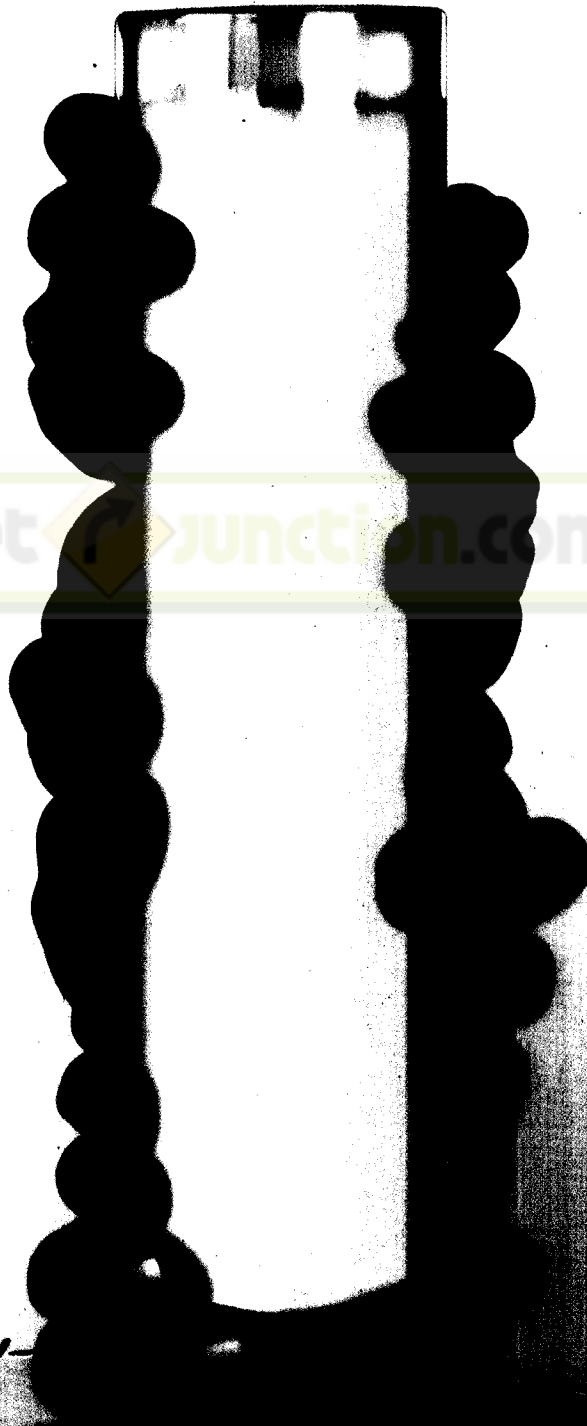


19th Annual Report 2003-2004

HATSUN
Agro Product Limited

Our milk
is growing on
everyone.



Fresh from Hatsun



H A T S U N

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

COMMITTEES OF THE BOARD

AUDIT COMMITTEE

P. VAIDYANATHAN

S. THIAGARAJAN

KIRTI P. SHAH

B.S. MANI

MEMBERS' GRIEVANCE COMMITTEE

S. THIAGARAJAN

P. VAIDYANATHAN

K.S. THANARAJAN

REMUNERATION COMMITTEE

P. VAIDYANATHAN

S. THIAGARAJAN

KIRTI P. SHAH

B.S. MANI

COMPANY SECRETARY

B.V. NATH

REGISTERED & CORPORATE OFFICE

No.5-A, VIJAYARAGHAVA ROAD
T.NAGAR
CHENNAI - 600 017.

FACTORIES

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

BRANCHES/DEPOTS

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

*Hatsun Agro Product Limited***STATUTORY AUDITORS****BHARAT S. RAUT & CO.**

CHARTERED ACCOUNTANTS

"WESCARE TOWERS", No.16, CENOTAPH ROAD, TEYNAMPET, CHENNAI - 600 018.

BANKERS

* ABN AMRO BANK * HDFC BANK LTD.

* ICICI BANK LTD. * UTI BANK LTD.

19TH ANNUAL GENERAL MEETING

DATE : 15th SEPTEMBER, 2004

DAY : WEDNESDAY

TIME : 11.30 A.M.

