 2007 (Rs. in '000s)	Year ended 31 st March, 2006 (Rs. in '000s)
16. Cost of Traded Goods		
Opening Inventory	2,067	973
Add: Purchases	60,011	34,333
	<u>62,078</u>	<u>35,306</u>
Less: Closing Inventory	1,789	2,067
	<u>60,289</u>	<u>33,239</u>
17 Employee Costs		
Salaries, Wages and Other Allowances	122,508	105,234
Contribution to Provident and Other Funds	9,206	6,904
Gratuity	503	2,005
Staff Welfare Expenses	36,835	34,749
	<u>169,052</u>	<u>148,892</u>
18. Manufacturing, Administrative and Selling Expenses		
Power and Fuel [net of power credits of Rs.1,598 (Previous year: Rs.1,081)]	213,320	229,255
Stores and Spares Consumed	37,038	27,743
Sales Promotion Expenses	178,649	147,562
Freight Outwards	240,929	243,194
Bad Debts Written Off	157	2,147
Repairs and Maintenance - Buildings	2,938	2,966
- Plant and machinery	24,834	18,944
- Others	23,225	23,455
Travelling and Conveyance	39,898	35,301
Printing and Stationery	10,619	8,704
Rent	29,737	22,742
Rates and Taxes	11,496	12,535
Insurance	10,146	9,418
Directors' Sitting fees	140	155
Foreign Exchange Loss	—	3,410
Service Charges	62,909	54,105
Miscellaneous Expenses	55,792	53,921
	<u>941,827</u>	<u>895,557</u>
19. Interest and Finance Charges		
Interest		
- on Term Loans	52,510	51,455
- others	15,147	20,002
	<u>67,657</u>	<u>71,457</u>
Less: Interest Capitalised	1,653	1,602
	<u>66,004</u>	<u>69,855</u>
Hire Purchase and Other Finance Charges	23,927	15,054
Bank Charges	10,854	8,761
	<u>100,785</u>	<u>93,670</u>

Schedules Forming part of the Financial Statements

(All amounts are in Indian Rupee in thousands, except share data and as stated)

20. Significant Accounting Policies and Notes to the Financial Statements

1. Significant Accounting Policies

a. Basis of Preparation of Financial Statements

The financial statements are prepared and presented under the historical cost convention on the accrual basis of accounting and comply with the Accounting Standards issued by the Institute of Chartered Accountants of India (“ICAI”) and the relevant provisions of the Companies Act, 1956, to the extent applicable.

b. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities on the date of the financial statements and reported amounts of income and expenses during the period. Any revision to accounting estimates is recognized prospectively in current and future periods. Contingencies are recorded when it is probable that a liability will be incurred and the amount can be reasonably estimated. Actual figures may differ from these estimates.

c. Fixed Assets and Capital work in progress

Fixed Assets are stated at cost of acquisition less accumulated depreciation. The cost of fixed assets includes freight, duties and taxes and other incidental expenses related to the acquisition. Borrowing costs directly attributable to acquisition of those fixed assets which necessarily take a substantial period of time to get ready for their intended use are capitalized.

Capital work-in-progress includes advances paid to acquire fixed assets and cost of assets not ready for intended use before the balance sheet date. Intangible assets are recorded at the consideration paid for acquisition.

d. Impairment of Fixed Assets

Management periodically assesses using the external and internal sources whether there is an indication that an asset may be impaired. An impairment occurs where the carrying value exceeds the present value of future cash flows expected to arise from the continuing use of the asset and its eventual disposal. The impairment loss to be expensed is determined as the excess of the carrying value over the higher of the assets net sales price or present value as determined.

e. Depreciation

Depreciation is provided on the straight-line method. The rates of depreciation prescribed in Schedule XIV to the Companies Act, 1956 are considered as the minimum rates. If the management’s estimate of the useful life of a fixed asset at the time of acquisition of the asset or of the remaining useful life on a subsequent review is shorter than that envisaged in the aforesaid Schedule, depreciation is provided at a higher rate based on the management’s estimate of the useful life/ remaining useful life. Pursuant to this policy, depreciation is provided in respect of certain assets at the following rates which are higher than the corresponding rates prescribed in Schedule XIV to the Companies Act, 1956 based on the estimated useful life of the assets:

Description	Estimated Useful Life (in years)
<i>Included under plant and machinery</i>	
Insulated boxes	3
Cans and crates	1
Mini parlours	5
Procurements centre accessories	1
<i>Included under Vehicles</i>	
Push carts	3
<i>Included under Furniture and fixtures</i>	
Procurement centre furniture	1

Assets costing Rs. 5,000/- or less are depreciated in accordance and in the manner prescribed under Schedule XIV to the Companies Act, 1956.

