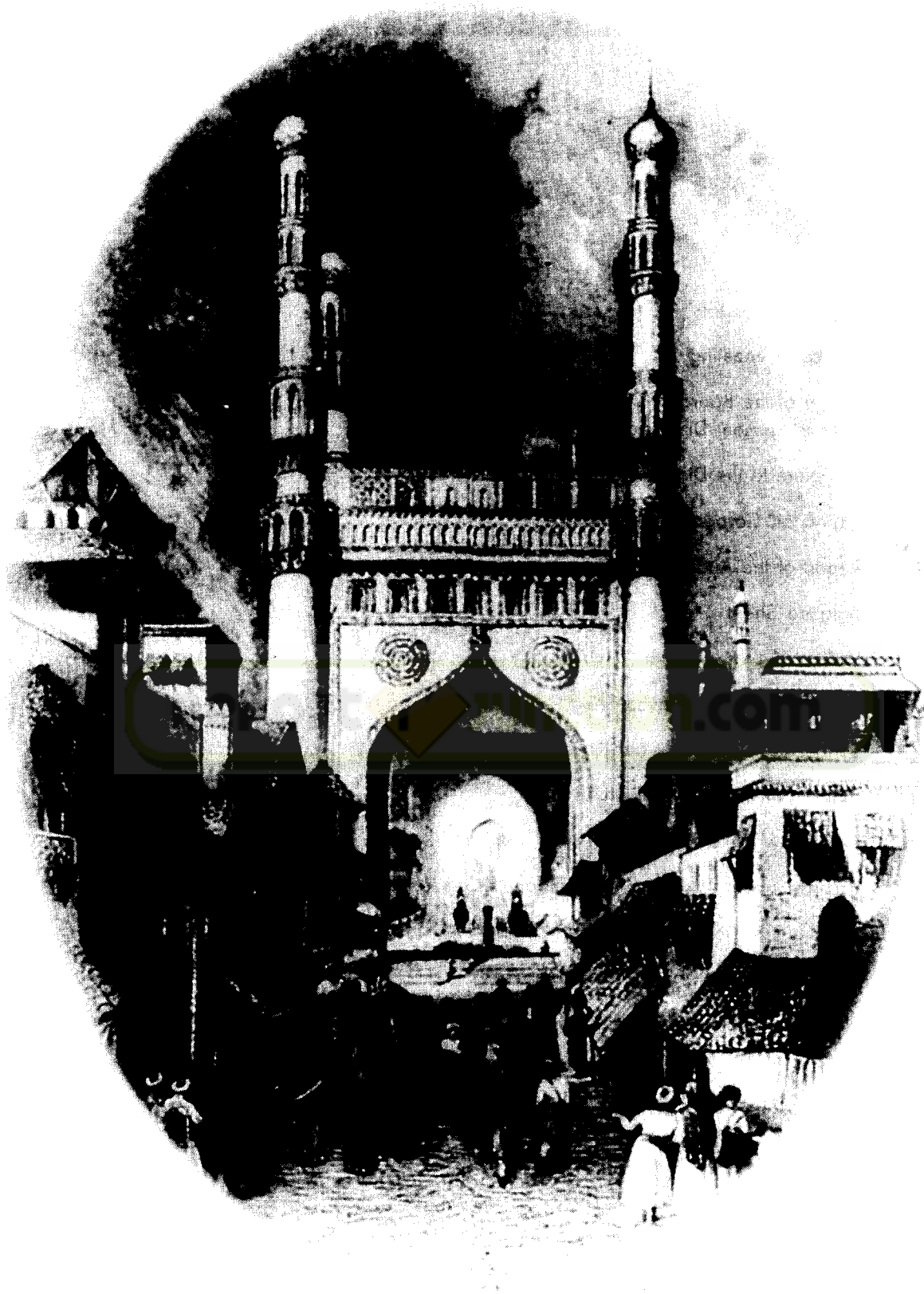


VST INDUSTRIES LIMITED

ANNUAL REPORT 2003





CONTENTS

	Page
Board of Directors	3
Notice of Meeting	4
Report of the Board of Directors & Management Discussion and Analysis	10
Annexure to the Directors' Report	16
Report on Corporate Governance	19
Report of the Auditors	29
Balance Sheet	32
Profit and Loss Account	33
Schedules to the Balance Sheet	34
Schedules to the Profit and Loss Account	41
Significant Accounting Policies	48
Cash Flow Statement	49
Balance Sheet Abstract and Company's General Business Profile ..	51
Statement Regarding Subsidiary Companies	52
Report & Accounts of Subsidiaries :	
Hallmark Tobacco Company Private Limited	53
VST Distribution, Storage & Leasing Company Private Limited	62
Tobacco Diversification Investments Private Limited	70
Consolidated Financial Statements	80
Operating Results	101
ECS Mandate / Bank Mandate	102



VST Industries Limited

BOARD OF DIRECTORS

Chairman

ABHIJIT BASU

Managing Director

RAYMOND S. NORONHA

Finance Director & Secretary

N. SAI SANKAR

Directors

S.K. ARORA I.A.S.

JAMES RICHARD SUTTIE

AIR CHIEF MARSHAL IDRIS HASAN LATIF, P.V.S.M. (Retd.)

T. LAKSHMANAN

R.V.K.M. SURYARAU

Auditors

Lovelock & Lewes

Chartered Accountants

Hyderabad - 500 082

Registered Office

1-7-1063/1065, Azamabad

Hyderabad - 500 020

Andhra Pradesh

Registrars for Share Transfer & Public Deposits

Sathguru Management Consultants Private Limited

Plot No. 15, Hindi Nagar

Near Sai Baba Temple, Punjagutta

Hyderabad - 500 034

Phone : 040 - 2335 0586, 2335 6507, 2335 6975

Fax : 040 - 2335 4042

E-mail : sta@sathguru.com



VST Industries Limited

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN THAT the Seventy Second Annual General Meeting of VST INDUSTRIES LIMITED will be held at Hari Hara Kala Bhavan, R.P. Road, Secunderabad - 500 003, on **Thursday, 24th July, 2003 at 10.30 a.m.** for transaction of the following business :