VENUE : ANDHRA SOCIAL &
CULTURAL ASSOCIATION
No.44, VIJAYARAGHAVA ROAD,
T.NAGAR, CHENNAI - 600 017.

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NOTICE TO MEMBERS

NOTICE is hereby given that the Nineteenth Annual General Meeting of the Company will be held on Wednesday, the 15th September, 2004 at 11.30 A.M. at Andhra Social & Cultural Association, No.44, Vijayaraghava Road, T.Nagar, Chennai - 600 017 to transact the following:

Ordinary Business

1. To receive, consider and adopt the Profit & Loss Account for the year ended 31st March, 2004 and the Balance Sheet as on that date together with the Reports of Directors and Auditors thereon.
2. To ratify the interim dividend of 20% for the year ended 31st March, 2004 declared and paid.
3. To elect a Director in place of Mr. K.S. Thanarajan, who retires by rotation and being eligible, offers himself for re-election.
4. To appoint Auditors and fix their remuneration.

Special Business

5. To consider and if thought fit, to pass with or without modification, the following as an Ordinary Resolution:

"RESOLVED THAT Mr. B.S. Mani, who vacates office at this meeting under Section 260 of the Companies Act, 1956, be and is hereby appointed as a Director of the Company."

6. To consider and if thought fit, to pass the following resolution as an Ordinary Resolution:

"RESOLVED THAT pursuant to Sections 198, 269, 309, 310, 311 and other applicable provisions, if any, of and Schedule XIII to the Companies Act, 1956, the remuneration and other perquisites of Mr. R.G. Chandramogan, Chairman and Managing Director, revised by the Board of Directors of the Company as set out in the Explanatory Statement annexed hereto be and are hereby approved and ratified."

"RESOLVED FURTHER THAT during any year of loss or inadequacy of profits, Salary and Allowances fixed by the Board of Directors together with other perquisites shall be paid as minimum remuneration subject to the ceiling prescribed for the time being under Schedule XIII to the Companies Act, 1956 or any statutory modification(s) thereof and that the Directors be and are hereby authorised to make an application to the Central Government as may be necessary if such minimum remuneration exceeds the ceiling referred hereto."

"RESOLVED FURTHER THAT the Board of Directors be and is hereby authorised to revise the remuneration and other benefits of Mr. R.G. Chandramogan, Chairman and Managing Director, from time to time within the ceiling prescribed under Sections 198, 309 and other applicable provisions of and Schedule XIII to the Companies Act, 1956 as may be in force from time to time."

7. To consider and if thought fit, to pass the following resolution as an Ordinary Resolution:

"RESOLVED THAT pursuant to Sections 198, 269, 309, 310, 311 and other applicable provisions, if any, of and Schedule XIII to the Companies Act, 1956, the remuneration and other perquisites of Mr. K.S. Thanarajan, Joint Managing Director, revised by the Board of Directors of the Company as set out in the Explanatory Statement annexed hereto be and are hereby approved and ratified."

"RESOLVED FURTHER THAT during any year of loss or inadequacy of profits, Salary and Allowances fixed by the Board of Directors together with other perquisites shall be paid as minimum remuneration subject to the ceiling prescribed for the time being under Schedule XIII to the Companies Act, 1956 or any statutory modification(s) thereof and that the Directors be and are hereby authorized to make an application to the Central Government as may be necessary if such minimum remuneration exceeds the ceiling referred hereto."

"RESOLVED FURTHER THAT the Board of Directors be and is hereby authorized to revise the remuneration and other benefits of Mr. K.S. Thanarajan, Joint Managing Director, from time to time within the ceiling prescribed under Sections 198, 309 and other applicable provisions of and Schedule XIII to the Companies Act, 1956 as may be in force from time to time."

Hatsun Agro Product Limited

8. To consider and if thought fit, to pass the following resolution as an Ordinary Resolution:

"RESOLVED THAT pursuant to Sections 198, 269, 309, 310, 311 and other applicable provisions, if any, of and Schedule XIII to the Companies Act, 1956, the remuneration and other perquisites of Mr. C. Sathyan, Executive Director - Operations revised by the Board of Directors of the Company as set out in the Explanatory Statement annexed here to be and hereby approved."

