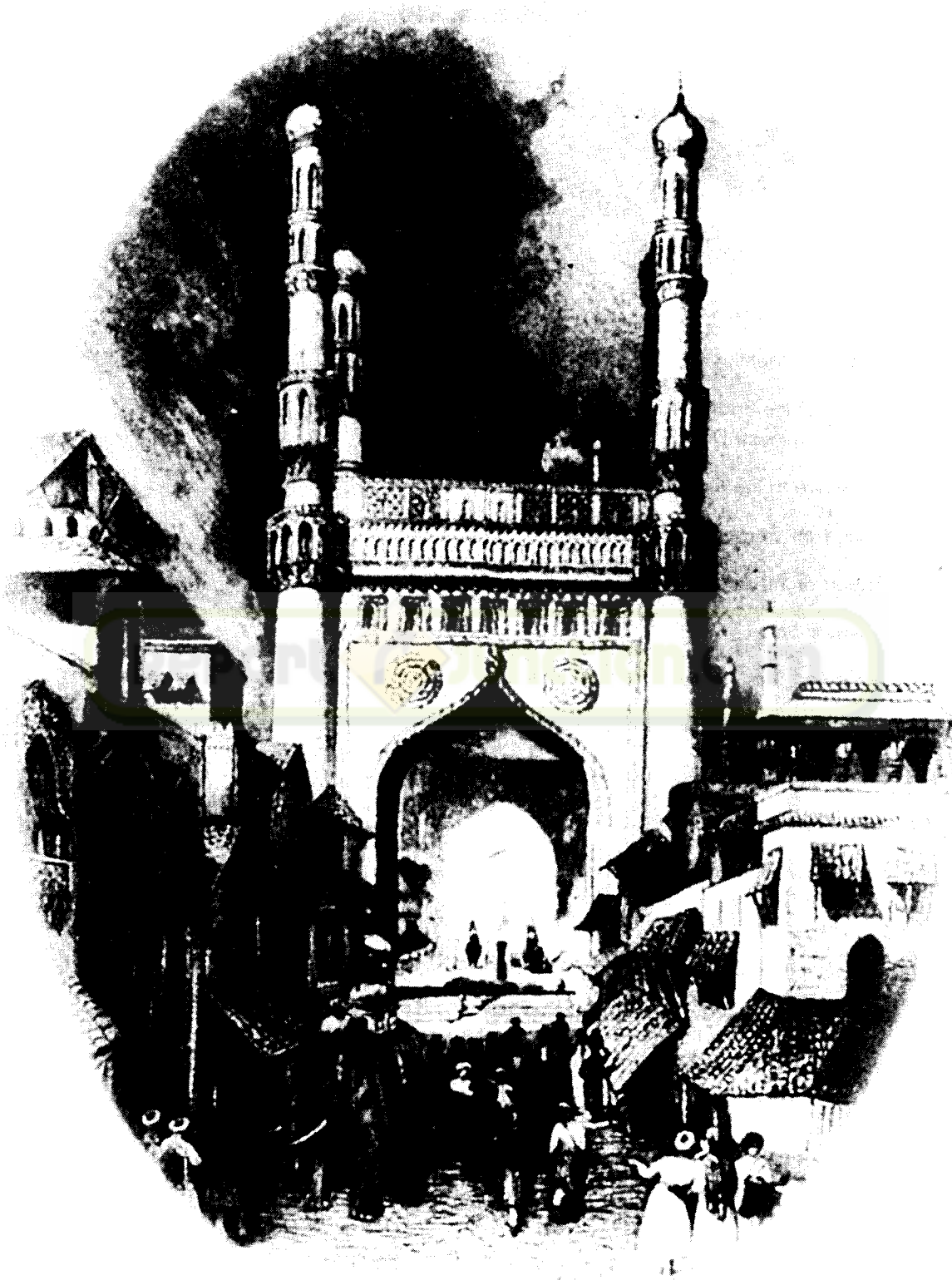


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VST INDUSTRIES LIMITED

ANNUAL REPORT 2004





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BOARD OF DIRECTORS

Chairman

ABHIJIT BASU

Managing Director

RAYMOND S. NORONHA

Finance Director & Secretary

N. SAI SANKAR

Directors

BRENDAN JAMES BRADY

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

Andhra Pradesh

Registered Office

1-7-1063/1065, Azamabad

Hyderabad - 500 020

Andhra Pradesh

Phone : 040 - 2761 0460

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 Third Annual General Meeting of VST INDUSTRIES LIMITED will be held at Convention Hall, Hotel Viceroy, Opp. Hussain Sagar Lake, Tank Bund Road, Hyderabad - 500 080, on **Thursday, 22nd July, 2004 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, 2004, the Profit and Loss Account, Auditors' Report and Directors' Report for the Company's year ended 31st March, 2004.
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. 10,00,000 (Rupees Ten Lakhs only) payable in two equal instalments plus service tax as applicable and reimbursement of 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 Mr. Brendan James Brady who was appointed a Director of the Company with effect from 22nd April, 2004 under Article 98 of the Articles of Association of the Company and who holds office upto the date of this Annual General Meeting, be and is hereby appointed a Director of the Company whose period of office is liable to determination by retirement of Directors by rotation."

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 pursuant to the provisions of Section 309(4) and other applicable provisions if any, of the Companies Act, 1956 and subject to such other approvals in law

as may be necessary, the Company hereby accords its approval to the payment of Commission to the Non-Executive Directors of the Company, with effect from 1st April, 2004 for each of the five financial years of the Company, not exceeding one percent of the net profits of the Company, pursuant to Section 309(4) of the Companies Act, 1956, or any amendment or modification thereof and computed in the manner laid down under Section 198(1) of the Companies Act, 1956 or any amendment or modification thereof, subject to a ceiling of Rupees Twenty Lakhs, in the aggregate for all such Directors aforesaid or such amount as may be determined by the Board of Directors within the aforesaid ceiling of Rupees Twenty Lakhs, to be divided amongst the Directors aforesaid in such manner as the Board of Directors of the Company may from time to time determine and in default of such determination, equally, provided that the payment of the sum in the manner aforesaid shall be in addition to the sitting fee per meeting of the Board of Directors and its Committee which the Directors aforesaid are entitled to receive under the Articles of Association of the Company.

