

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

N. CHANDRASEKARAN

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.
Phone: 091-044-28150014, Fax: 091-044-28152508,
Website: www.hatsun.com
E-mail: hatsun@md2.vsnl.net.in

FACTORIES

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

BRANCHES/DEPOTS

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

STATUTORY AUDITORS

BSR & CO.,

(Formerly **Bharat S. Raut & Co.**)

CHARTERED ACCOUNTANTS,

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

BANKERS

* ICICI BANK LTD. * STATE BANK OF INDIA * UTI BANK LTD.
* STANDARD CHARTERED BANK * BANK OF MAHARASHTRA

20TH ANNUAL GENERAL MEETING

DATE : 29TH SEPTEMBER, 2005
DAY : THURSDAY
TIME : 11.00 A.M.
VENUE : ANDHRA SOCIAL &
CULTURAL ASSOCIATION,
No.44, VIJAYARAGHAVA ROAD,
T.NAGAR, CHENNAI - 600 017.

Contents	Page No.
Notice	3
Directors' Report	7
Corporate Governance Report	12
Management Discussion & Analysis Report	21
Auditors' Report	24
Balance Sheet	28
Profit & Loss Account	29
Cash Flow Statement	30
Schedules to Accounts	32
Notes on Accounts	39
Balance Sheet Abstract	46

NOTICE TO THE SHAREHOLDERS

NOTICE is hereby given that the Twentieth Annual General Meeting of the Shareholders of HATSUN AGRO PRODUCT LIMITED will be held on Thursday, the 29th September 2005 at 11.00 a.m. at Andhra Social and Cultural Association, No.44, Vijayaraghava Road, T.Nagar, Chennai - 600 017 to transact the following business :

ORDINARY BUSINESS

1. To receive, consider and adopt the audited Balance Sheet as at 31st March 2005 and the Profit & Loss Account of the Company for the year ended on that date and the Reports of the Directors and the Auditors thereon.
2. To appoint a Director in place of Mr S Thiagarajan, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Mr Kirti P Shah, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint M/s BSR & Co., Chartered Accountants, the retiring Auditors, as Auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.

SPECIAL BUSINESS

APPOINTMENT OF A DIRECTOR

5. To consider and, if thought fit, to pass, with or without modification, the following Resolution as an Ordinary Resolution:
"RESOLVED THAT Shri N Chandrasekaran, who was appointed as an Additional Director of the Company pursuant to the provisions of Section 260 of the Companies Act, 1956, and Article No.105 of the Articles of Association of the Company, and who holds office upto the date of this Annual General Meeting and in respect of whom the Company has received a notice under Section 257 of the Companies Act, 1956, from a member, in writing, proposing his candidature for the office of Director, be and is hereby appointed as a Director of the Company subject to retirement by rotation under the Articles of Association of the Company."

INCREASE IN AUTHORISED SHARE CAPITAL OF THE COMPANY

6. To consider and, if thought fit, to pass with or without modification, the following Resolution as an Ordinary Resolution:
"RESOLVED THAT pursuant to the provisions of Section 94 and other applicable provisions of the Companies Act, 1956, (including any statutory modifications, or re-enactment thereof for the time being in force) and subject to such other approval(s), permission(s) and sanction(s) as may be necessary, the consent of the Company be and is hereby accorded for increasing the Authorised Share Capital of the Company from Rs.12,00,00,000/- (Rupees Twelve crores only) divided into 90,00,000 (Ninety lacs) Equity shares of Rs.10/- (Rupees Ten only) each and 3,00,000 (Three lacs) Redeemable Preference shares of Rs.100/- (Rupees One hundred only) each to Rs.30,00,00,000/- (Rupees Thirty crores only) divided into 1,00,00,000 (One crore) Equity shares of Rs.10/- (Rupees Ten only) each and 20,00,000 (Twenty lacs) Redeemable Preference shares of Rs.100/- (Rupees One hundred only) each by creation of Rs.18,00,00,000/- (Rupees Eighteen crores only) divided into 10,00,000 (Ten lacs) Equity shares of Rs.10/- (Rupees Ten only) each and 17,00,000 (Seventeen lacs) Redeemable Preference shares of Rs.100/- (Rupees One hundred only) each with the power to increase or reduce, consolidate, convert or sub-divide the shares into different kinds in accordance with the provisions of the Companies Act, 1956."

ALTERATION OF MEMORANDUM OF ASSOCIATION OF THE COMPANY

7. To consider and, if thought fit, to pass with or without modification, the following Resolution as a Special Resolution:
"RESOLVED THAT the existing Clause V of the Memorandum of Association of the Company be and is hereby altered by deleting the same and substituting in place and stead thereof, the following as new Clause V:
V. The Authorised Share Capital of the Company is Rs.30,00,00,000/- (Rupees Thirty crores only) divided into 1,00,00,000 (One crore) Equity shares of Rs.10/- (Rupees Ten only) each and 20,00,000 (Twenty lacs) Redeemable Preference shares of Rs.100/- (Rupees One hundred only) each capable of being increased or decreased or converted or sub-divided into shares of different kinds in accordance with the provisions of the Companies Act, 1956."

ALTERATION OF ARTICLES OF ASSOCIATION OF THE COMPANY

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

“RESOLVED THAT the existing Clause 4 of the Articles of Association of the Company be and is hereby altered by deleting the same and substituting in place and stead thereof, the following as new Clause 4:

4. The Authorised Share Capital of the Company is Rs.30,00,00,000/- (Rupees Thirty crores only) divided into 1,00,00,000 (One crore) Equity shares of Rs.10/- (Rupees Ten only) each and 20,00,000 (Twenty lacs) Redeemable Preference shares of Rs.100/- (Rupees One hundred only) each capable of being increased or decreased or converted or sub-divided into shares of different kinds in accordance with the provisions of the Companies Act, 1956. In respect of the Preference Shares, the Board of Directors shall decide the rights and other terms attached to such shares including the right to redemption or otherwise, subject however, to the provisions of the Companies Act, 1956.”

ISSUE OF NON-CONVERTIBLE CUMULATIVE REDEEMABLE PREFERENCE SHARES

9. To consider and, if thought fit, to pass with or without modification, the following Resolution as a Special Resolution:

“RESOLVED THAT pursuant to the provisions of Section 81(1A) and subject to other applicable provisions of the Companies Act, 1956, (including any statutory modifications, or re-enactment thereof for the time being in force) and relevant provisions of the Memorandum of Association and Articles of Association of the Company and subject to such other approval(s), permission(s), sanction(s) and reporting as may be necessary, the consent, authority and approval of the Company be and is hereby accorded to the Board of Directors to offer, issue and allot not exceeding 20,00,000 (Twenty lacs) Non-Convertible Cumulative Redeemable Preference Shares of Rs.100/- (Rupees One Hundred only) each at par/premium, credited as fully paid-up, forming part of the Authorised Share Capital of the Company to any person or persons on preferential (Private Placement) basis, in one or more tranches and on such terms as to dividend, preferential payment and redemption as the Board or Directors may deem fit and that such shares need not be offered to the existing Shareholders of the Company.”

“RESOLVED FURTHER THAT the Board of Directors be and are hereby authorised to do all acts and deeds as may be necessary, proper and expedient to give effect to this Resolution.”

Place : Chennai
Date : 29th July 2005

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

Registered Office:
No.5-A, Vijayaraghava Road, T. Nagar,
Chennai - 600 017.

B.V. NATH
Company Secretary

NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF. A PROXY NEED NOT BE A MEMBER OF THE COMPANY. Proxies, in order to be valid, must be received at the Company's Registered Office not less than 48 hours before the commencement of the Annual General Meeting.
2. The Register of Members and the Share Transfer Books of the Company will remain closed for the purpose of the ensuing Annual General Meeting from 22nd September 2005 to 29th September 2005 (both days inclusive).
3. Shareholders are requested to notify to our Registrar and Share Transfer Agent, M/s Integrated Enterprises (India) Limited, II Floor, 'Kences Towers', No.1, Ramakrishna Street, North Usman Road, T.Nagar, Chennai – 600 017, Tamil Nadu any change in their address, to ensure prompt receipt of all correspondence.
4. All correspondence with respect to transfer of shares, change of address, conversion of physical shares into Demat form etc., may be sent to the Registrar and Share Transfer Agent.