"RESOLVED FURTHER THAT during any year of loss or inadequacy of profits, Salary and Allowances fixed by the Board of Directors together with other perquisites shall be paid as minimum remuneration subject to the ceiling prescribed for the time being under Schedule XIII to the Companies Act, 1956 or any statutory modification(s) thereof and that the Directors be and are hereby authorized to make an application to the Central Government as may be necessary if such minimum remuneration exceeds the ceiling referred hereto."

"RESOLVED FURTHER THAT the Board of Directors be and is hereby authorized to revise the remuneration and other benefits of Mr. C. Sathyan, Executive Director - Operations, from time to time within the ceiling prescribed under Sections 198, 309 and other applicable provisions of and Schedule XIII to the Companies Act, 1956 as may be in force from time to time."

9. To consider and if thought fit, to pass the following resolution as an Ordinary Resolution:

"RESOLVED THAT the consent of the Company be and is hereby accorded in terms of Section 293 (1) (d) and other applicable provisions, if any, of the Companies Act, 1956 to the Board of Directors of the Company, for borrowing from time to time, the sum or sums of monies which together with monies already borrowed by the Company (apart from the temporary loans obtained from the Company's Bankers in the ordinary course of business) may exceed the aggregate paid up capital of the Company and its free reserves, that is to say, reserves not set apart for any specific purpose, provided such excess as determined by the amount outstanding so borrowed by the Board, shall not at any time exceed the limit of Rupees one hundred and twenty five crores only."

The Register of Members of the Company will remain closed from Thursday, the 9th September, 2004 to Wednesday, the 15th September, 2004 (both days inclusive).

Registered Office:

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

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

Place : Chennai
Date : July 30, 2004

B.V. NATH
Company Secretary

NOTES:

- A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY.**
- Instruments of proxy in order to be effective, must be received at the Company's Registered Office not less than 48 hours before the commencement of the Meeting.
- In terms of the amendment to Section 205 A of the Companies Act, 1956 and the introduction of Section 205 C by the Companies (Amendment) Act, 1999, all dividends for the financial year 1996-97 and thereafter which remain unclaimed for a period of seven years will be transferred to the Investor Education and Protection Fund.
- Members who have, till date, not encashed their dividend warrants for the financial years 1996-1997 to 2003-2004 are advised to claim the dividend from the Secretarial Department at the Registered Office of the Company at the earliest after producing the required documents. Once the unclaimed dividends are transferred to the Investor Education and Protection Fund, members will not be entitled to claim these dividends.
- Members are requested to kindly keep the Company immediately informed of any changes in their respective mailing addresses.
- The relative Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of item Nos. 5 to 9 are annexed.

*Hatsun Agro Product Limited***EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956****Item No. 5**

Mr. B.S. Mani was co-opted as an Additional Director with effect from 29th March, 2004.

Pursuant to Section 260 of the Companies Act, 1956, Mr. B.S. Mani vacates his office at the ensuing Annual General Meeting. Notice has been received from a member proposing the candidature of Mr. B.S. Mani for appointment as Director and an amount of Rs.500/- has been deposited with the Company by the said member pursuant to Section 257 of the Companies Act, 1956.

Mr. Mani is the Editor of a Karnataka based Tamil daily publication, Dinasudar and is also the Chairman of Sanjeevani, a Kannada daily publication, in addition to earlier experience with Daily Thanthi and Malaimurasu. He has undergone Diploma course in Journalism from Cardiff, England and holds 1st rank in M.A. Tamil Literature from Madras University. His induction to the Board would enormously benefit the Company.

The resolution is commended for adoption.

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

Item No. 6

Mr. R.G. Chandramogan was re-appointed as Managing Director for a period of five years effective from 1st April, 1999, and his term of office expired on 31st March, 2004. The Board of Directors at its meeting held on 29th March, 2004, renewed and revised his appointment for a period of five years effective from 1st April, 2004. The abstract of the said renewal and revision has already been notified to the members under Section 302(2) of the Companies Act, 1956.

The resolution is commended for adoption.

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

A copy of the detailed renewal of contract of appointment is available for inspection at the Registered Office of the Company.