Leasehold improvements are amortised over the useful life of assets or the primary period of lease whichever is lower.

Intangible assets are amortized over their economic useful lives. Managements' estimate of useful life of intangible assets:

Description	Estimated Useful Life (in years)
Software	5

f. Leased Assets

Leases under which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Such assets are capitalized at fair value of the asset or present value of the minimum lease payments at the inception of the lease, whichever is lower. Lease payments are apportioned between finance charges and reduction of the lease liability at the implicit rate of return. Finance charges are charged to the profit and loss account.

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased term, are classified as operating leases. Operating lease payments are recognized as an expense in the profit and loss account.

g. Investments

Long-term investments are stated at cost less any other-than-temporary diminution in value, determined separately for each individual investment. Current investments are carried at the lower of cost and fair value.

h. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of raw materials and traded goods is determined using the weighted average method and includes freight, taxes and duties wherever applicable. The valuation of manufactured finished goods and work in progress includes the combined cost of materials, labour and all applicable manufacturing overheads.

i. Revenue Recognition

Revenue from sale of goods is recognised on despatch of goods to customers which corresponds with transfer of all significant risks and rewards of ownership to the buyer. The amount recognized as sale is exclusive of sales tax, and trade and quantity discounts. Dividend income is recognized when the unconditional right to receive the payment is established. Interest income on deposits and interest bearing securities is recognized on the time proportionate method. Royalty income is recognized on accrual basis.

j. Foreign Currency Transactions

Foreign currency transactions are recorded at the exchange rates prevailing on the date of the transactions. Exchange differences arising on foreign exchange transactions during the year are recognized in the profit and loss account of the year, except exchange differences related to acquisition of fixed assets from a country outside India are adjusted in the carrying amount of the related fixed assets.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated at the closing exchange rates on that date; the resultant exchange differences are recognized in the profit and loss account.

The premium or discount on forward exchange contracts is recognized over the period of the contracts. The premium or discount in respect of forward exchange contracts related to acquisition of fixed assets is adjusted in the carrying amount of the related fixed assets. In respect of other contracts, it is recognized in the profit and loss account.

k. Taxation

Income-tax expense comprise current tax (i.e. amount of tax for the period determined in accordance with the income-tax law) and deferred tax charge or credit (reflecting that tax effects of timing differences between accounting income and taxable income for the period). The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognized using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognized only to the extent there is a reasonable certainty that the assets can be realized in future; however, where there is unabsorbed depreciation or carried forward loss under taxation laws, deferred tax assets are recognized only if there is a virtual certainty of realization of such assets. Deferred tax assets are reviewed as at the balance sheet date and written down or written up to reflect the amount that is reasonably/virtually certain (as the case may be) to be realized. Current tax and deferred tax assets and liabilities are offset to the extent to which the Company has a legally enforceable right to set off and they relate to taxes on income levied by the same governing taxation laws.

Consequent to the introduction of Fringe Benefit Tax (FBT) effective 1st April 2005, in accordance with the guidance note on accounting for fringe benefits tax issued by the ICAI, the Company has made provision for FBT under income taxes.

I. Earnings Per Share

Basic earnings per share amounts are computed by dividing net profit or loss for the period attributable to equity shareholders by the weighted average number of shares outstanding during the year. Diluted earnings per share amounts are computed after adjusting the effects of all dilutive potential equity shares.

m. Government Grants

Grant and subsidies from the government are recognised when there is reasonable assurance that the grant / subsidy will be received and all attaching conditions will be complied with. Government grants related to depreciable fixed assets are treated as deferred income which is recognised in the profit and loss account over the useful life of the asset in the proportion in which the depreciation on those assets is charged.

n. Employee Benefits

I. Short Term Employee Benefit Plans

All short term employee benefit plans such as salaries, wages, bonus, special awards and medical benefits which fall due within 12 months of the period in which the employee renders the related services which entitles him to avail such benefits are recognized on an undiscounted basis and charged to the profit and loss account.