Hatsun Agro Product Limited

5. SHAREHOLDERS ARE ADVISED, IN THEIR OWN INTEREST THAT ALL THE COMMUNICATIONS TO THE COMPANY WHICH WOULD HAVE THE EFFECT OF AMENDING THE PERMANENT DETAILS OF THE LEDGER FOLIO SHOULD BE SIGNED BY ALL THE SHAREHOLDERS
6. Shareholders may visit Company's website: www.hatsun.com and contact us at e-mail: hatsun@md2.vsnl.net.in.
7. Shareholders who are holding shares in more than one folio are requested to intimate to the Registrars the details of all folio numbers for consolidation into a single folio.
8. Shareholders are requested check whether they have encashed Dividend Warrants for earlier years. If the Dividend Warrants have become time-barred/lost, please apply for revalidation/make a claim for fresh Dividend Warrant before the last dates indicated below:

Dividend for the year ended	Rate of Dividend	Record Date	Date on which unpaid amount is required to be transferred to IE&PF	Shareholders should apply latest by
1997-98	15%*	28/09/1998	10/11/2005	21/10/2005
1998-99	30%	23/09/1999	05/11/2006	16/10/2006
1999-00	20%	21/09/2000	04/11/2007	15/10/2007
2000-01	20%	08/09/2001	09/10/2008	19/09/2008
2002-03	30%	28/09/2002	29/10/2009	09/10/2009
2003-04	20%	29/09/2003	30/10/2010	10/10/2010

* Final Dividend

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

PROFILE OF THE DIRECTORS BEING REAPPOINTED / APPOINTED

1. Mr S Thiagarajan is a post graduate in Economics and a Certified Associate of the Indian Institute of Bankers. He has over four decades of experience in the financial services sector and has held various senior positions in Reserve Bank of India, Industrial Development Bank of India and Small Industrial Development Bank of India. He joined the Board of Hatsun on 26th May 2003.
2. Mr Kirti P Shah, an Industrialist, is an Engineering Graduate. Mr Shah is a Non-Resident Indian. At present he is the President of M/s Custom Magnetics Inc., U.S.A. He joined the Board of Hatsun on 7th January 2000. He is also Manager of M/s Shah Family LLC, U.S.A. Mr Shah has had more than 40 years of experience in the field of Engineering.
3. Mr N Chandrasekaran is a Mechanical Engineering Graduate with about 38 years experience. He has held various executive positions during his career. He is the Managing Director of M/s Fichtner Consulting Engineers (India) Pvt. Ltd. and M/s Fortune Valley Agro Farms Pvt. Ltd. He is also on the Board of reputed companies viz., M/s EPT Engineering Services Pvt. Ltd. and M/s Enmas Process Technologies Pvt. Ltd. Mr Chandrasekaran joined the Board of Hatsun on 28th March 2005 as an Additional Director.

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

Item No.5

Mr N Chandrasekaran was co-opted as an Additional Director with effect from 28th March 2005.

Under the provisions of Section 260 of the Companies Act, 1956, any person who is appointed as an Additional Director of the Company shall hold office only upto the date of the next Annual General Meeting. Accordingly, Mr N Chandrasekaran, though eligible for re-appointment, shall vacate his office on the date of the 20th Annual General Meeting of the Company.

However, notice in writing, has been received by the Company under Section 257 of the Companies Act, 1956, from a Member signifying her intention to propose the name of Mr N Chandrasekaran for the office of the Director.

Mr N Chandrasekaran's induction to the Board would enormously benefit the company. The Resolution is recommended for adoption.

None of the Directors except Mr N Chandrasekaran is interested in this resolution.

Item Nos.6, 7 & 8

To augment the long term resources and to bring the authorised share capital of your Company in proper correlation with the magnitude of the size of the undertaking, it is considered imperative to increase the Authorised Share Capital of the Company from Rs.12,00,00,000/- (Rupees Twelve crores only) divided into 90,00,000 (Ninety lacs) Equity shares of Rs.10/- (Rupees Ten only) each and 3,00,000 (Three lacs) Redeemable Preference shares of Rs.100/- (Rupees One hundred only) each to Rs.30,00,00,000/- (Rupees Thirty crores only) divided into 1,00,00,000 (One crore) Equity shares of Rs.10/- (Rupees Ten only) each and 20,00,000 (Twenty lacs) Redeemable Preference shares of Rs.100/- (Rupees One hundred only) each by creation of Rs.18,00,00,000/- (Rupees Eighteen crores only) divided into 10,00,000 (Ten lacs) Equity shares of Rs.10/- (Rupees Ten only) each and 17,00,000 (Seventeen lacs) Redeemable Preference shares of Rs.100/- (Rupees One hundred only) each.

The proposed increase of the authorised share capital of the Company requires the approval of the members in General Meeting. Consequently, the Memorandum and Articles of the Association of the Company needs to be altered to reflect the increase in the Authorised Share Capital of the Company as set out in the accompanying Notice.

The Board recommends that the resolution be passed.

None of the Directors is interested in this resolution.

Item No.9

In order to augment the long term resources of the Company, it is proposed to offer, issue and allot Non-Convertible Cumulative Redeemable Preference Shares on a preferential basis on such terms and conditions as to dividend, preferential payment and redemption as the Board of Directors may deem fit. The proposed issue will not be offered to the existing shareholders of the Company. Also, the proposed issue will not be listed on any of the Stock Exchanges.

For making preferential allotment of shares the approval of shareholders is necessary. Hence the item is placed before the meeting for approval.

The Board recommends that the resolution be passed.

None of the Directors is interested or concerned in the item of business.

Place : Chennai
Date : 29th July 2005

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

Registered Office:
No.5-A, Vijayaraghava Road, T. Nagar,
Chennai - 600 017.

B.V. NATH
Company Secretary

DIRECTORS' REPORT

To
The Shareholders

Ladies and Gentlemen,

Your Directors have pleasure in presenting their report and the Audited Accounts of the Company for the year ended 31st March 2005.

A. FINANCIAL RESULTS

(Rs. in lacs)

	Current year ended 31st March, 2005	Previous year ended 31 st March, 2004
Income		
Net Sales	44,918.75	36,190.97
Other Income	159.14	73.96
	45,077.89	36,264.93
Profit		
a) Profit before Depreciation	1,537.54	1,129.53
b) Less: Depreciation	1,377.43	1,297.19
c) Add: Depreciation written back	—	1,105.30
d) Balance	160.11	937.64
e) Add: Prior Period Adjustments	—	16.23
f) Balance	160.11	953.87
g) Less: Income-tax - Current Period	12.82	77.76
Deferred Tax - Current Period	44.61	337.58
- Prior Period	29.17	—
h) Profit after Taxes	73.51	538.53
i) Add: Balance brought forward from previous year	341.08	48.82
j) Less: Adjustment relating to Amalgamation	—	52.70
k) Balance available for appropriation	414.59	534.65
Appropriation		
a) Dividend	—	135.77
b) Tax on Dividend	—	17.40
c) General Reserve	—	40.40
d) Balance retained in the Profit and Loss Account	414.59	341.08
	414.59	534.65

B. DIVIDEND

In order to conserve resources for working capital and new projects your Directors have not recommended any dividend for the year 2004-05. (Dividend for the Previous year Rs.135.77 lacs).

C. PERFORMANCE OF THE COMPANY

OPERATING RESULTS

During the year under review, your Company registered a turnover of Rs.44,918.75 lacs representing an increase of 24.12% over the previous year. Your company has also entered into international markets during the year under review and the value of exports was Rs.615.86 lacs representing 1.37% of the turnover. However, there is a decline in the profitability due to increase in the input costs, entry level export pricing of milk products. There was also an overall increase in the expenditure profile due to the creation of additional infrastructure. In spite of the above factors the rationalisation of advertisement cost enabled your company to offset the negative impact to some extent.