Item No. 7

Mr. K.S. Thanarajan was re-appointed as Joint Managing Director for a period of five years effective from 1st March, 1999. The Board of Directors at its meeting held on 29th March, 2004, renewed and revised his appointment for a period of five years effective from 1st March, 2004. The abstract of the said renewal and revision has already been notified to the members under Section 302(2) of the Companies Act, 1956.

The resolution is commended for adoption.

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

A copy of the detailed renewal of contract of appointment is available for inspection at the Registered Office of the Company.

Item No. 8

Mr. C. Sathyan was re-appointed as Executive Director - Operations for a period of five years effective from 1st June, 2001. The Board of Directors revised the salary of Mr. C. Sathyan from Rs.20000/- to Rs.55000/- per month with effect from 1st September, 2004 at the Board of Directors Meeting held on 30th July, 2004. The remuneration payable to Mr. C. Sathyan, Executive Director - Operations, is within the provisions of Sections 198, 269, 309, 310, 311 and Schedule XIII of the Companies Act, 1956.

A. MR. C. SATHYAN, Executive Director - Operations

I. **SALARY:** Rs.55,000/- (Rupees fifty five thousand only) per month.

II. PERQUISITES:**1) HOUSING**

House Rent Allowance shall be subject to a ceiling of 60% of the salary. If the Company provides the accommodation, the expenditure on hiring furnished accommodation shall be subject to 60% of the salary.

*Hatsun Agro Product Limited***2) MEDICAL BENEFITS**

Reimbursement of actual medical expenses incurred for self and family subject to a ceiling of one month's salary in a year or three months' salary over a period of three years. 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 fees.

5) INSURANCE COVER

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

III. OTHERS:

- Provident Fund, Superannuation, Gratuity and other statutory deductions, if any, will be allowed as per the rules of the Company.
- Mr. C. Sathyan will be provided a car for use on Company's business. He will also be provided telephone at his residence.
- Mr. C. Sathyan will be allowed leave and encashment thereof as per the rules of the Company.

The above mentioned remuneration shall be paid as minimum remuneration in the event of absence or inadequacy of profits. If such minimum remuneration is in excess of the ceiling, if any, prescribed under Schedule XIII to the Companies Act, 1956, the Company shall seek permission of the Central Government as may be necessary in accordance with the provisions 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.

The resolution is commended for adoption.

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

Item No. 9

The Company is at present, authorized to borrow upto Rs.75 crores over and above the paid up capital and free reserves (apart from the loans obtained from the Company's Bankers in the ordinary course of business) and this was approved by the members of the Company in the Annual General Meeting held on 28th September, 2002. On account of the growth since achieved and also considering the expanding business opportunities, the Directors thought it prudent to enhance this limit to Rs.125 crores.

The resolution is commended for adoption.

None of the Directors is deemed to be interested in this resolution.

Registered Office:

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

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

Place : Chennai
Date : July 30, 2004

B.V. NATH
Company Secretary

*Hatsun Agro Product Limited***DIRECTORS' REPORT**

Your Directors are pleased to present the Nineteenth Annual Report on the business and operations of your Company together with the Statement of Accounts for the year ended 31st March, 2004.

FINANCIAL RESULTS

(Rs. in lacs)		
	Year ended 31/3/2004	Year ended 31/3/2003
Profit for the Year Before Tax	953.87	208.55
Provision for Tax	77.76	68.25
Deferred Tax Benefit/(expense)	(337.58)	167.21
Profit for the Year After Tax	538.53	307.51
Transfer from earlier year's Profit & Loss Account	48.82	5.05
Adjustment relating to Amalgamation	(52.70)	—
Transfer to Capital Redemption Reserve	—	30.00
Interim Dividend paid @ 20% (30% for previous year 2002-2003)	135.77	202.74
Corporate Dividend Tax	17.40	—
Transfer to General Reserve	40.40	31.00
Surplus carried to Balance Sheet	341.08	48.82

DIVIDEND

The Company declared interim dividend of 20% during the year 2003-2004 and the same would be construed as the final dividend for the year ended 31st March, 2004.

PERFORMANCE OF THE COMPANY

During the year under review, your Company registered a turnover of Rs. 361.90 crores reflecting a 11.25% increase over the previous year. The growth in the bottom line has occurred primarily on account of change in the method of depreciation from written down value method to the straight line method. The Company is confident of a better performance in the coming year due to the capacity being created and in place for a quantum jump in the turnover of milk and milk products.

