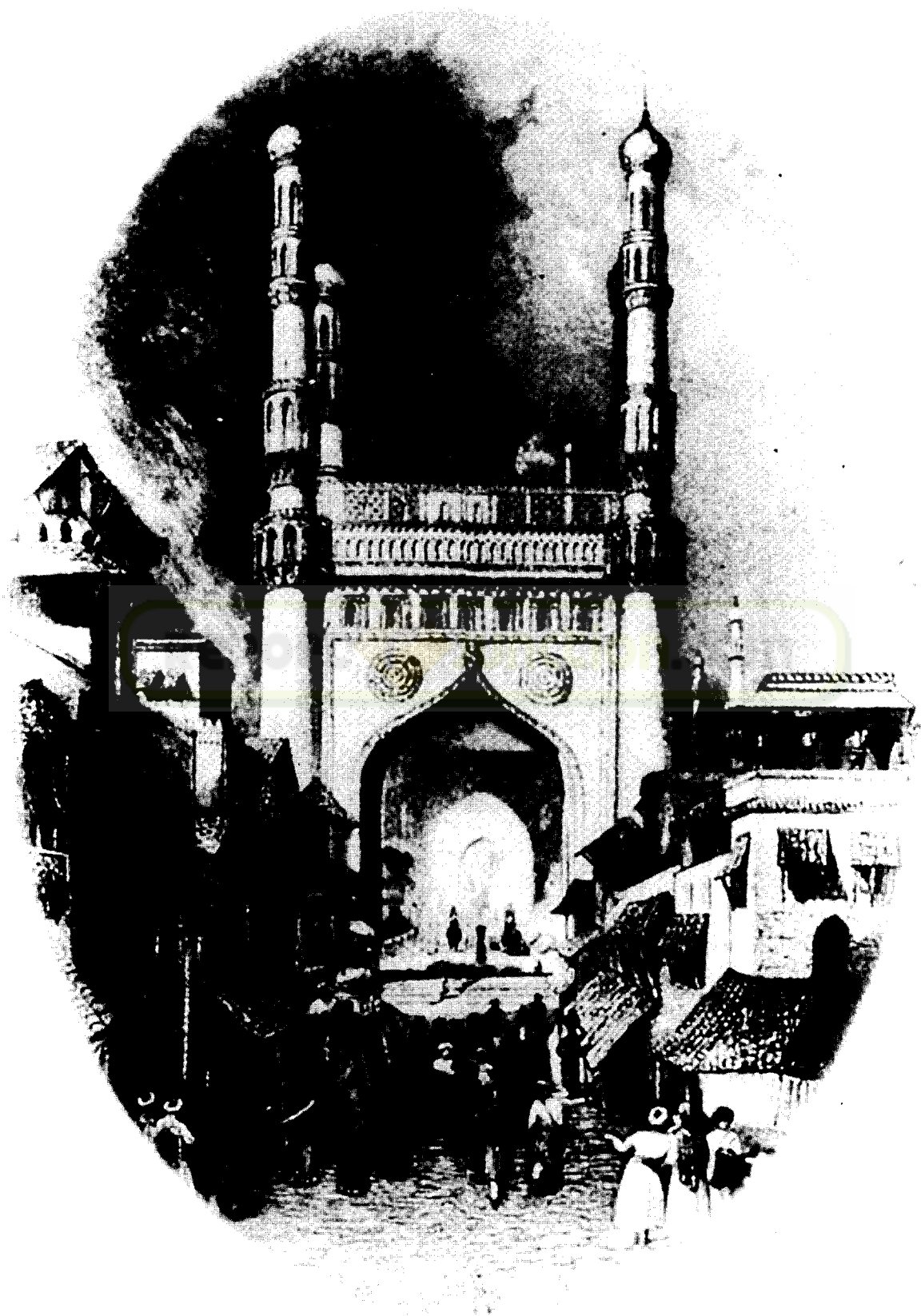


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VST INDUSTRIES LIMITED





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VST Industries Limited

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 Fourth 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, 28th July, 2005 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, 2005, the Profit and Loss Account, Auditors' Report and Directors' Report for the Company's year ended 31st March, 2005.
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.11,00,000 (Rupees Eleven 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(s), the following Resolution which will be proposed as a Special Resolution:

"RESOLVED that pursuant to the provisions of Sections 269, 309, 311, 314 read with Schedule XIII of the Companies Act, 1956 and other applicable provisions if any, of the Companies Act, 1956, Mr. N. Sai Sankar be and is hereby re-appointed as Wholetime Director of the Company with effect from 1st January, 2006 to hold office for a period of five years from 1st January, 2006 to 31st December, 2010 (both days inclusive), on the following remuneration:

- i. **Consolidated Salary:** At the rate of Rs.2,55,000 per month in the scale of Rs.2,30,000 - Rs.4,00,000 subject to such increment(s) as the Board may determine in the Consolidated Salary within the aforesaid scale during the tenure of office as Wholetime Director having regard to the annual performance of Mr. Sai Sankar and to cover the Consumer Price Index.