Your Company continues with its cost control measures to take care of the adverse impact of reduction in margins. Your company intends to expand its market penetration to increase the sale of packed milk and is also giving a major thrust to export of milk products.

SEGMENTWISE PERFORMANCE

Milk and Milk Products Segment

Your Company continues to be the leading private company in the dairy sector in the Country, which is hailed 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 revenue in the milk and milk products segment increased substantially by 25.43% over that of the previous year. Your company, hence, has once again proved its leadership in the Dairy segment by continuing to maintain its position.

Ice Cream Segment

The sale of Ice Cream has picked up during the year under review. Your company has implemented an arrangement, whereby Arun Ice Cream is now available in Seychelles. Arun Ice Cream is also being exported to Brunei. Though there is a marginal increase in the turnover of Ice Cream, the profitability of this segment has increased substantially on account of cost control measures.

Future Plan

The Bio-mass Power Plant in Kancheepuram has undergone trial runs and will be commissioned shortly, which will significantly reduce power costs. The major focus areas in the next financial year will be export of Milk Products and Ice Cream, which will help the company to diversify its product profile and enable it to maintain its leadership position.

D. COMMUNITY DEVELOPMENT AND CHARITABLE WORK

As in the previous years, the Company continued to participate in Community development activities. The Company conducted in association with Arvind Eye Hospital, Madurai, eye check-up for the local residents of the Company's Factories and Chilling Units at Attur, Palacode, Edappadi and Oothangarai during the year under review.

E. DIRECTORS

Your Directors have appointed Mr N Chandrasekaran as an Additional Director of the Company with effect from 28th March 2005. The appointment has been made subject to the approval of the Shareholders of the Company at the forthcoming Annual General Meeting. In terms of Section 260 of the Companies Act, 1956, Mr N Chandrasekaran will hold office upto the date of the ensuing Annual General Meeting of the Company as he was appointed as an Additional Director of the Company. Notice in writing has been received by the Company from a Member, under the provisions of Section 257 of the Companies Act, 1956, signifying her intention to propose Mr N Chandrasekaran as a candidate for the office of the Director.

Under the provisions of the Articles of Association of the Company two of your Directors, viz. Mr S Thiagarajan and Mr Kirti P Shah retire by rotation at the forthcoming Annual General Meeting (selected by lot). Both of them, being eligible, offer themselves for re-appointment.

F. DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirement under Section 217(2AA) of the Companies Act, 1956, your Directors hereby confirm :

- (i) that in the preparation of the annual accounts for the financial year ended 31st March 2005, the applicable accounting standards have been followed and that there are no material departures;
- (ii) that your Directors have selected such accounting policies and applied them consistently except as provided in the Notes to the financial statements under Schedule 20(2)(o) and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for the period;
- (iii) that your Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (iv) that your Directors have prepared the annual accounts on a 'going concern' basis.

G. FINANCE

During the year under review the company had to go in for additional borrowings to meet repayment obligations as well as to augment the long term resources of the Company. However, your company has taken care to ensure that such additional borrowings are obtained at very competitive rates.

H. FIXED DEPOSITS

The total amount of Fixed Deposits from the Public and Shareholders of the Company outstanding as at 31st March 2005, was Rs.478.29 lacs out of which a sum of Rs.276.05 lacs representing 956 accounts are on account of Non-Cumulative Deposits and Rs.202.24 lacs representing 698 accounts are on account of Cumulative Deposits. A sum of Rs.5.48 lacs representing 22 accounts was unclaimed as on that date. Of the above a sum of Rs.1.81 lacs representing 9 accounts were since claimed and paid.

I. AUDITORS & AUDITORS' REPORT

The Board of Directors recommend the appointment of the Auditors of the Company to hold office from the conclusion of the ensuing Annual General Meeting until the conclusion of the next Annual General Meeting and to fix their remuneration. The present Auditors, Messrs. BSR & Co., Chartered Accountants are eligible for re-appointment.

EXPLANATION TO AUDITORS' REMARKS

Clause 16 of Annexure to the Auditors' Report

In our opinion and according to the information and explanations given to us, the term loans taken by the Company have been applied for the purpose for which they were raised except for approximately Rs.84,231 thousands which has been borrowed for working capital requirement but has been utilized for long term investment.

As informed in the previous Annual Report 2003-04, 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. Under such an arrangement, the company has obtained a long term working capital loan of four year tenure to help augment the long term resources of the company, a portion of which was subsequently used for long term investments.

J. INDUSTRIAL RELATIONS

Industrial relations, during the period under review, continued to remain cordial.

K. PARTICULARS OF EMPLOYEES UNDER SECTION 217(2A)

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

L. ENERGY, TECHNOLOGY AND FOREIGN EXCHANGE

The information required to be given under these heads in accordance with the provisions of Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, has been set out in the Annexure to this Report.

M. CORPORATE GOVERNANCE

Your Company has complied with all mandatory provisions of Corporate Governance as prescribed under the Listing Agreement entered into with The Stock Exchange, Mumbai.

The Corporate Governance Report and the Management Discussion and Analysis Report are produced as a part of the Annual Report.

N. ACKNOWLEDGEMENT

Your Directors wish to extend their thanks and appreciation to the employees of the Company at all levels and business associates for their commitment, dedication and respective contributions to the Company's operations during the year under review.

Your Directors sincerely thank the Company's Bankers and Financial Institutions and other associates for their continued support and patronage.

For and on behalf of the Board

Place : Chennai
Date : 29th July 2005

R.G. CHANDRAMOGAN
Chairman & Managing Director

ANNEXURE TO THE DIRECTORS' REPORT

A. CONSERVATION OF ENERGY

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

	Year ended 31 st March, 2005	Year ended 31 st March, 2004
1. Power and Fuel Consumption:		
ELECTRICITY:		
a) Purchased		
Units	1,89,09,306	1,08,13,558
Total Amount (Rs.)	8,61,33,948	4,82,28,469
Rate / Unit (Rs.)	4.56	4.46
b) Through Diesel Generation		
Units	22,89,981	5,63,332
Total Amount (Rs.)	2,39,59,428	31,60,292
Cost/Unit (excluding Overheads & Depreciation) (Rs.)	10.46	5.61
Units per Litre of Diesel Oil	2.50	3.17
c) Furnace Oil		
Quantity (KL)	25,48,722	9,93,669
Total Amount (Rs.)	3,49,06,265	1,28,80,495
Average Rate (Rs. / Litre)	13.70	12.96
2. Consumption per Unit of Products, i.e. per litre of Milk		
Electricity (Units) – Milk	0.0679	0.0410
– Ice Cream	0.5399	0.4667
Furnace Oil (Litres) – Milk	0.0082	0.0042

B. TECHNOLOGY ABSORPTION

a) Research and Development (R & D)

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

- Process Development
- New & Economy Packaging
- Product Diversification
- Quality Enhancement to achieve International Standards.

The above activities are being carried out at our plants as an ongoing exercise for continuous process improvement.

2. *Benefits Derived*

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

3. *Future Plan of Action*

Research and Development will lay emphasis on product/process development/innovation, to bring down costs without compromising on product quality and to achieve international standards in quality and taste.

4. *Expenditure on Research & Development*

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

Hatsun Agro Product Limited

b) Technology Absorption, Adaptation and Innovation

1) *Efforts made:*

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

2) *Benefits:*

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

C. FOREIGN EXCHANGE EARNINGS AND OUTGO

The Foreign Exchange earnings from exports during the year 2004-05 amounted to Rs.615.86 lacs.

Total outgo of Foreign Exchange during the year amounted to Rs.18.04 lacs.