II. Defined Contribution Plan

Contributions to the provident funds are made monthly at a predetermined rate to the Regional Provident Fund Commissioner and debited to the profit and loss account on an accrual basis.

III. Defined Benefit Plan

The Company has an arrangement with Life Insurance Corporation of India (LIC) to administer its gratuity scheme. The contribution paid/payable is debited to the profit and loss account on an accrual basis. Liability towards gratuity is provided on the basis of an actuarial valuation using the Projected Unit Credit method and debited to the profit and loss account on an accrual basis. Actuarial gains and losses arising during the year are recognized in the profit and loss account. Leave salary is similarly valued on an actuarial basis and is unfunded.

o. Cash Flow Statements

Cash flows are reported using the indirect method, whereby profit before tax is adjusted for the effects of transactions of a non-cash nature and any deferrals or accruals of past or future cash receipts or payments. The cash flows from regular revenue generating, financing and investing activities of the Company are segregated.

p. Export Benefits

Income in respect of duty credit entitlement and the transport assistance arising from export sales are recognized in the year of exports.

2. Notes to the financial statements

a. Unsecured Loans from Financial Institutions

The Company has been identified as an agent by ICICI Bank and UTI Bank during the previous year and ING Vysya Bank during the current year (herein referred to as "the Banks") to disburse loans to farmers. In this regard, the Company has entered into Management and Agency Agreements, whereby the funds received from the Banks are required to be disbursed to the farmers and the balance unutilized amount, if any, is required to be remitted to the Banks. In accordance with the agreements, the Company is liable to repay the dues immediately with penal interest, in case of non disbursement / non compliance with the terms of the agreement. The funds received by the Company from the Banks for disbursement to farmers are being utilised by the Company by way of loans in the form of early payments to farmers against their credit balances in respect of supply of milk, i.e., in the absence of funding, the farmers would have been paid at a later date in the normal course of business.

Accordingly, the Company has recognized the funds received from the Banks and outstanding at the balance sheet date amounting Rs. 160,073 as unsecured loan funds and the interest amount of Rs. 12,867 is expended thereon.

b. Capital Commitments and Contingencies

	As at 31st March, 2007	As at 31 st March, 2006
(i) Estimated amount of contracts remaining to be executed on capital account (net of capital advances) and not provided for	22,277	41,568
(ii) Claims made against the Company not acknowledged as debts in respect of sales tax and income tax matters	26,127	12,507
(iii) In respect of the Income tax assessment year 1996-1997, the Company's claim for deduction towards non-compete fees of Rs.40,000 was disallowed by the Income tax Assessing Officer. The Commissioner of Income tax (Appeals) ruled in favour of the Company. However, the Income tax Appellate Tribunal has upheld the disallowance of the aforesaid expenditure and the Company has filed an appeal in the High Court of Judicature, Chennai. Management's estimate of the tax impact of such disallowance is Rs.15,000 (including estimated interest but excluding penalties etc., if any). Based on the expert advice, the management believes that the Company has strong case and hence, no provision and consequential adjustments, if any, for such disputed amount have been considered in the financial statements.		

c. Export Obligations

The Company has imported certain items at concessional rates of customs duty under the Export Promotion Capital Goods Scheme (EPCG). As at the balance sheet date, total export obligations under the EPCG scheme is USD 5,907,222 (31st March, 2006: USD 3,977,391) which is to be fulfilled over a period of eight years from the date of the licenses. As at 31st March, 2007, the Company has fulfilled export obligations amounting to USD 1,873,144 (31st March, 2006: USD 1,196,005) and has outstanding export obligation of USD 4,034,078 (31st March, 2006: USD 2,781,386).

d. Managerial Remuneration

	Year ended 31st March, 2007	Year ended 31 st March, 2006
Salaries and Allowances	3,360	3,360
Contribution to Provident and Other Funds	124	98
Other Benefits	211	134
Total	3,695	3,592

The Chairman and Managing Director, and other Whole-time directors are covered under the Company's leave encashment policy and group gratuity scheme along with other employees of the Company. Contribution to gratuity and the eligible leave which can be encashed is based on the actuarial valuation done on an overall company basis and hence individual figures for the director are not available.