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2003, the Statement of Accounts, Auditors' Report and Directors' Report for the Company's year ended 31st March, 2003.
2. To declare a Dividend on the Ordinary Share Capital.
3. To elect Directors in place of those retiring by rotation.
4. To appoint Auditors and to fix their remuneration. In this connection to consider and, if thought fit, to pass the following Resolution which will be proposed as an Ordinary Resolution :

"RESOLVED that Messrs Lovelock & Lewes, Chartered Accountants, be and are hereby appointed as the Auditors of the Company to hold such office until the conclusion of the next Annual General Meeting at a remuneration of Rs.9,00,000 (Rupees Nine Lakhs only) payable in two equal instalments plus out of pocket expenses incurred."

SPECIAL BUSINESS

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

"RESOLVED that in accordance with the provisions of Sections 198, 269, 309, 310 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 and subject to such approvals as may be necessary and in partial modification of the resolution passed at the 71st Annual General Meeting of the Company held on 24th July, 2002, approval be and is hereby accorded to the Board of Directors to vary, alter and modify the remuneration payable to Mr. Raymond S. Noronha, Managing Director of the Company with effect from 1st April, 2003 for the remaining period of his office upto 31st October, 2003, as under :-

- I. **Consolidated Salary :** At the rate of Rs.3,50,000 per month in the scale of Rs.3,00,000 - Rs.5,00,000 subject to such

increase as the Board may determine in the consolidated salary during the tenure of office as Managing Director having regard to the annual performance of Mr. Raymond S. Noronha and to cover the Consumer Price Index.

- II. **Performance Bonus :** Payable annually for each financial year ending 31st March, 2004 and thereafter, not exceeding 70% of the Consolidated Salary per annum after approval of the accounts as may be determined by the Board of Directors of the Company.