For and on behalf of the Board

Place : Chennai
Date : 29th July 2005

R.G. CHANDRAMOGAN
Chairman & Managing Director

CORPORATE GOVERNANCE REPORT

As per the provisions of the Listing Agreement, the Company has complied with the requirements of Corporate Governance code as per the Report furnished below:

PHILOSOPHY ON CODE OF GOVERNANCE

Hatsun Agro Product Limited’s policy has been to enhance the long term interests of the shareholders while safeguarding the interests of its other stake holders - its lenders, creditors, customers, suppliers and employees. The Board of Directors of Hatsun views its role as a trustee of the various stakeholders in particular and the society at large.

Hatsun has always held itself to high standards of accountability, auditing, disclosure and reporting. These standards continue to define Hatsun’s corporate governance philosophy of transparency and accountability, based on strong systems and procedures.

I. BOARD OF DIRECTORS

A. *The Board of Directors of the Company shall have an optimum combination of executive and non-executive directors with not less than fifty per cent of the Board comprising of non-executive directors. In case the company has an executive chairman, at least half of the Board should comprise of independent directors.*

The Board of Directors of the Company consists of eight members as on 31st March 2005. Composition, category, attendance, directorship in other companies and membership/chairmanship in other companies’ board committees are as follows:

Sl. No.	Name of the Director	Designation	Category of Directorship	No. of Meetings held	No. of Meetings Attended	Last AGM Attendance (Yes/No)	In other companies'		In other companies' Committees	
							Director	Chairman	Member	Chairman
1.	Mr. R.G. Chandramogan	Chairman & Managing Director	Promoter/ Executive Director	6	5	YES	2	—	—	—
2.	Mr. K.S. Thanarajan	Joint Managing Director	Non-Promoter/ Executive Director	6	6	YES	—	—	—	—
3.	Mr. C. Sathyan	Executive Director - Operations	Promoter/ Executive Director	6	6	YES	—	—	—	—
4.	Mr. P. Vaidyanathan	Director	Non-Promoter/ Non-Executive/ Independent Director	6	5	YES	3	1	2	—
5.	Mr. Kirti P. Shah	Director	Non-Promoter/ Non-Executive/ Independent Director	6	1	YES	—	—	—	—
6.	Mr. S. Thiagarajan	Director	Non-Promoter/ Non-Executive/ Independent Director	6	6	YES	—	—	—	—
7.	Mr. B.S. Mani	Director	Non-Promoter/ Non-Executive/ Independent Director	6	6	YES	—	1	—	—
8.	Mr. N. Chandrasekaran*	Director	Non-Promoter/ Non-Executive/ Independent Director	6	1	N.A.	4	—	—	—

* Mr. N. Chandrasekaran joined the Board of the Company on 28th March 2005.

Hatsun Agro Product Limited

B. *All pecuniary relationship or transactions of the Non-executive Directors vis-à-vis the Company should be disclosed in the Annual Report.*

The Company had entered into a contract with Integrated Enterprises (India) Limited for acting as Company's Registrar and Share Transfer Agent. Integrated Enterprises (India) Limited is also the Manager for the Company's Fixed Deposit Schemes.

Mr P Vaidyanathan, our non-executive director, is the Chairman of Integrated Enterprises (India) Limited and the contracts have been duly approved by the Board of Directors.

II. AUDIT COMMITTEE

A qualified and independent Audit Committee shall be set up having a minimum of three Non-executive Directors as members.

The Audit Committee of the Board of Directors comprises four members, all are non-promoter, non-executive, independent directors. The committee is chaired by Mr P Vaidyanathan, who is a Fellow member of the Institute of Chartered Accountants of India.

The Company Secretary of the Company acts as the Secretary to the Audit Committee.

The broad terms of reference of the Audit Committee are as follows:

Role:

- Review of the Company's financial reporting process and the disclosure of its financial information.
- Reviewing with management the annual financial statements before submission to the Board, focussing primarily on (i) any change in accounting policies and practices, (ii) major accounting entries based on exercise of judgement by management, (iii) qualifications in draft audit report, (iv) significant adjustments arising out of audit, (v) the going concern assumption, (vi) compliance with accounting standards, (vii) compliance with the Listing requirements of the Stock Exchange and legal requirements concerning financial statements and (viii) any related party transactions i.e. transactions of the company of material nature, with promoters or the management, their subsidiaries or relatives etc., that may have potential conflict with the interests of company at large.
- Reviewing with the management, external and internal auditors, the adequacy of internal control systems.
- Reviewing the adequacy of internal audit functions.
- Discussion with external auditors before the audit commences, nature and scope of audit as well as have post-audit discussion to ascertain any area of concern.
- Reviewing the company's various financial and risk management policies and practices.

Audit Committee Meetings:

During the Financial Year 2004-05, Audit Committee met 5 times on the following dates namely, 24th June 2004, 30th July 2004, 29th October 2004, 28th January 2005 and 28th March 2005.

Attendance:

Attendance of each member of the Audit Committee during the financial year 2004-05:

S.No.	Name of the Member	No. of Meetings Attended
1.	P. Vaidyanathan	4
2.	Kirti P. Shah	—
3.	S. Thiagarajan	5
4.	B.S. Mani	5

III. REMUNERATION OF DIRECTORS

The remuneration of non-executive directors shall be decided by the Board. Appropriate disclosures on the remuneration of directors shall be made in the section on the corporate governance of the annual report. The Remuneration Committee, a non-mandatory requirement must determine on their behalf and on behalf of the shareholders with agreed terms of reference, the company's policy on specific remuneration packages for executive directors. The committee should comprise atleast three directors, all of whom should be non-executive directors headed by an independent director.

Hatsun Agro Product Limited

The Remuneration Committee consists of four members and all are non-promoter, non-executive, independent directors. The committee is chaired by Mr P Vaidyanathan.

Meetings:

During the Financial Year 2004-05, Remuneration Committee met on 30th July 2004 .

Attendance:

S. No.	Name of the Member	No. of Meetings Attended
1.	Mr. P. Vaidyanathan	1
2.	Mr. Kirti P. Shah	-
3.	Mr. S. Thiagarajan	1
4.	Mr. B.S. Mani	1

Role:

- To deal with appointments, remuneration, promotion and other related aspects in respect of the Managing Director and other Senior Management staff members of the Company.
- To review the Remuneration policy of the Company from time to time which is in consonance with the existing industry practice i.e. directed towards rewarding performance, based on review of achievement on a periodical basis.

Remuneration paid to Executive Directors and Sitting Fees paid to Non-Executive Directors during the Financial Year 2004-05 are as under:

I. Executive Directors:

(Rupees)

S. No.	Name of the Director	Salary and Allowances	Contribution to P.F. and other Funds	Other Benefits	Total
1.	Mr. R.G. Chandramogan	1,152,000	10,800	55,600	1,218,400
2.	Mr. K.S. Thnarajan	1,152,000	9,360	70,939	1,232,299
3.	Mr. C. Sathyan	741,000	9,360	54,216	804,576

Note: All the Executive Directors are covered under the Company's Group Gratuity Scheme along with the other employees of the Company. Proportionate amount of gratuity is not included in the above disclosure.

II. Non-Executive Directors:

S. No.	Name of the Director	Sitting Fees (Rs.)
1.	Mr. P. Vaidyanathan	25,000
2.	Mr. Kirti P. Shah	5,000
3.	Mr. S. Thiagarajan	30,000
4.	Mr. B.S. Mani	30,000
5.	Mr. N. Chandrasekaran	5,000

IV. BOARD PROCEDURE

A. The Board of Directors' meetings shall be held at least four times a year, with a maximum gap of four months between any two meetings.

Board Meetings:

During the Financial year 2004-05, the Board met 6 times on the following dates namely, 24th June 2004, 30th July 2004, 15th September 2004, 29th October 2004, 28th January 2005 and 28th March 2005.

Sub-Committee of Board of Directors:

The Sub-Committee of the Board of Directors of the Company comprises three Directors viz., Mr K S Thanarajan, Mr C Sathyan and Mr B S Mani. The Committee is chaired by Mr K S Thanarajan.