	Year ended 31st March, 2007	Year ended 31 st March, 2006
e. Auditor's Remuneration (included under Miscellaneous expenses)		
Audit Fees	1,500	1,500
Other Services	325	325
Out of Pocket Expenses	84	48

f. Segment Information

The Company's operations predominantly relate to manufacture and sale of milk and milk products, and ice creams. Accordingly, business segments comprise the primary basis of segmental information set out in these financial statements. Secondary segment reporting is performed on the basis of the geographical location of customers. The Company's operating businesses are organized and managed separately according to the nature of the products provided with each segment representing a strategic business unit that offers different products and serves different markets. The analysis of geographical segments is based on the areas in which major operating divisions of the Company operates.

The accounting policies consistently used in the preparation of the financial statements are also applied to record revenue and expenditure in individual segments.

Business (primary) segments of the Company are:

- a) Milk and milk products; and b) Ice creams.

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Revenue and direct expenses in relation to segments are categorized based on items that are individually identifiable to that segment, while other costs, where allocable, are apportioned to the segments on an appropriate basis. Certain expenses are not specifically allocable to individual segments as the underlying services are used interchangeably. The Company believes that it is not practicable to provide segment disclosures relating to such expenses, and accordingly such expenses are separately disclosed as 'unallocable' and directly charged against total income.

Fixed assets used in the Company's business or liabilities contracted, other than those specifically identifiable, have not been identified to any of the reportable segments, as such fixed assets and services are used interchangeably between segments.

Primary Segment Information

Previous years figures have been shown in italics

Particulars	Milk and Milk Products	Ice Cream and Others	Total
Segment Revenue	5,380,340	472,488	5,852,828
	<i>5,043,139</i>	<i>405,047</i>	<i>5,448,186</i>
Segment Results	241,933	48,597	290,530
	<i>191,551</i>	<i>52,987</i>	<i>244,538</i>
Unallocated Expenses (net of unallocated income)			(75,142)
			<i>(68,891)</i>
Operating Profit			215,388
			<i>175,647</i>
Finance Charges			(100,785)
			<i>(92,652)</i>
Profit / (Loss) before taxation			114,603
			<i>82,995</i>
Taxes (expense) / benefit			(33,143)
			<i>(40,542)</i>
Profit / (Loss) after taxation			81,460
			<i>42,453</i>
Segment Assets	1,489,340	196,873	1,686,213
	<i>1,276,135</i>	<i>183,604</i>	<i>1,459,739</i>
Unallocated Assets			130,420
			<i>195,726</i>
Total Assets			1,816,663
			<i>1,655,465</i>
Segment Liabilities	337,888	45,327	383,215
	<i>223,987</i>	<i>44,110</i>	<i>268,097</i>
Unallocated Liabilities			1,072,686
			<i>1,081,740</i>
Total Liabilities			1,455,901
			<i>1,349,837</i>
Capital Expenditure incurred	232,376	28,437	261,173
	<i>228,919</i>	<i>26,039</i>	<i>254,958</i>
Unallocated Capital Expenditure incurred			7,171
			<i>73,180</i>
Total Capital Expenditure			268,344
			<i>328,138</i>
Depreciation and amortization	132,920	12,826	145,746
	<i>115,635</i>	<i>10,934</i>	<i>126,569</i>
Unallocated Depreciation and amortization			12,110
			<i>28,303</i>
Total Depreciation and amortization			157,856
			<i>154,872</i>
Non cash expenditure other than depreciation	157	—	157
			<i>2,147</i>
Unallocated non cash expenditure other than depreciation			—
Total Non cash expenditure other than depreciation			157
			<i>2,147</i>

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Secondary Segment Information

Secondary segment reporting is performed on the basis of the geographical location of customers. Revenue attributable to the location of customers as follows:

Location	Year ended	Year ended
	31 st March, 2007	31 st March, 2006
India	5,311,665	4,665,411
Rest of World	541,163	782,775
Total	<u>5,852,828</u>	<u>5,448,186</u>

g. Related Party Disclosures

Related parties of the Company

Key management personnel R.G. Chandramogan (Chairman and Managing Director),
K.S. Thanarajan (Joint Managing Director) and
C. Sathyan (Executive Director - Operations).