In addition to the aforesaid Consolidated Salary and Performance Bonus, Mr. Raymond S. Noronha shall be entitled to perquisites like gas, electricity, water, furnishings, medical reimbursement and leave travel concession for self and family, club fees, personal accident insurance etc. in accordance with the Rules of the Company, the monetary value of such perquisites being limited to Rs.4,50,000 per annum, for the purposes of which limit perquisites shall be evaluated as per Income Tax Rules, wherever applicable, and in absence of any such Rule, perquisites shall be evaluated at actual cost. However, the following shall not be included in the aforesaid perquisite limit :-

- a. Rent free furnished accommodation owned/ leased/rented by the Company or Housing Allowance in lieu thereof, as per the Rules of the Company.
- b. Contribution to Provident Fund and Superannuation Fund upto 27% of salary and contribution to Gratuity Fund upto 8.33% of salary as defined in the Rules of the respective Funds, or upto such other limit as may be prescribed under the Income Tax Act, 1961 and the Rules thereunder for this purpose.
- c. Use of Company car for official purposes and telephone at residence (including payment for local calls and long distance official calls).
- d. Encashment of unavailed leave as per the Rules of the Company at the time of retirement / cessation of service.



- e. Long service award as per the Rules of the Company.
- f. Costs and expenses incurred by the Company in connection with joining / transfer from one location to another as per the Rules of the Company.

The aggregate of the remuneration and perquisites/benefits including contribution towards Provident Fund, Superannuation Fund and Gratuity Fund, payable to Mr. Raymond S. Noronha shall always be subject to the overall ceilings laid down in Sections 198 and 309 of the Companies Act, 1956."

- 6. To consider and, if thought fit, to pass with or without modification, the following Resolution which will be proposed as a Special Resolution :

"RESOLVED that in accordance with the provisions of Sections 198, 269, 309, 310, 314 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 and subject to such approvals as may be necessary and in partial modification of the resolution passed at the 70th Annual General Meeting of the Company held on 14th June, 2001, approval be and is hereby accorded to the Board of Directors to vary, alter and modify the remuneration payable to Mr. N. Sai Sankar, Wholetime Director of the Company with effect from 1st April, 2003 for the remaining period of his office upto 31st December, 2005, as under :-

- I. **Consolidated Salary :** At the rate of Rs.2,10,000 per month in the scale of Rs.1,80,000 - Rs.3,00,000
- II. **Performance Bonus :** Payable annually for each financial year ending 31st March, 2004 and thereafter, not exceeding 70% of the Consolidated Salary per annum after approval of the accounts as may be determined by the Board of Directors of the Company.

In addition to the aforesaid Consolidated Salary and Performance Bonus, Mr. N. Sai Sankar shall be entitled to perquisites like gas, electricity, water, furnishings, medical reimbursement and leave travel concession for self and family, club fees, personal

accident insurance etc. in accordance with the Rules of the Company, the monetary value of such perquisites being limited to Rs.4,50,000 per annum, for the purposes of which limit perquisites shall be evaluated as per Income Tax Rules, wherever applicable, and in absence of any such Rule, perquisites shall be evaluated at actual cost. However, the following shall not be included in the aforesaid perquisite limit :-

- a. Rent free furnished accommodation owned/ leased/rented by the Company or Housing Allowance in lieu thereof, as per the Rules of the Company.
- b. Contribution to Provident Fund and Superannuation Fund upto 27% of salary and contribution to Gratuity Fund upto 8.33% of salary as defined in the Rules of the respective Funds, or upto such other limit as may be prescribed under the Income Tax Act, 1961 and the Rules thereunder for this purpose.
- c. Use of Company car for official purposes and telephone at residence (including payment for local calls and long distance official calls).
- d. Encashment of unavailed leave as per the Rules of the Company at the time of retirement/ cessation of service.
- e. Long service award as per the Rules of the Company.
- f. Costs and expenses incurred by the Company in connection with joining/transfer from one location to another as per the Rules of the Company.

The aggregate of the remuneration and perquisites/benefits including contribution towards Provident Fund, Superannuation Fund and Gratuity Fund, payable to Mr. N. Sai Sankar shall always be subject to the overall ceilings laid down in Sections 198 and 309 of the Companies Act, 1956."