Role:

- To review the funds position of the Company, to borrow monies required for the purpose of business, to negotiate and finalise the terms of borrowings with the lenders, approval of borrowings and to look into repayments.

Hatsun Agro Product Limited

- To generally exercise all such powers and to do all such acts and things as the Board of Directors may delegate from time to time.

Sub-Committee Meetings:

During the Financial Year 2004-05, the Committee met 16 times on the following dates namely, 5th April 2004, 3rd May 2004, 24th May 2004, 14th June 2004, 8th July 2004, 4th August 2004, 8th September 2004, 4th October 2004, 21st October 2004, 1st November 2004, 22nd November 2004, 6th December 2004, 28th December 2004, 17th January 2005, 8th February 2005 and 17th March 2005.

- B. *The Director of a Company shall not be a member in more than 10 committees or act as Chairman of more than five committees across all companies in which he is a director.*

None of the Directors of your Company is a member in more than 10 committees or acts as Chairman of more than five committees across all companies in which he is a director.

V. MANAGEMENT

Management discussion and analysis report shall form part of the Annual Report to the shareholders.

This report has been included and forms part of this Annual Report.

Disclosures must be made by the management to the Board on all material financial and commercial transactions, where they have personal interest that may have a potential conflict with the interest of the Company at large.

Disclosure:

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

None of the transactions with any of the related parties were in conflict with the interests of the company. A statement of related party transaction is provided in the Notes to the Financial Statements under Schedule 20(2)(f).

- b) **Details of non-compliance by the Company, penalties, strictures imposed on the company by Stock Exchange or SEBI or any statutory authority, on any matter related to capital markets, during the last three years.**

There has been no instances of non-compliance of any matter related to the capital markets, during the last three years.

VI. SHAREHOLDERS

- A. *In the case of appointment of a new director or re-appointment of a director, the shareholders must be provided with the following information:*

- *A brief resume of the director*
- *Nature of his experience in specific functional areas; and*
- *Name of companies in which the person also holds the directorship and the membership of committees of the board.*

Resume of Directors being Re-appointed/Appointed

1. Mr. S Thiagarajan is a post graduate in Economics and a Certified Associate of the Indian Institute of Bankers. He has over four decades of experience in the financial services sector and has held various senior positions in Reserve Bank of India, Industrial Development Bank of India and Small Industrial Development Bank of India. He joined the Board of Hatsun on 26th May 2003.
2. Mr Kirti P Shah, an Industrialist, is an Engineering Graduate. Mr Shah is a Non-Resident Indian. At present he is the President of M/s Custom Magnetics Inc., U.S.A. He joined the Board of Hatsun on 7th January 2000. He is also Manager of M/s Shah Family LLC, U.S.A. Mr Shah has had more than 40 years of experience in the field of Engineering.
3. Mr N Chandrasekaran is a Mechanical Engineering Graduate with about 38 years experience. He has held various executive positions during his career. He is the Managing Director of M/s Fichtner Consulting Engineers (India) Pvt. Ltd. and M/s Fortune Valley Agro Farms Pvt. Ltd. He is also on the Board of reputed companies viz., M/s EPT Engineering Services Pvt. Ltd. and M/s Enmas Process Technologies Pvt. Ltd. Mr Chandrasekaran joined the Board of Hatsun on 28th March 2005 as an Additional Director.

Hatsun Agro Product Limited

B. All information like quarterly results, important decisions made by the Companies shall be put on company's web-site or shall be sent in such form so as to enable the stock exchanges on which the company is listed to put it on its web-site.

We regularly provide information to The Stock Exchange, Mumbai as per the requirements of the Listing Agreement.

Also simultaneous uploading of the information is made in Company's Website: www.hatsun.com and EDIFAR site of Securities and Exchange Board of India.

Means of Communication

The Company has published its quarterly / half yearly / yearly results in The Financial Express (English) and Makkal Kural & Malai Murasu (Vernacular).

C. *Shareholders'/Investors' Grievances Committee:*

A Board committee under the chairmanship of a non-executive director shall be formed specifically to look into the redressal of shareholders' and investors' complaints like transfer of shares, non- receipt of balance sheet, non-receipt of declared dividends, etc.

Shareholders' / Investors' Grievance Committee

The Shareholders' / Investors' Grievance Committee of the Board of Directors comprises three members. The committee is chaired by Mr S Thiagarajan, who is a non-executive, independent Director.

Meetings:

During the Financial Year 2004-05, Shareholders'/Investors' Grievance Committee met 4 times on the following dates namely, 24th June 2004, 30th July 2004, 29th October 2004 and 28th January 2005.

Attendance:

S. No.	Name of the Member	No. of Meetings Attended
1.	Mr. S. Thiagarajan	4
2.	Mr. P. Vaidyanathan	3
3.	Mr. K.S. Thanarajan	4

Role:

- To look into redressal of Shareholders' and Investors' complaints like transfer of Shares, non-receipt of Balance Sheet, non-receipt of declared dividend etc.,
- To oversee the performance of the Registrar and Transfer Agent and will recommend measures for overall improvement of the quality of investor services.

Details of Complaints:

Number of Shareholders complaints received	-	34
Number not solved to the satisfaction of Shareholders	-	Nil
Number of pending Share Transfers	-	Nil

Sl. No.	Nature of Complaints	Received & Redressed during the year
1.	Correspondence regarding demat / general	–
2.	Correspondence regarding loss of shares and issuance of duplicate Share Certificates	–
3.	Correspondence regarding non-receipt of share certificate, transmission of shares	5
4.	Revalidation of dividend warrants / Non-receipt of dividend warrants	26
5.	Complaints from SEBI, Stock Exchanges & ROC	–
6.	Non-receipt of Annual Report	3

Hatsun Agro Product Limited

D. The Board of the Company shall delegate the power of share transfer to an officer or a committee or to the Registrar and Share Transfer Agent so as to expedite the process of share transfers

Share Transfer Committee

The Board has re-constituted the Share Transfer Committee on 28th March 2005 comprising of Mr R G Chandramogan (Chairman), Mr K S Thanarajan and Mr P Vaidyanathan and the meetings are held regularly. Transfer of shares are processed and registered within the stipulated time, provided all the documents are valid and complete in all respects. As on 31st March 2005, there were no share transfers pending for registration for more than 30 days.

Meetings:

During the Financial Year 2004-05, Share Transfer Committee met 13 times on the following dates namely, 26th April 2004, 31st May 2004, 28th June 2004, 26th July 2004, 30th August 2004, 15th September 2004, 11th October 2004, 27th October 2004, 29th November 2004, 27th December 2004, 31st January 2005, 4th March 2005 and 18th March 2005.

VII. COMPLIANCE

A certificate shall be obtained from the Auditors of the Company regarding compliance of conditions of corporate governance as stipulated and the same shall be sent to the shareholders along with the Directors' Report which is sent annually to all shareholders of the Company.

The certificate dated 29th July 2005 obtained from the Statutory Auditors, M/s. BSR & Co., Chartered Accountants, forms part of this report.

VIII. COMPLIANCE OFFICER

The name and designation of the Compliance Officer of the Company:

Mr. B.V. Nath, Company Secretary
No.5-A, Vijayaraghava Road, T. Nagar, Chennai - 600 017, Tamil Nadu.
Phone No.: 091-044-28150014, Fax No.: 091-044-28152508, E-mail: bvnath@hatsun.com

IX. GENERAL BODY MEETINGS

The last three Annual General Meeting of the Company were held as detailed below:

Financial Year	Location	Date	Time
2001-02	Rani Seethai Hall, No.603, Anna Salai, Chennai - 600 006.	28 th September 2002	11.00 A.M.
2002-03	Andhra Social & Cultural Association, No.44, Vijayaraghava Road, T. Nagar, Chennai - 600 017.	29 th September 2003	11.00 A.M.
2003-04	Andhra Social & Cultural Association, No.44, Vijayaraghava Road, T. Nagar, Chennai - 600 017.	15 th September 2004	11.30 A.M.