RESOLVED FURTHER that for the purpose of giving effect to this Resolution the Directors be authorized to take necessary steps and give such directions as they may in their absolute discretion deem necessary to settle any question, difficulty or doubt that may arise in regard to the determination and payment of the said amount as they may think fit and that the Directors be hereby further empowered to accept on behalf of the Company modifications, if any, relating to the determination and payment of the said amount as may be proposed by any Authority from whom approval will have to be obtained and which the Directors in their discretion think fit and proper."

7. 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 provisions of Section 31 of the Companies Act, 1956, the Articles of Association of the Company be and are hereby altered in the following manner, that is to say:

- i) To insert the following Article 11A after the existing Article 11 :-



The Company to buy back its own shares

11A. The Company is hereby permitted to buy back its own shares or other specified securities in accordance with the provision of Sections 77A, 77AA and 77B of the Act, and such Regulations or Guidelines framed by the Securities and Exchange Board of India or any other appropriate authority.

- ii) To insert the following Articles 12B to 12J after the existing Article 12A :-

Dematerialisation of Securities

12B. The Company shall be entitled to dematerialise its existing shares, rematerialise its shares held in the Depositories and/or to offer its fresh shares or buy back its shares in a dematerialized form pursuant to the Depositories Act, 1996 and the Rules framed thereunder, if any.

Option for Investors

12C. Every person subscribing to/acquiring securities offered by the Company shall have the option to receive security certificates or to hold the securities with a depository. Such a person who is the beneficial owner of the securities can at any time opt out of a depository, if permitted by law, in respect of any security in the manner provided by the Act, and the Company shall, in the manner and within the time prescribed, issue to the beneficial owner the required certificates of securities. If a person opts to hold his security with a depository, the Company shall intimate such depository the details of allotment of the security, for entry in its record, the name of the allottee as the beneficial owner of the security.