To consider and, if thought fit, to pass with or without modification, the following Resolution which will be proposed as an Ordinary Resolution :

"RESOLVED that in accordance with provisions of Sections 269, 309, 311 read with Schedule XIII of



the Companies Act, 1956 and other applicable provisions, if any, of the Companies Act, 1956, Mr. Raymond S. Noronha be and is hereby re-appointed as Managing Director of the Company with effect from 1st November, 2003 to hold office for a period of five years or up to the date of his retirement, whichever is earlier, on the following remuneration :-

I. **Consolidated Salary :** At the rate of Rs.3,50,000 per month in the scale of Rs.3,00,000 - Rs.5,00,000 subject to such increase as the Board may determine in the consolidated salary during the tenure of office as Managing Director having regard to the annual performance of Mr. Raymond S. Noronha and to cover the Consumer Price Index.

II. **Performance Bonus :** Payable annually for each financial year ending 31st March, 2004 and thereafter, not exceeding 70% of the Consolidated Salary per annum after approval of the accounts as may be determined by the Board of Directors of the Company.

In addition to the aforesaid Consolidated Salary and Performance Bonus, Mr. Raymond S. Noronha shall be entitled to perquisites like gas, electricity, water, furnishings, medical reimbursement and leave travel concession for self and family, club fees, personal accident insurance etc. in accordance with the Rules of the Company, the monetary value of such perquisites being limited to Rs.4,50,000 per annum, for the purposes of which limit perquisites shall be evaluated as per Income Tax Rules, wherever applicable, and in absence of any such Rule, perquisites shall be evaluated at actual cost. However, the following shall not be included in the aforesaid perquisite limit :-

- a. Rent free furnished accommodation owned/ leased/rented by the Company or Housing Allowance in lieu thereof, as per the Rules of the Company.
- b. Contribution to Provident Fund and Superannuation Fund upto 27% of salary and contribution to Gratuity Fund upto 8.33% of salary as defined in the Rules of the respective

Funds, or upto such other limit as may be prescribed under the Income Tax Act, 1961 and the Rules thereunder for this purpose.

- c. Use of Company car for official purposes and telephone at residence (including payment for local calls and long distance official calls).
- d. Encashment of unavailed leave as per the Rules of the Company at the time of retirement / cessation of service.
- e. Long service award as per the Rules of the Company.
- f. Costs and expenses incurred by the Company in connection with joining / transfer from one location to another as per the Rules of the Company.

The aggregate of the remuneration and perquisites/ benefits including contribution towards Provident Fund, Superannuation Fund and Gratuity Fund, payable to Mr. Raymond S. Noronha shall always be subject to the overall ceilings laid down in Sections 198 and 309 of the Companies Act, 1956.

RESOLVED FURTHER that the Board of Directors, be and is hereby authorised to do all things and deeds incidental thereto including entering into an agreement with Mr. Raymond S. Noronha for the above purpose."

8. To consider and, if thought fit, to pass with or without modification, the following Resolution which will be proposed as a Special Resolution :

"RESOLVED that pursuant to the Securities and Exchange Board of India (Delisting of Securities) Guidelines 2003, the equity shares of the Company be delisted from the Ahmedabad, Chennai, Kolkata and Delhi stock exchanges.

RESOLVED FURTHER that the Board of Directors of the Company be and is hereby authorised to do all things and deeds incidental thereto."

The Register of Members will remain closed from 22nd July, 2003 to 24th July, 2003 (both days inclusive) for payment of dividend, if approved.



VST Industries Limited

Transfers of shares received in order by the Company's Registrars and Share Transfer Agents, Sathguru Management Consultants Private Limited, Plot No.15, Hindi Nagar, Near Sai Baba Temple, Punjagutta, Hyderabad - 500 034, before the close of business on 21st July, 2003, will be registered in time for the transferees to become eligible for dividend, if approved.

Dividend, if approved, will be paid on or before 23rd August, 2003 to those shareholders whose names

appear in the Register of Members of the Company on 24th July, 2003 or to their Mandatees.