No postal ballots were used/invited during the year.

X. GENERAL SHAREHOLDERS' INFORMATION

Date, Time and Venue of the Annual General Meeting

Date & Time : 29th September 2005 at 11.00 a.m.

Venue : Andhra Social & Cultural Association, No.44, Vijayaraghava Road, T.Nagar, Chennai - 600 017, Tamil Nadu.

Financial Calendar 2005-06 (Tentative):

Annual General Meeting - Next Year : September 2006

Board Meetings

Results for the quarter ending 30th June 2005 : Last week of July 2005
Results for the quarter ending 30th September 2005 : Last week of October 2005
Results for the quarter ending 31st December 2005 : Last week of January 2006
Audited Results for the year ending 31st March 2006 : Before end of June 2006

Book Closure Date: 22nd September 2005 to 29th September 2005 (both days inclusive)

Hatsun Agro Product Limited

Listing of Equity Shares: The Stock Exchange, Mumbai, Phiroze Jeejebhoy Towers, Dalale Street, Mumbai - 400 001.

Demat ISIN Number in NSDL & CDSL: INE473B01019

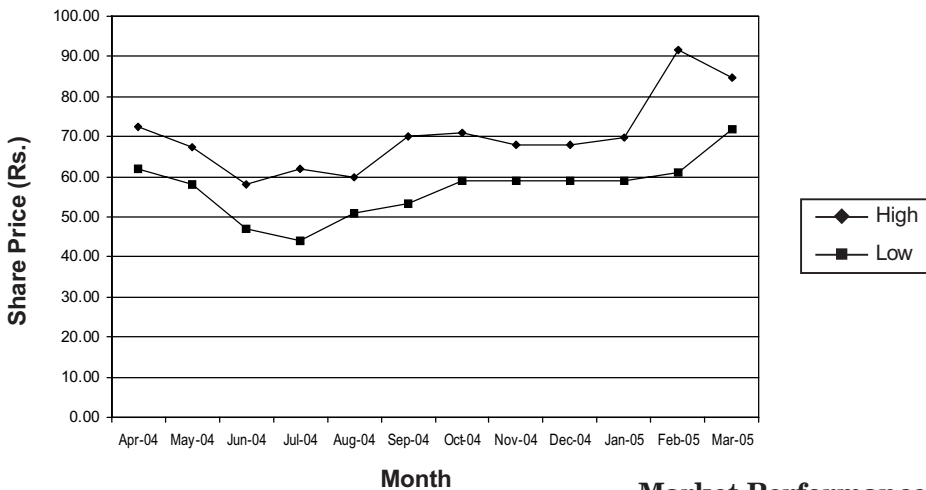
Scrip Code: BSE 531531

Note: Annual Listing Fee for the year 2005-06 has been duly paid to the above Stock Exchange.

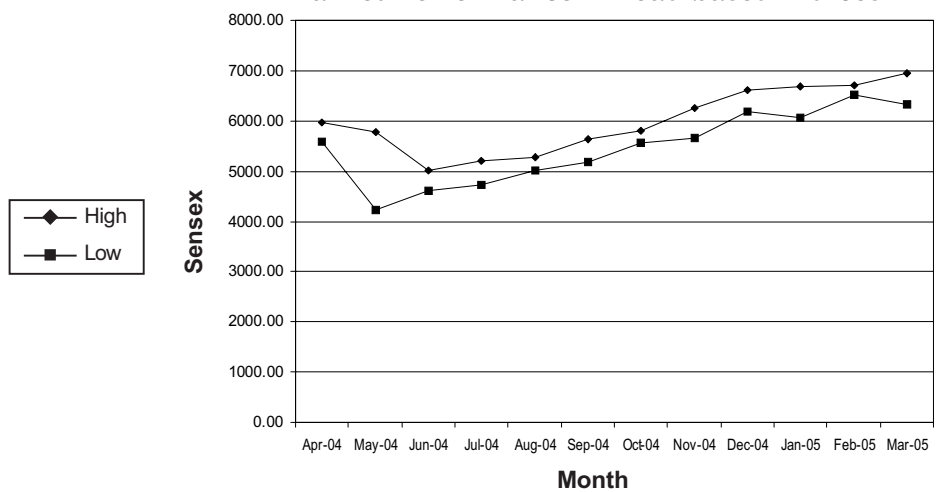
Stock Price Data

Month	The Stock Exchange, Mumbai		B S E Indices - Sensex	
	High (Rs.)	Low (Rs.)	High	Low
April 2004	72.50	62.10	5979.25	5599.12
May 2004	67.50	58.20	5772.64	4227.50
June 2004	58.20	47.00	5012.52	4613.94
July 2004	62.00	44.05	5200.85	4723.04
August 2004	60.00	51.00	5269.22	5022.29
September 2004	70.00	53.20	5638.79	5178.57
October 2004	70.90	59.05	5803.82	5558.14
November 2004	68.00	59.00	6248.43	5649.03
December 2004	68.00	59.10	6617.15	6176.09
January 2005	69.70	59.05	6696.31	6069.33
February 2005	91.50	61.00	6720.94	6508.33
March 2005	84.70	72.00	6954.86	6321.31

Share Price Movement



Market Performance - Broad-based Indices



Hatsun Agro Product Limited

Registrar and Transfer Agent

(Share transfer, communication regarding share certificates, change of address, payment of dividend on shares and any other query relating to the shares of the Company)

M/s Integrated Enterprises (India) Limited,
2nd Floor, Kences Towers, No.1, Ramakrishna Street, North Usman Road, T.Nagar, Chennai – 600 017, Tamil Nadu.
Phone No.: 091-044-28140801 – 803, Fax No.: 091-044-28142479

Share Transfer System

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

Distribution of Shareholding as at 31st March 2005

S. No.	No. of Shares held	No. of Shareholders	% of Shareholders	No. of Shares	% of Shareholding
1.	Upto 100	2,095	65.10	161,575	2.38
2.	101 – 200	696	21.63	137,487	2.03
3.	201 – 300	79	2.46	23,363	0.34
4.	301 – 400	36	1.12	14,274	0.21
5.	401 – 500	61	1.90	30,231	0.45
6.	501 – 1000	115	3.57	86,542	1.27
7.	1001 – 5000	66	2.05	174,302	2.57
8.	5001 – 10000	29	0.90	210,769	3.10
9.	10001 & above	41	1.27	5,950,275	87.65
	Total	3,218	100.00	6,788,818	100.00

Dematerialisation of Shares

About 87.70% of the shares have been dematerialised as at 31st March 2005.

Distribution of Shares with break-up of Physical and Electronic forms as at 31st March 2005.

S. No.	No. of Equity Shares	No. of Shareholders		% to Total Shareholders		In Rs.		% to Total	
		Phy.	Elect.	Phy.	Elect.	Phy.	Elect.	Phy.	Elect.
1.	001 - 100	1,301	794	40.43	24.67	1,234,320	381,430	1.82	0.56
2.	101 - 200	598	98	18.58	3.05	1,188,300	186,570	1.76	0.27
3.	201 - 300	55	24	1.71	0.75	165,000	68,630	0.24	0.10
4.	301 - 400	25	11	0.78	0.34	100,000	42,740	0.15	0.06
5.	401 - 500	35	26	1.09	0.81	175,000	127,310	0.26	0.19
6.	501 - 1000	85	30	2.64	0.93	634,000	231,420	0.93	0.34
7.	1001 - 5000	27	39	0.84	1.21	760,000	983,020	1.12	1.45
8.	5001 - 10000	11	18	0.34	0.56	728,500	1,379,190	1.07	2.03
9.	10001 & Above	18	23	0.56	0.71	3,362,000	56,140,750	4.95	82.70
	Total	2,155	1063	66.97	33.03	8,347,120	59,541,060	12.30	87.70

Hatsun Agro Product Limited

Shareholding Pattern as at 31st March 2005

S. No.	Category	No. of Shareholders	No. of Shares held	% of Shareholding
1.	Promoters	8	4,668,626	68.769
2.	Overseas Body Corporate	1	339,300	4.998
3.	Other Bodies Corporate	34	277,799	4.092
4.	Non-Resident Indians	3	3,018	0.045
5.	Others	3,172	1,500,075	22.096
	Total	3,218	6,788,818	100.000

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

Address of the Registered Office, Tel. No., Website & E-mail ID of the Company : M/s Hatsun Agro Product Limited,
No.5-A, Vijayaraghava Road, T. Nagar, Chennai - 600 017, Tamil Nadu.
Phone No.: 091-044-28150014, Fax No.: 091-044-28152508
Website: www.hatsun.com, E-mail: hatsun@md2.vsnl.net.in

Auditors' Certificate on Corporate Governance to the members of Hatsun Agro Product Limited

We have examined the compliance of conditions of corporate governance by Hatsun Agro Product Limited ("the Company") for the year ended 31st March 2005, as stipulated in Clause 49 of the Listing Agreement of the said Company with the stock exchange.