DAIRY SEGMENT

Your Company continues to be the leading private company in the dairy sector in the country and also contributes in making the country as the largest milk producing nation in the world. Your Company has built its processing capacity and logistics of distribution in tune with its procurement capability and market demand. Milk continues to have the major share in your Company's revenue.

The Company has once again proved its leadership in the dairy segment by continuing to maintain its position. More thrust is also being given on **AROKYA** brand promotion in the southern regions of the country and the **Arjun Amma** campaign launched in the last quarter of the financial year is already bearing fruit. Our plant at Salem has obtained the **HACCP** certification in January 2004. This is in addition to the Ice Cream plant already being awarded the same certification. The company has also during the year entered into an exclusive processing agreement with a dairy in Kolkata for penetrating the West Bengal market.

The Company with the established network for its Komatha toned milk is progressing well and is expected to grow in the right direction and with more contribution to the bottom line. This product line has now been extended in Belgaum also.

The Company has also commissioned an integrated Milk Powder plant in Kancheepuram for manufacture of skimmed and whole milk powder, dairy whitener, butter and ghee. This would not only ensure utilisation of excess milk procured during the flush season but also augment value-added milk products to contribute to the turnover of the Company and ensure steady milk procurement in the lean season and strengthen the bond with thousands of farmers.

*Hatsun Agro Product Limited***ICE CREAM SEGMENT**

Your Company suffered a minor decrease in the turnover of the Ice Cream segment due to climatic conditions. The Ice Cream industry's growth has been stagnant. However, the Company has devised new strategies to cut down the cost of production through effective cost control measures in raw material procurement and utilisation of assets and ancillary utilities. The merger of Hatsun Foods Company Limited (HFCL) and your Company has also contributed to better control over logistics, distribution and market operations besides substantial savings in costs. This is bound to give better results in the coming financial year.

FUTURE PLAN

During the current year, the Company has made substantial progress in the construction of the bio mass power plant in Kancheepuram which will substantially reduce the power costs. The Company has also started the construction of an integrated milk powder plant in Salem with a daily capacity of 25 tonnes of whole and skimmed milk powder, dairy whitener, butter and ghee to meet the captive consumption requirement in the lean months and to increase the turnover of the Company through addition of value-added dairy products.

Your Company will strive hard to maintain and convincingly add to its current leadership position it has already achieved.

EXPLANATION TO AUDITORS' REMARKS**Clause 1 of Annexure to the Auditors' Report**

The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets except in relation to updation of quantitative information of assets taken over from Hatsun Foods Company Limited pursuant to a scheme of amalgamation.

Hatsun Foods Company Limited was amalgamated with the Company vide court order dated 19th December, 2003 passed by the Hon'ble High Court of Madras. Though the order was with effect from 1st April, 2003, the Company could not update the quantitative details and situation of fixed assets taken over from Hatsun Foods Company Limited within the period of audit. However the management commits that this exercise would be completed in fiscal 2004-2005.

Clause 9 of Annexure to the Auditors' Report

The Company has been regular in depositing undisputed statutory dues and any other material statutory dues during the year with appropriate authorities except in relation to certain delays noted on remittance of income tax deducted at source with appropriate authorities.

The company is generally regular in remittance of statutory dues to appropriate authorities. However, since the Company has multi-locational dairies, there were certain delays in remittance of income tax deducted at source with appropriate authorities due to the information not being received in time. However, the Company is taking all efforts and steps to eliminate these delays in future.

Clause 16 of Annexure to the Auditors' Report

The Auditors have expressed their inability to report whether the term loans were applied for the purpose for which they were obtained and whether monies raised on short term basis have been used for long term investments and vice versa.

The Company has a centralized 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. Hence, the Company does not segregate the application of loans for short term and long term purposes for reasons of efficient treasury management.

FINANCE

During the year under review, the Company's borrowings have increased on account of replacing high cost borrowings and expansion plans. Your Company has negotiated a very attractive rate on all these borrowings thereby reducing interest cost to a great extent when compared to the total borrowings as a whole.