By Order of the Board,

N. SAI SANKAR
Secretary

Dated this 29th day of April, 2003.
Azamabad, Hyderabad - 500 020,
Andhra Pradesh.

NOTES :

1. **A Member entitled to attend and vote at the General Meeting may appoint a proxy, who need not be a Member, to attend and on a poll, to vote on his behalf. The proxies should be deposited at the Registered Office of the Company not less than forty eight hours before the commencement of the Meeting.**
2. In accordance with Section 173(2) of the Companies Act, 1956, an Explanatory Statement in respect of items 5 to 8 being items of Special Business is annexed to the Notice of the Meeting.
3. In accordance with the provisions of Article 93 of the Articles of Association of the Company, Mr. N. Sai Sankar, Air Chief Marshal Idris Hasan Latif, P.V.S.M. (Retd.) and Mr. T. Lakshmanan will retire by rotation at this Annual General Meeting and being eligible offer themselves for re-appointment.
4. Shareholders should inform the Company's Registrars and Share Transfer Agents, Sathguru Management Consultants Private Limited of any change in their registered address, before 22nd July, 2003.
5. Shareholders who have multiple folios in identical names or joint names in the same order are requested to intimate to the Registrars and Share Transfer Agents, Sathguru Management Consultants Private Limited, these folios to enable consolidate all such shareholdings into one folio.
6. Shareholders are requested to refer to the "Shareholder Referencer" which inter-alia contains details regarding unclaimed dividend.
7. Shareholders are requested to bring their copies of the Annual Reports to the Meeting.



EXPLANATORY STATEMENT

In accordance with Section 173(2) of the Companies Act, 1956, the following information is given in explanation of the items of Special Business set out in the attached Notice of the Seventy Second Annual General Meeting of the Company to be held at Hari Hara Kala Bhavan, R. P. Road, Secunderabad - 500 003, on **Thursday, 24th July, 2003**.

Item No. 5

At the Sixty-eighth Annual General Meeting of your Company held on 27th September, 1999, approval was accorded to the appointment of Mr. Raymond S. Noronha, Managing Director of your Company, with effect from 1st November, 1998 for the period of his office upto 31st October, 2003, on such consolidated salary, performance linked bonus and perquisites as had been set out in the Explanatory Statement annexed to the Notice dated 27th May, 1999, convening the Sixty-eighth Annual General Meeting with liberty to the Board to vary, alter and modify such consolidated salary, performance linked bonus and perquisites so as not to exceed the limits specified under Schedule XIII to the Companies Act, 1956 or any statutory modifications, substitutions, or re-enactments thereof, as may be agreed to by the Board of Directors and Mr. Raymond S. Noronha. Subsequently, at the 71st Annual General Meeting of the Company, the remuneration payable to Mr. Raymond S. Noronha, Managing Director was varied.

Your Board of Directors at their meeting held on 29th April, 2003, have with the consent of Mr. Raymond S. Noronha varied with effect from 1st April, 2003, remuneration payable to Mr. Raymond S. Noronha, subject to the approval of the Members, for the remaining period of his office upto 31st October, 2003, in view of the significant contribution made by Mr. Raymond S. Noronha towards the improved performance of your Company.

Your Directors consider that it would be appropriate and desirable to vary the remuneration in respect of Mr. Raymond S. Noronha as set out in the Resolution and commend passing of the Resolution.

None of the Directors other than Mr. Raymond S. Noronha may be deemed to be concerned or interested in the Resolution.

The Resolution and the Explanatory Statement may be treated as the abstract of terms under Section 302 of the Companies Act, 1956.

Item No.6

At the Seventieth Annual General Meeting of your Company held on 14th June, 2001, approval was accorded to the appointment of Mr. N. Sai Sankar, Wholtime Director of your Company, with effect from 1st January, 2001 for the period of his office upto 31st December, 2005, on such consolidated salary, performance linked bonus and perquisites as had been set out in the Explanatory Statement annexed to the Notice dated 26th April, 2001, convening the Seventieth Annual General Meeting with liberty to the Board to vary, alter and modify such consolidated salary, performance linked bonus and perquisites so as not to exceed the limits specified under Schedule XIII to the Companies Act, 1956 or any statutory modifications, substitutions, or re-enactments thereof, as may be agreed to by the Board of Directors and Mr. N. Sai Sankar.