The compliance of conditions of corporate governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the corporate governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of corporate governance as stipulated in the above-mentioned Listing Agreement.

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

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

For BSR & CO.,
(Formerly Bharat S. Raut & Co.)
Chartered Accountants,

Place : Chennai
Date : 29th July 2005

S. BALASUBRAHMANYAM
Partner
Membership No.53315

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

INDUSTRY STRUCTURE AND DEVELOPMENT

The fiscal year 2004-05 proved to be a year of reasonable growth for the Indian Economy. This growth would have been better but for the very volatile situation in Iraq which had its inflationary impact on global crude oil prices.

The Indian success story in the Pharma, Auto and ITES continued and traditional brick and mortar companies also pitched in with good performances. The Indian Industry in general posted a good export performance.

The Indian Dairy Industry is poised to make a quantum leap in its performance in the coming years with the phasing out of subsidies on milk products as per the WTO Agreement. The world milk production is estimated at 613 million tonnes for the year 2004 and India with an estimated milk production of 91.30 million tonnes is the largest producer of milk.

OPPORTUNITIES

In India, agriculture contributes around 21% of the GDP. Of this 21%, 25% is contributed by the Dairy Industry, which effectively works out to 5% of the total GDP of the Country. Milk is the only commodity, which offers easy marketability, stability of prices and liquidity on a weekly basis to the farmers unlike any other agricultural commodity. More and more farmers are therefore likely to migrate to this activity due to the advantages mentioned above in the water deficient states.

In the last few years, the increasing disposable income combined with a growing and health conscious younger generation have opened up new market opportunities for the dairy sector. Though this number as a percentage of total population is miniscule, in terms of numbers, they add up to millions and also are conveniently concentrated in predominantly urban areas making product availability logistically simpler. This class of the population are educated and widely travelled and show a marked preference for hygienic food products. This demand can be met by the organised sector of the dairy industry since they can offer hygienically packed milk and value added branded milk products.

The reduction in subsidies to milk products in both the US and EU countries enables India to garner a bigger share of the world dairy trade. The current share of India in the global dairy trade is less than 1% in spite of being the largest milk producer in the world and thus India can profitably penetrate a vast export market.

THREATS

Other than the private players, significant capacities of milk production is controlled by state co-operatives whose pricing strategies are often not based on the actual cost of production and reasonable return on investment. This occasionally puts immense pressure on the bottomlines of the dairies in the private sector since their pricing strategies more often than not are based on that of the local State co-operatives.

PRODUCT/MARKET WISE PERFORMANCE

During the year 2004-05, the milk sales of the Company was 2,874 lacs litres valued at Rs.39,624 lacs. The Ice Cream segment contributed a sales of Rs.3,311 lacs during the year. Tamil Nadu accounted for the maximum sales of Arokya and Komatha milk followed by Karnataka and Kerala (only Arokya). The company was able to maintain its market share in Tamil Nadu. There was an increase in the turnover of Ice Cream as compared to the previous year. Your company also recorded a turnover of Rs.973 lacs in the milk products division in both the export and domestic market. Refer also our observations under 'Financial Performance'.

OUTLOOK

Since milk is a highly perishable item, the Company has built up a reliable logistics network to collect and distribute milk. Milk that is procured has to be chilled within six hours before it is brought to the manufacturing centre to prevent spoilage. Therefore, the Company has built a chain of 37 chilling centres which is chilling milk procured from one lakh farmers through 3,527 collection centres. This milk is further processed and packed in the manufacturing centre and distributed to 123 major towns and adjoining small towns and villages through a distribution network which extends throughout Tamil Nadu, Karnataka and Kerala touching even towns with a population of less than 10,000. Fresh milk is distributed every day through a 9,000 strong dealer network. The Company also helps the farmers with a battery of more than 100 veterinary doctors in the feed and health management of the animals. Logistically the combined distance traversed by the Company people engaged in the collection and distribution of milk will come to a staggering 160,000 kilometers per day - equivalent to travelling around the earth 4 times

Hatsun Agro Product Limited

a day. Such a dedicated, focused and efficient procurement and distribution network will help your company to increase its market penetration in the packed milk category and also help in successfully sourcing adequate quantities of milk for the dairy ingredient division.

The outlook for the Indian Dairy Sector is very upbeat especially in the value added products. It is also a fact that significant processing of milk is still being done in the unorganised sector and this implies that there is a large potential for processing and value added products in the organised sector. The consumption of milk and milk products have been growing over the last few years and is being spurred primarily as mentioned above by the increase in disposable income and a discernible trend in consumption of value added products. The international climate is extremely conducive for India to participate in the global dairy trade due to the constantly reducing subsidies. Your company is well positioned to take advantage of this situation since it has already created the infrastructure with the commissioning of two integrated powder plants at Salem and Kanchipuram and has already started sales of value added products like skimmed and whole milk powder, dairy whitener, butter, ghee and butter oil both in the domestic and export market.

RISKS AND CONCERNS

The risks and concerns have already been highlighted under "Threats" faced by your company. In addition, the flush season for milk which is immediately after the monsoon brings in excess availability of milk. If the company fails to encash this flush by buying milk from the farmers, it is very difficult to increase the offtake from farmers in the lean season. This leads to a missed opportunity for that year. Your company is very confident that with its constantly expanding product range and increasing geographical coverage, it can overcome these and other challenges that are posed in its march towards become a leading player in the Indian dairy industry.

FINANCIAL PERFORMANCE

(Rs. in lacs)

	Year ended 31 st March 2005	Year ended 31 st March 2004
Total Revenue	45,077.89	36,264.93
Total Expenditure	42,971.04	34,697.11
Profit before Interest, Depreciation & Tax	2,106.85	1,567.82
Interest	569.31	438.29
Depreciation & Amortisation	1,377.43	1,297.19
Depreciation Written Back	—	(1,105.30)
Prior period items	—	(16.23)
Profit before tax	160.11	953.87
Provision for tax	12.82	77.76
Deferred tax (expense)/benefit	(73.78)	(337.58)
Profit after tax	73.51	538.53
Earnings per share (Rs.)	1.08	7.93

The financial year under review was an extremely important year for the company due to the fact that the procurement infrastructure had to be consolidated and commissioned before the completion of the integrated milk powder plant and the consequent pressure it built up on the liquidity and profitability. The creation of these infrastructure had its impact on the profitability in terms of additional interest cost but was necessary to diversify the product portfolio of your company. The beginning of the year saw unseasonal rains which not only dampened the sales of Ice Cream but also increased the availability of milk. Since the procurement base had to be kept running smoothly to ensure the loyalty of the farmers, milk had to be purchased and sold as raw chilled milk to other dairies at unattractive prices which reduced the profitability. To compound the problem, the fuel cost kept on increasing during the year upto nearly 30%, and this created severe strain on the bottomline since this increase could not be passed on to the customer. The Company has now restructured the entire logistics network by introducing higher capacity vehicles which will substantially reduce the transportation cost. The benefit of this exercise will accrue in the next financial year. The Salem powder plant was commissioned only in end December 2004 and the company could not take advantage of the flush season of September-November 2004 to stock milk products. The export prices for milk products during the year was not very attractive and added to the fact was that the company had to offer extremely competitive prices as an entry offer to establish its credentials. Consequently though the turnover of the company increased from Rs.36,190 lacs to Rs.44,918 lacs, an increase of around 24%, the profitability actually decreased due to the reasons mentioned above.