Securities in Depositories to be in Fungible Form

12D. All securities of the Company held by a depository shall be dematerialised and be in fungible form. Nothing contained in Sections 153, 153A, 153B, 187B, 187C, 372, 372A and other applicable provisions of the Companies Act, 1956 shall apply to a

depository in respect of the securities held by it on behalf of the beneficial owners.

Rights of Depositories and Beneficial Owners

12E (a) Notwithstanding anything to the contrary contained in the Act or these Articles, a depository shall be deemed to be the registered owner for the purpose of effecting transfer of ownership or security on behalf of the beneficial owner.

(b) Save as otherwise provided in (a) above, the depository as the registered owner of the securities shall not have any voting rights or any other rights in respect of the securities held by it.

(c) Every person holding securities of the Company and whose name is entered as the beneficial owner in the records of the depository shall be deemed to be a member of the Company. The beneficial owner of the securities shall be entitled to all the rights and benefits and be subject to all the liabilities in respect of his/her securities which are held by a depository.

Service of documents

12F. Notwithstanding anything in the Act or these Articles to the contrary, where securities are held in a depository, the records of the beneficial ownership may be served by such depository on the Company by means of electronic mode or by delivery of floppies or discs.

Transfer of Securities

12G. Nothing contained in Section 108 of the Companies Act, 1956 or these Articles shall apply to a transfer of securities effected by a transferor and transferee both of whom are entered as beneficial owner in the records of the depository.

Allotment of securities dealt with by a Depository

12H. Notwithstanding anything in the Act or these Articles, where securities are dealt with by a depository, the Company shall intimate the details thereof to the depository immediately on allotment of such securities.



Distinctive numbers of securities held in a Depository

- 12I. Nothing contained in the Act or these Articles regarding the necessity of having distinctive numbers for securities issued by the Company shall apply to securities held in a depository.

Register and Index of Beneficial Owners

- 12J. The Register and Index of Beneficial Owners maintained by a depository under the Act, shall be deemed to be the Register and Index of Members and Security holders for the purposes of these Articles.

- iii) In the place of the existing Article 101, the following Article to be inserted :-

The Managing Director or Wholtime Director may resign from his office upon giving six months' notice in writing to the Company of his intention so to do, or such shorter notice as may be agreed to by the Board and such resignation shall take effect upon the expiration of six months' notice of such resignation or upon expiration of such shorter notice as agreed to by the Board.

The Register of Members of the Company will remain closed from 20th July, 2004 to 22nd July, 2004 (both days inclusive) for payment of dividend, if approved.

Transfers of shares received in order by the Company's Registrars and Share Transfer Agents, M/s. Sathguru Management Consultants Private Limited, Plot No.15, Hindi Nagar, Near Sai Baba Temple, Punjagutta, Hyderabad - 500 034, before the close of business on 19th July, 2004, will be registered in time for the transferees to become eligible for dividend, if declared.

Dividend, if approved, will be paid on or before 21st August, 2004 to those shareholders whose names appear in the Register of Members of the Company on 22nd July, 2004 or to their Mandatees, subject however to the provisions of Section 206A of the Companies Act, 1956, or any amendment or modification thereof. In respect of dematerialized shares the dividend will be payable on the basis of beneficial ownership as per details to be furnished by National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) for this purpose.

By Order of the Board,

N. SAI SANKAR
Secretary

Dated this 22nd day of April, 2004.
Azamabad, Hyderabad - 500 020,
Andhra Pradesh.

NOTES:

- 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.**
- In accordance with Section 173(2) of the Companies Act, 1956, an Explanatory Statement in respect of items 5 to 7 being items of Special Business is annexed to the Notice of the Meeting.
- In accordance with the provisions of Article 93 of the Articles of Association of the Company, Mr. Abhijit Basu and Mr. R.V.K.M. Suryarau will retire by rotation at this Annual General Meeting and being eligible offer themselves for re-appointment.
- Shareholders should inform the Company's Registrars and Share Transfer Agents, M/s. Sathguru Management Consultants Private Limited of any change in their registered address, before 20th July, 2004.
- 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, M/s. Sathguru Management Consultants Private Limited, these folios to enable consolidation of all such shareholdings into one folio.
- Shareholders are requested to refer to the "Shareholder Referencer" which inter-alia contains details regarding unclaimed dividend.
- Shareholders are requested to bring their copy of the Annual Report to the Meeting.