- ii. **Performance Bonus:** Payable annually for each financial year ending 31st March, 2006 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. 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 on cost to company basis, 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. Sai Sankar shall always be subject to the overall ceilings laid down in Sections 198 and 309 of the Companies Act, 1956.

Mr. Sai Sankar shall continue to hold office as Company Secretary without any additional remuneration other than what he is entitled to as a Wholtime Director on the aforesaid basis. As appointment and remuneration are subject to compliance with the requirements of Section 314 and other applicable provisions of the Companies Act, 1956, your Directors commend passing the Special Resolution set out in the Notice.

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. Sai Sankar for the above purpose."

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 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 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.



VST Industries Limited

Transfer of Securities

12G. Nothing contained in Section 108 of the Companies Act, 1956 or these Articles shall apply to 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.

- ii. 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 26th July, 2005 to 28th July, 2005 (both days inclusive) for payment of dividend, if approved.

Transfer 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 25th July, 2005, will be registered in time for the transferees to become eligible for dividend, if declared.

Dividend, if approved, will be paid on or before 27th August, 2005 to those shareholders whose names appear in the Register of Members of the Company on 28th July, 2005 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 dematerialised 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 21st day of April, 2005.
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 and 6 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, Air Chief Marshal I.H. Latif (Retd.) and Mr. Raymond S. Noronha 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 26th July, 2005.
- 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.



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 Fourth 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, 28th July, 2005.**

Item No. 5

At the Seventieth Annual General Meeting of your Company held on 14th June, 2001; the shareholders had approved the appointment of Mr. N. Sai Sankar as Director and Wholetime Director of the Company with effect from 1st January, 2001 to hold office for a period of five years from 1st January, 2001 to 31st December, 2005 (both days inclusive).

The Board of Directors at their meeting held on 21st April, 2005, have subject to the approval of the shareholders at the Seventy Fourth Annual General Meeting, re-appointed Mr. Sai Sankar as a Wholetime Director of the Company with effect from 1st January, 2006 to hold office for a period of five years from 1st January, 2006 to 31st December, 2010.

Mr. Sai Sankar, aged 47 years is a Commerce Graduate from St. Xavier's College, Kolkata and is a member of Institute of Chartered Accountants of India, Institute of Cost & Works Accountants of India and Institute of Company Secretaries of India. He has about 24 years of experience in Finance and Accounting field. Mr. Sai Sankar joined the Company in 1995 and has made significant contributions during his association with the Company. He is a Member of the Committee of Directors, Audit Committee and Shareholders Grievance Committee of the Company and is also a director on the board of the Tobacco Institute of India.

Your Directors commend the re-appointment of Mr. Sai Sankar as a Wholetime Director of the Company.

None of the Directors of your Company other than Mr. Sai Sankar 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. 6

- i. 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 Articles 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.
- ii. 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 21st day of April, 2005.
Azamabad, Hyderabad - 500 020,
Andhra Pradesh.



REPORT OF THE BOARD OF DIRECTORS & MANAGEMENT DISCUSSION AND ANALYSIS TO THE SHAREHOLDERS FOR THE YEAR ENDED 31ST MARCH, 2005

The Directors of your Company have pleasure in presenting their Annual Report and Accounts for the year ended 31st March, 2005.

Financial Results	Rs. Lakhs	Rs. Lakhs
The Net Profit for the year, after deducting all charges and expenses and taxation amounts to	5402.34	
The amount available for disposal was		5402.34
Out of which the following appropriations have been made :		
General Reserve	540.23	
Release from Debenture Redemption Reserve	(598.00)	(57.77)
Leaving a balance of		5460.11
Out of which your Board recommends should be distributed as Dividend on the Ordinary Share Capital at the rate of Rs.12.50 per share (including Platinum Jubilee Dividend of Rs.6 per share) and inclusive of Dividend Tax and earlier year's Dividend Tax - Rs.2.37 lakhs		2203.34
Add: Balance brought forward from the previous year		1779.42
Balance in the Profit and Loss Account to be carried forward to the following year		5036.19

INDUSTRY STRUCTURE & DEVELOPMENT

The year saw a revival of the cigarette industry after many years. The industry grew by about 9%, achieving significant gains in the filter and micro segments. Your Company's strong presence in non-filter segment, therefore resulted in an equivalent growth for your Company vis-à-vis the industry.

The Budget for 2005 has imposed across the board an increase of about 10%. The average increase for your Company works out to 10.5%. The indiscriminate levy only on cigarettes, leaving out other tobacco forms from the levy, puts cigarettes at a disadvantage.