Companies under the same management None (31 March 2006: None)

- (i) Details of remuneration paid to the key management personnel are provided in Note 2d above and guarantees given by Directors towards loans obtained by the Company are provided in Schedules 3 and 4 to the financial statements.
- (ii) Capital advances include an amount of Rs.1,000 (previous year Rs.1,000) paid to a relative of key management personnel towards purchase of land.

h. Deferred Taxes

The major components of the deferred tax assets and liabilities are outlined below:

	As at	As at
	31 st March, 2007	31 st March, 2006
<i>Assets</i>		
Current Liabilities and Provisions	<u>7,824</u>	<u>2,844</u>
	7,824	2,844
<i>Liabilities</i>		
Fixed Assets	<u>(105,736)</u>	<u>(100,427)</u>
	(105,736)	(100,427)
Net Deferred Tax Liabilities	<u>(97,912)</u>	<u>(97,583)</u>

i. Licensed and Installed Capacities

	(000 litres per day)	
	Year ended	Year ended
	31 st March, 2007	31 st March, 2006
Licensed capacity (represents registered capacity for dairy)	1,620	1,500
Licensed capacity for ice cream	NA	NA
Installed capacity for dairy	1,620	1,500
Installed capacity for ice cream	25	25

Being a technical matter, licensed and installed capacities are as certified by management and relied by auditors.

j. Consumption of Raw Materials and Packing Materials and Stores and Spares

(i) Raw Materials and Packing Materials	Year ended 31 st March, 2007		Year ended 31 st March, 2006	
	Qty. ('000s)	Value	Qty. ('000s)	Value
Milk (quantity in litres)	402,770	3,679,449	387,523	3,702,445
Other (individually constituting less than 10% of the total value of consumption)	—	698,439	—	368,142
Total		4,377,888		4,070,587

(ii) Stores and Spares	Year ended 31 st March, 2007		Year ended 31 st March, 2006	
	Qty. ('000s)	Value	Qty. ('000s)	Value
Stores and Spares	—	37,038	—	27,743
Total		37,038		27,743

k. Consumption of Imported and Indigenous Raw Materials and Packing Materials and Stores and Spares

(i) Raw Materials and Packing Materials	Year ended 31 st March, 2007		Year ended 31 st March, 2006	
	%	Value	%	Value
Imported	0.01	757	—	—
Indigenous	99.99	4,377,131	100	4,070,587
Total	100	4,377,888	100	4,070,587

(ii) Stores and Spares	Year ended 31 st March, 2007		Year ended 31 st March, 2006	
	%	Value	%	Value
Imported	—	—	—	—
Indigenous	100	37,038	100	27,743
Total	100	37,038	100	27,743

l. Quantitative information

Previous years figures have been shown in italics

Description	UOM	Opening Stock		Purchases/ Production	Sales		Closing Stock	
		Qty. ('000s)	Value	Qty. ('000s)	Qty. ('000s)	Value	Qty. ('000s)	Value
Traded goods								
- Cattle feed	Kgs.	68	1,208	10,103	9,912	64,690	259	1,695
		<i>113</i>	<i>827</i>	<i>5,590</i>	<i>5,635</i>	<i>36,499</i>	<i>68</i>	<i>1,208</i>
- Others	Kgs.	**	859	**	**	19,228	**	94
		<i>**</i>	<i>146</i>	<i>**</i>	<i>**</i>	<i>13,564</i>	<i>**</i>	<i>859</i>
Manufactured goods								
- Ice cream	Ltrs.	145	6,173	4,899	4,877	388,570	167	6,518
		<i>109</i>	<i>5,989</i>	<i>4,135</i>	<i>4,099</i>	<i>354,984</i>	<i>145</i>	<i>6,173</i>
- Milk and Skimmed Milk	Ltrs.	144	1,801	292,296	292,260	4,323,309	180	2,080
		<i>478</i>	<i>5,083</i>	<i>268,067</i>	<i>268,401</i>	<i>3,718,490</i>	<i>144</i>	<i>1,801</i>
- Milk Powders	Kgs.	163	13,550	6,755	6,348	608,238	570	57,351
		<i>364</i>	<i>30,523</i>	<i>8,434</i>	<i>8,635</i>	<i>789,869</i>	<i>163</i>	<i>13,550</i>
- Others	Kgs.	76	5,638	5,598	5,553	448,793	121	9,041
		<i>160</i>	<i>12,770</i>	<i>6,839</i>	<i>6,923</i>	<i>534,780</i>	<i>76</i>	<i>5,638</i>