VST Industries Limited

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 Third Annual General Meeting of the Company to be held at Convention Hall, Hotel Viceroy, Opp. Hussain Sagar Lake, Tank Bund Road, Hyderabad - 500 080, on **Thursday, 22nd July, 2004.**

Item No. 5

Your Board of Directors appointed Mr. Brendan James Brady as a Director with effect from 22nd April, 2004 pursuant to the provisions of Article 98 of Articles of Association of the Company in the casual vacancy arising out of the resignation of Mr. James Richard Suttie from the Board.

Mr. Brendan James Brady, aged 45 years, has over fourteen years of experience in tobacco industry. He is currently the Regional Manager for Asia-Pacific, British American Tobacco, based in Hong Kong.

In terms of Article 98, Mr. Brendan James Brady, holds office upto the date of the forthcoming Annual General Meeting and being eligible, offers himself for appointment as a Director whose period of office is liable to determination by retirement of Directors by rotation under the provisions of the Companies Act, 1956.

Notice along with a deposit of Rupees five hundred, as required by Section 257 of the Companies Act, 1956, has been received by the Company from a Member proposing the appointment of Mr. Brendan James Brady as a Director of the Company.

No Director of your Company other than Mr. Brendan James Brady is concerned or interested in this Resolution.

The Board recommends this Resolution for your approval.

Item No.6

At the Sixty-ninth Annual General Meeting of the Company held on 26th September, 2000, Members had approved payment of remuneration to the Non-Executive Directors of the Company, by way of commission not exceeding one percent of the net profits of the Company, subject to a ceiling of Rs.10,00,000 (Rupees Ten Lakhs) for each financial year, for a period of five years from 1st April, 1999. The said approval expired on 31st March, 2004.

The Board of Directors recommend the extension of the said approval for the payment of remuneration to Non-Executive Directors, by way of commission not exceeding one percent of the net profits of the Company which will be determined in accordance with the provisions of Section 198 read with Sections 349 and 350 and other applicable provisions, if any, of the Companies Act, 1956, with effect from 1st April, 2004 for a further period of five years, subject to a ceiling of Rs.20,00,000 (Rupees Twenty Lakhs) for each financial year.

Section 309(4) of the Companies Act, 1956 stipulates inter-alia, that Non-Executive Directors of the Company may be paid commission if authorized by a Special Resolution. Although in terms of Section 309(4) of the Companies Act, 1956, the Company is advised that no approval of the Central Government is necessary since the said provision is a complete code and provides for a separate commission to Non-Executive Directors and the provisions of Section 310 of the Companies Act, 1956, relating to increase in remuneration will have no application, however by way of abundant caution, the said Resolution is proposed as Special Resolution with such approvals as may be necessary in law.

Mr. A. Basu, Air Chief Marshal I.H. Latif (Retd.), Mr. T. Lakshmanan, Mr. Brendan James Brady and Mr. R.V.K.M. Suryarau are interested in the Resolution relating to remuneration by way of commission. None of the other Directors of your Company is interested in this Resolution.

The Board recommends this Resolution for your approval.

Item No.7

- i) It is proposed to introduce a new Article 11A in the Articles of Association to enable the Company to buy back any of its own shares or securities. The proposed insertion is enabling in nature so as to entitle the Company to take care of any future endeavours in this regard.
- ii) Some of the provisions of the Act relating to the issue, holding, transfer, transmission of shares and other securities have been amended to facilitate the implementation of the depository system. The depository system of holding securities in an electronic form is safer and is more convenient method for holding and trading



in the securities of a company. Further, with effect from 26th June, 2000, trading in the Company's shares in an electronic form was made compulsory. It is therefore proposed to insert the Article 12B to 12J by way of abundant caution to reflect the provisions introduced by the Depositories Act, 1996 and to spell out the rights of the beneficial owners of the securities in such a system.