The Supreme Court struck down Luxury Taxes on goods including cigarettes. Detailed comments have been made later in this Report.

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

Discriminative tax policies on cigarettes, by exempting non-

cigarettes from excise levy would continue to impact consumption and hamper growth. These get compounded when lower price segment (a segment in which your Company has substantial presence) would have to compete with tobacco products like Bidis and Gutka.

The industry has been representing to the Government about the need for an equitable tax policy for all tobacco products but with no success till date. The share of cigarettes which constitutes a mere 16% of the total tobacco consumption could erode further with Union Budget proposals for the year 2005 - 2006 levying an about 10% increase across the board in all segments of the cigarette industry.

Market Scenario

Your Company has successfully reversed the trend of declining volumes year on year in domestic market for the last three years by having achieved a growth of 9% in 2004 - 2005 as compared to the previous year. This growth was made possible through positioning existing brands to successfully exploit competitive price movements, and through the launch of new brands.

In the regular sized filter segment, the combined volumes of **Special Filter** and its line extension **Special Extra Smooth**, have shown significant increases over the last year. While **Special Filter** has successfully prevented competitive brands from making inroads in its areas of strength, **Special Extra Smooth** has built a loyal base among the value seeking consumer franchise in the States of Bengal and Assam.

As per your Company's stated strategy, continuous inputs were provided in the micro plain segment,



namely **Charminar Standard**, including product improvements to build consumer loyalty, and the brand has recorded the highest volume growth among all brands in this segment.

In keeping with your Company's commitment of expanding its brand range and establish its presence in unrepresented geographies through launching of new brands, **XL Filter**, launched last year, has been rolled out to large parts of Tamil Nadu and the hill states of the North East.

During the latter half of the year, your Company has also successfully launched a new micro brand, **Shaan**. In the month of March 2005, the brand has garnered a 4% share of the highly competitive micro segment, and is poised for further growth with rapid extensions to micro dominated areas where your Company's presence is weak.

Your Company reiterates its commitment that it will continue to accord the highest priority and focus, to the development and launch of new brands, and build the distribution infrastructures required to support the new brand endeavours.

Leaf Tobacco

We are happy to report that your Company has recorded Rs.38.32 crore leaf export turnover, which is 10% higher than the year 2003 - 2004, despite stiff competition within and outside the country.

Your Company has established special tobaccos for niche markets which are being produced by the large farmer base your Company has. This has helped in optimizing the turnover and profit and also helped in economic uplift of the backward regions. Your Company has tie-ups

with new potential customers for Oriental Tobacco development and marketing. Your Company continues to retain the premier status in Sun/Air/Fire cured tobaccos.

You will be pleased to learn that our farmers continue to grow tobacco with lowest pesticide residue levels and within international standards.

As a social responsibility to conserve greenery, your Company is continuing social forestry through Afforestation and Trees for Life and also actively discouraging child labour involvement in tobacco growing/processing.

PRODUCTION AND PLANT MODERNISATION

Primary Manufacturing Department

Processing lines have been modernised by inducting New Design spillage free Cut Stem and Cut Lamina Autofeeds to reduce tobacco wastage. PLC controls/automation have been introduced on Legg Drier, which has improved the consistency of cut tobacco quality and reduced tobacco wastage. Overall tobacco rejection in the processing lines have been reduced by 0.5% over the last year.

A new humidification system has been installed with auto controls on Relative Humidity to improve stored cut tobacco moisture consistency and freshness.

Secondary Manufacturing Department

Secondary Manufacturing Department has also been modernised further by inducting -

- Two Molmac MK9 MTF machines on the shop floor (one for filters

and one for micros) to improve the productivity, quality and to give the consumer the benefit of consistency and freshness of the product.

- New weight control systems (TEWS and MR3) on makers to improve quality and consistency of tobacco filling density in the cigarettes.
- IPMs (Individual Parcellers) link-up to packers to improve productivity and quality/flexibility in manufacturing.
- Installed new Quality Test modules on the shop floor to enable monitoring and analysis by machine crew and supervisors, to improve and maintain consistent product quality.

PROFITS

Your Company's Profit after Tax for the year at Rs.54.02 crore is the highest ever recorded in its history. The strategic focus on the traditional business of tobacco is continuing to yield favourable results leading to a total turnaround. Tight working capital management and cost control measures have been the focus areas which have contributed significantly to these results.

HUMAN RESOURCE DEVELOPMENT

Your Company's Human Resource Management systems aim to create a talent pool for delivering results in a highly competitive environment. Towards this end development of leadership skills through competency building and job enrichment are paramount and are undertaken on a continuous basis.

As on 31st March, 2005, your Company had strength of 1158