** Represents items for which units of measurement cannot be quantified

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m. Other Financial Information

	Year ended 31 st March, 2007	Year ended 31 st March, 2006
Exports on FOB basis	533,426	774,501
Royalty income	1,256	2,143
CIF value of imports – capital goods	14,507	2,594
CIF value of imports – packing materials	757	—
Expenditure in Foreign Currency		
- Travel	1,653	1,283
- Professional charges	1,754	565
- Interest	—	1,093
- Others	7,312	604

n. Outstanding Lease Obligations

	As at 31 st March, 2007	As at 31 st March, 2006
Finance Lease Obligations		
Future minimum lease payments		
Not later than one year	15,478	15,349
Later than one year and not later than five years	14,130	23,357
Total	29,608	38,706
Less: Amounts representing future interest	2,685	3,995
Present value of minimum lease payments	26,923	34,711
Less: Amounts due not later than one year	13,652	12,928
Amounts due later than one year and not later than five years	13,271	21,783
Operating Lease Obligations		
Future minimum lease payments		
Not later than one year	—	2,427
Later than one year and not later than five years	—	8,311
Later than five years	—	—
Total	—	10,738

The disclosure above does not include information relating to cancellable leases.

o. The names of small-scale industrial undertakings, determined by the Company on the basis of information available, to whom the Company owes any sum together with interest outstanding for more than thirty days are outlined below.
Eesha Packaging, Bajo Plastics, Glory Polyfilms Pvt. Ltd, Sudhan Power Tech, Sign-o-Sign and Sri Pumps & Fittings Industrial Corporation.

p. The management is currently in the process of identifying enterprises which have provided goods and services to the Company and which qualify under the definition of medium and small enterprises, as defined under Micro, Small and Medium Enterprises Development Act, 2006. Accordingly, the disclosure in respect of the amounts payable to such medium and small enterprises as at 31st March 2007 has not been made in the financials statements. However, in view of the management, the impact of interest, if any, that may be payable in accordance with the provisions of the Act is not expected to be material.

q. Earnings Per Share

Basic earnings per share are computed and disclosed using the weighted average number of common shares outstanding during the year.

	Year ended 31 st March, 2007	Year ended 31 st March, 2006
Net Profit after taxation	81,460	42,453
Less : Preference share dividend	5,412	1,971
Less : Tax thereon	920	276
Net Profit considered for computing earnings per share	75,128	40,206
Weighted average number of equity shares outstanding	6,788,818	6,788,818
Basic and diluted earnings per share (in Rs.)	11.07	5.92

r. Employee Benefits

Effective 1, April 2006, the Company adopted Accounting Standard ('AS') 15 (revised 2005) – "Employee Benefits" issued by the Institute of Chartered Accountants of India. As per the transitional provisions specified in the Standard, the difference in the liability as per the existing policy followed by the Company and that arising on adoption of this standard is required to be charged to opening reserves and surplus account. Pursuant to this, the net additional liability as on 1 April 2006 for defined benefit plans towards Gratuity liability amounting to Rs. 4,139 (net of deferred tax of Rs. 2,101) has been adjusted against the revenue reserve.

Disclosure in respect of employee benefit pursuant to the revised Accounting Standard 15;

Change in Projected Benefit Obligation

**Year ended
31st March 2007**

Projected benefit obligation at the beginning of the year	15,184
Service cost	2,594
Interest cost	1,147
Actuarial (gain)/ loss	(2,685)
Benefits paid	(1,693)

Projected Benefit Obligation at the end of the period 14,547

Change in Plan Assets

Fair value of plan assets at the beginning of the year	7,383
Actual return on plan assets	563
Actuarial (gain) / loss	
Employer contributions	
Benefits paid	(1,693)

Fair Value of Plan Assets at the end of the period 6,253

Reconciliation of Present Value of Obligation on the Fair Value of Plan Assets

Present value of projected benefit obligation at the end of the period	14,547
Funded status of the plans	6,253