- iii) The notice period for the Directors of your Company is currently one month. It is proposed to change the notice period from one month to six months for the Managing Director/Wholetime Directors.

No Director of your Company other than Managing Director/Wholetime Director is concerned or interested in this Resolution.

Copy of the Memorandum and Articles of Association of the Company will be available for inspection by the Members of the Company at the Registered Office during normal business hours on any working day upto the date of the Annual General Meeting.

The Board recommends this Resolution for your approval.

By Order of the Board,

N. SAI SANKAR
Secretary

Dated this 22nd day of April, 2004.
Azamabad, Hyderabad - 500 020,
Andhra Pradesh.

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REPORT OF THE BOARD OF DIRECTORS & MANAGEMENT DISCUSSION AND ANALYSIS TO THE SHAREHOLDERS FOR THE YEAR ENDED 31ST MARCH, 2004

VST Industries Limited

The Directors of your Company have pleasure in presenting their Annual Report and Accounts for the year ended 31st March, 2004.

Financial Results	Rs. Lakhs	Rs. Lakhs
The Net Profit for the year, after deducting all charges and expenses and taxation amounts to	2856.78
The amount available for disposal was	2856.78
Out of which the following appropriations have been made:		
General Reserve 285.68	
Release from Debenture Redemption Reserve (527.00)	(241.32)
Leaving a balance of	3098.10
Out of which your Board recommends should be distributed as Dividend on the Ordinary Share Capital at the rate of Rs.6 per share and inclusive of Dividend Tax	1045.23
Deducting therefrom loss brought forward from the previous year		(273.45)
Balance in the Profit and Loss Account to be carried forward to the following year	1779.42

INDUSTRY STRUCTURE & DEVELOPMENT

The year saw a real turnaround in the Indian economy with GDP growth registering 8.9% and 10.2% for the quarters ending December 2003 and March 2004. Though there was an all round improvement in the economy with good monsoons, the cigarette industry however continued to suffer. The budget for 2003 did not change the tax structure. The Excise Duty rates remained unaltered throughout the financial year. In spite of these positive factors, the industry growth remained flat with shifts changing across segments i.e. smokers moving to filter segments. Two factors - Tobacco Bill and high taxation at the state level continued to affect the cigarette industry.

SEGMENT WISE PERFORMANCE

Your Company considers tobacco and related products as the primary segment for reporting. Geographical segments considered for disclosure mainly consist of - sales within India and sales outside India. The entire activity pertaining to sales outside India is carried out from India.

Industry Issues

High rates of taxation on cigarettes continue to impact consumption and hamper growth. Incidence of high taxes gets compounded for the lower price segments which have to compete with tobacco products like Bidis and Gutka. These products belong to the unorganised sector with practically no enforcement for tax collection, making

them far cheaper than low priced cigarettes.

Your Company along with other tobacco manufacturers has been representing to the Government for an equitable tax policy for all tobacco products with no success, so far. As a result, India has the lowest per capita cigarette consumption. As cigarettes constitute a mere 14% of the total tobacco consumption, this policy does not serve Government's objective of higher revenue collection.

In sharp contrast to the principle of uniform and single-point taxation, various State Governments continue to levy their own taxes in the form of luxury tax and entry tax which lead to higher prices for cigarettes and drive consumers to non revenue yielding forms of tobacco consumption namely Bidis and Gutka. Your Company is contesting such levies in Courts of Law in some cases. Furthermore, we will continue to make representations to the Government to bring about a more rational and equitable taxation policy in the tobacco sector. Regulatory restrictions proposed in the Cigarettes and Other Tobacco Products (Prohibition of Advertisement and Regulation of Trade & Commerce, Production, Supply and Distribution) Bill, 2004 severely limits advertising and communication directly with our consumers. These significantly impact upon the introduction of new brands and on companies that intend to increase their portfolio. Further, the expected regulation will also impact on pack designs and add to supply chain complexity.

Your Company supports sensible regulation that is practical and implementable for all tobacco products.