Your Board of Directors at their meeting held on 29th April, 2003, have with the consent of Mr. N. Sai Sankar varied with effect from 1st April, 2003, remuneration payable to Mr. N. Sai Sankar, subject to the approval of the Members, for the remaining period of his office upto 31st December, 2005, in view of the significant contribution made by Mr. N. Sai Sankar towards the improved performance of your Company.

Mr. N. Sai Sankar shall continue to hold office as Company Secretary. The appointment and remuneration are subject to compliance with the requirements of Section 314 and other applicable provisions of the Companies Act, 1956.

Your Directors consider that it would be appropriate and desirable to vary the remuneration in respect of Mr. N. Sai Sankar as set out in the Resolution and commend passing of the Resolution.

None of the Directors other than Mr. N. Sai Sankar may be deemed to be concerned or interested in the Resolution.

The Resolution and the Explanatory Statement may be treated as the abstract of terms under Section 302 of the Companies Act, 1956.



Item No.7

At the Sixty-eighth Annual General Meeting of your Company held on 27th September, 1999, the shareholders had approved the appointment of Mr. Raymond S. Noronha as Director and Managing Director of the Company with effect from 1st November, 1998 to hold office for a period of five years from 1st November, 1998 to 31st October, 2003 (both days inclusive).

The Board of Directors at their meeting held on 29th April, 2003, have subject to the approval of shareholders at the Seventy Second Annual General Meeting, re-appointed Mr. Raymond S. Noronha as a Managing Director of the Company with effect from 1st November, 2003 to hold office for a period of five years or up to the date of his retirement, whichever is earlier.

Mr. Raymond S. Noronha, aged about 52 years is a B.A. (Hons.) from St. Stephen's College, Delhi and has attended the Wharton Advanced Management Program (1995) at Philadelphia, USA. He has had over 29 years of varied experience in the cigarette business both International and Domestic and has held several top level positions for over a decade. He is a member of the Committee of Directors and Shareholders Grievance Committee of the Company. Mr. Raymond S. Noronha is also a Director on the Board of The Tobacco Institute of India.

Your Directors commend the re-appointment of Mr. Raymond S. Noronha as the Managing Director of the Company.

None of the Directors of your Company other than Mr. Raymond S. Noronha is concerned or interested in this Resolution.

The Resolution and the Explanatory Statement may be treated as the abstract of terms under Section 302 of the Companies Act, 1956.

Item No.8

The Company's equity shares are currently listed on six stock exchanges viz., Hyderabad, Mumbai, Ahmedabad,

Chennai, Kolkata and Delhi. The equity shares are mainly traded on the online trading system at The Stock Exchange - Mumbai (BSE) and National Stock Exchange of India Limited (NSE). The Company's shares are under the compulsory demat segment effective June 2000 and as on 31st March, 2003, 51.76% of the equity shares are dematerialised. Over the last few years the equity shares of the Company are not actively traded on following stock exchanges namely, Ahmedabad, Chennai, Kolkata and Delhi.

The Securities and Exchange Board of India has recently notified the Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003 which has come into force from 17th February, 2003. Pursuant to the said guidelines, the Company is permitted to delist from any one or more of the stock exchanges where the securities are listed subject to conditions contained therein which includes, approval of the shareholders at the General Meeting by special resolution and also continuing listing on the BSE and NSE.

With online trading in place at BSE and NSE, it is felt that no useful purpose is served to have the equity shares listed on Ahmedabad, Chennai, Kolkata and Delhi stock exchanges and hence, delisting from the above exchanges as per the SEBI guidelines could be sought. The Company's equity shares would continue to be listed on the BSE, NSE and the Hyderabad Stock Exchange Limited (HSE).

Your Directors therefore, recommend the above resolution for your approval.

By Order of the Board,

N. SAI SANKAR
Secretary

Dated this 29th day of April, 2003.
Azamabad, Hyderabad - 500 020,
Andhra Pradesh.