Funded Status Amount of Liability Recognized in the Balance Sheet 8,294

r. Employee Benefits

The components of net gratuity costs are reflected below:

**Year ended
31st March 2007**

Service cost	2,594
Interest cost	1,147
Expected returns on plan assets	(490)
Amortization	—
Recognized net actuarial (gain)/ loss	(2,758)
Net Gratuity Costs	493

Financial Assumptions at Balance Sheet date:

Discount rate	8.00% p.a.
Long-term rate of compensation increase	8.00% p.a.
Rate of return on plan assets	7.50% p.a.

The Company assesses these assumptions with the projected long-term plans of growth and prevalent industry standards.

- s.** During the current year the Company had issued 500,000 8% Non-Convertible Cumulative Redeemable Preference Shares of Rs. 100/- each at its face value. These shares were issued by the Company with a right to redeem before the expiry of five years. Subsequently the Company exercised the right to redeem the preference shares and shares were duly redeemed on 22nd August, 2006. These shares were redeemed out of the Company's profits that are otherwise available for dividend and consequently an amount of Rs. 50,000 representing the nominal amount of the shares redeemed is transferred to Capital Redemption Reserve.

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- t. The Company has recognized income from transport assistance aggregating to Rs. 5,979 (previous year Rs. 8,640) in respect of export sales made under the Agricultural Processing and Exports Development Authority Scheme of Government of India. The Government of India has commenced disbursement of funds in the current year. As at the balance sheet date, loans and advances include an amount of Rs. 12,779 (previous year Rs.8,640) representing the dues from the Government of India under the above mentioned scheme. The management is confident of receiving such dues from the Government of India in 2007-08 and accordingly no provision has been considered in the financial statements.
- u. Previous year comparatives have been regrouped wherever necessary to conform to current year classification.

For and on behalf of the Board of Directors

Sd/-

R.G. CHANDRAMOGAN
Chairman & Managing Director

Sd/-

K.S. THANARAJAN
Joint Managing Director

Sd/-

B.V. NATH
Company Secretary

Place : Chennai
Date : 21st June, 2007

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I. Registration Details

Registration No.	1	2	7	4	7	State Code	1	8
Balance Sheet Date	3	1	0	3	2	0	0	7
	Date			Month			Year	

II. Capital Raised during the year (Amounts in Rs. Thousands)

Public Issue	N	I	L	Rights Issue	N	I	L
Bonus Issue	N	I	L	Private Placement	N	I	L

III. Position of Mobilisation and Deployment of Funds (Amounts in Rs. Thousands)

Total Liabilities	1	3	4	6	4	0	8	Total Assets	1	3	4	6	4	0	8
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Sources of Funds

Paid-up Capital	1	1	8	7	2	1	Reserves & Surplus	2	4	2	0	1	0
Secured Loans	5	2	3	5	8	2	Unsecured Loans	3	5	0	2	1	7
Deferred Income	1	3	9	6	6	Deferred Tax Liabilities	9	7	9	1	2		

Application of Funds

Net Fixed Assets	1	4	3	6	0	4	1	Investments	N	I	L
Net Current Assets	-	8	9	6	3	3	Miscellaneous Expenditure	N	I	L	
Accumulated Losses	N	I	L								

IV. Performance of Company (Amounts in Rs. Thousands)

Turnover	5	9	2	2	3	0	0	Total Expenditure	5	8	0	7	6	9	7
Profit / Loss before tax	1	1	4	6	0	3	Profit / Loss after tax	8	1	4	6	0			
Earning per Share in Rs.	1	1	.	0	7	Dividend Rate %	2	0							

V. Generic Names of Three Principal Products / Services of Company (as per monetary terms)

Item Code No. (ITC Code)	0	4	0	1	2	0	.	0	0
Production Description	MILK								
Item Code No. (ITC Code)	2	1	0	5	0	0	.	0	0
Production Description	ICE CREAMS OF ALL VARIETIES								

For and on behalf of the Board

R.G. CHANDRAMOGAN
Chairman & Managing Director

K.S. THANARAJAN
Joint Managing Director

Place : Chennai
Date : 21st June, 2007

B.V. NATH
Company Secretary