The procurement and employee cost increased due to the opening of new collection centers, chilling centers and the commissioning of the integrated milk powder plant at Salem. The increase in the infrastructure facility has resulted in generally increasing the expenditure of the Company across all heads since these are intended to maintain higher volume of milk procurement which will effectively reduce the costs in the year to come.

Hatsun Agro Product Limited

Overall, the above factors reduced the profitability. The creation of additional infrastructures necessitated fresh borrowings which added to the total interest cost.

Such reduction of profitability are a part and parcel of the expansion process suffered by any organisation which is on a capacity creation mode and is temporary in nature. These will be offset by the benefits which the additional capacity would bring in terms of a better product mix and increased turnover and profitability. This would also give the company the benefit of optimising its product mix in the form of packeted milk and milk products to ensure maximisation of profitability.

Your company is confident that the ensuing financial year would enable it to reap the rewards of the measures it has taken to increase the product profile, the turnover and the profitability and optimise utilisation of assets.

INTERNAL CONTROL SYSTEMS

Your company has established adequate Internal Control Systems. Internal Audits are regularly conducted through In-house Audit Department. The internal control systems provide for well documented policies, guidelines, authorizations and approval procedures. The reports are periodically discussed and corrective measures are taken. The top management every month and the Audit Committee periodically review the internal auditors findings and recommendations.

INFORMATION TECHNOLOGY

Your company is on the verge of completion of a major Information Technology initiative at a cost of Rs.500 lacs.

This exercise would result in switching over from the existing Legacy systems to advanced Oracle Applications ERP. Substantial progress has been made in this implementation and final integration of the modules in the application package is taking place. The milk divisions have been already switched over to the Oracle Applications and Ice Cream would follow suit in September 2005. The consolidation would be completed by the end of the calendar year 2005.

This implementation would go a long way in providing management with the necessary inputs for accurate and faster decisions.

HUMAN RESOURCES

Your Company attaches significant importance to continuous upgradation of Human Resources for achieving highest levels of efficiency, customer satisfaction and growth.

As part of the overall HR strategy, training programmes have been organised for employees at all levels through both internal and external faculty, wherever necessary. The company regards its human resources amongst its most valuable assets and the key focus is to attract, retain and develop talent as a resource. Your company has positioned the best talents in the industry in all its locations. The creation of a congenial work environment which will foster creative thinking is one of the prime HR goals of the company. As on 31st March 2005 the employees strength was 1,301.

FUTURISTIC STATEMENTS

This analysis may contain statements, which are futuristic in nature. Such statements represent the intention of the management and the efforts being put into place by them to achieve certain goals. The success in realizing such goals is contingent on certain factors, which are both external and internal in nature. Therefore, the investors are requested to make their own independent assessments and judgments by considering all relevant factors before arriving at any investment decision.

AUDITORS' REPORT

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

1. We have audited the attached Balance Sheet of Hatsun Agro Product Limited ("the Company") as at 31st March 2005, and also the Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003, issued by the Central Government of India in terms of Sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the annexure referred to above, we report that:
 - (a) we have obtained all the information and explanations, which to the best of our knowledge and belief, were necessary for the purpose of our audit;
 - (b) in our opinion, proper books of account as required by law have been kept by the Company, so far as appears from our examination of the books of account;
 - (c) the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - (d) in our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in Sub-section (3C) of Section 211 of the Companies Act, 1956;
 - (e) on the basis of written representations received from the Directors as on 31st March 2005 and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31st March 2005 from being appointed as Director in terms of Clause (g) of Sub-section (1) of Section 274 of the Act; and
 - (f) in our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Act in the manner so required, and give a true and fair view, in conformity with the accounting principles generally accepted in India:
 - (i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March 2005;
 - (ii) in the case of the Profit and Loss Account, of the profit of the Company for the year ended on that date; and
 - (iii) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For BSR & CO.,
(Formerly Bharat S. Raut & Co.)
Chartered Accountants,

Place : Chennai
Date : 27th June 2005

S. BALASUBRAHMANYAM
Partner
Membership No.53315

ANNEXURE TO THE AUDITORS' REPORT

The Annexure referred to in the Auditors' Report to the members of Hatsun Agro Product Limited (the Company) for the year ended 31st March 2005. We report that:

1. (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) The Company has a regular programme of physical verification of its fixed assets by which all fixed assets are verified in a phased manner. In our opinion, this periodicity of physical verification is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies were noticed on such verification.
- (c) Fixed assets disposed off during the year were not substantial and therefore do not affect the going-concern assumption.
2. (a) The inventory, except goods-in-transit, has been physically verified by the management during the year. In our opinion, the frequency of such verification is reasonable.
- (b) The procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
- (c) The Company is maintaining proper records of inventory. The discrepancies noticed on verification between the physical stocks and the book records were not material.
3. The Company has neither granted nor taken any loan, secured or unsecured, to/from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956.
4. In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to purchase of inventories and fixed assets and with regard to the sale of goods. We have not observed any major weakness in the internal control system during the course of the audit.
5. In our opinion, and according to the information and explanations given to us, there are no contracts and arrangements, the particulars of which need to be entered into the register maintained under Section 301 of the Companies Act, 1956.
6. In our opinion and according to the information and explanations given to us, the Company has complied with the provisions of Sections 58A, 58AA or other relevant provisions of the Companies Act, 1956 and the rules framed thereunder/the directives issued by the Reserve Bank of India (as applicable) with regard to deposits accepted from the public except in respect of payment of interest on deposits aggregating to Rs.95 thousands at rates of interest in excess of those prescribed by Notification No. G.S.R. 77(E) dated 4th February 2002, issued by the Department of Company Affairs. In respect of deposits accepted by the Company, there have been no proceedings before the Company Law Board or National Company Law Tribunal (as applicable) or Reserve Bank of India or any Court or any other Tribunal in this matter and no order has been passed by any of the aforesaid authorities.
7. In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.
8. The Central Government has not prescribed the maintenance of cost records under Section 209(1)(d) of the Companies Act, 1956 for any of the products manufactured by the Company.
9. (a) According to the information and explanations given to us and on the basis of our examination of the records of the Company, amounts deducted/accrued in the books of account in respect of undisputed statutory dues including provident fund, employees' state insurance, income-tax, sales-tax, wealth-tax, service-tax, customs duty, excise duty, cess and other material statutory dues have been regularly deposited during the year by the Company with the appropriate authorities except in relation to certain delays noted on remittance of income-tax deducted at source to the appropriate authorities ranging upto 30 days and sales tax as explained below. As explained to us, the Company did not have any dues on account of Investor Education and Protection Fund.

According to the information and explanations given to us, no undisputed amounts payable in respect of provident fund, employees' state insurance, income-tax, wealth-tax, service-tax, customs duty, excise duty, cess and other material statutory dues were in arrears as at 31st March 2005 for a period of more than six months from the date they became payable except in relation to sales-tax payable pertaining to previous years amounting to Rs.2,501 thousands.

Hatsun Agro Product Limited

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

Name of the Statute	Nature of the dues	Amount (Rs. thousands)	Period to which the amount relates	Forum where dispute is pending
Sales tax Act as applicable in Tamil Nadu	Sales tax in dispute	181	1993-94	Commercial Tax Officer
Sales tax Act as applicable in Tamil Nadu	Sales tax in dispute	247	1995-96	Sales Tax Appellate Tribunal
Sales tax Act as applicable in Tamil Nadu	Sales tax in dispute	3,638	1995-96	Commercial Tax Officer Tamil Nadu
Sales tax Act as applicable in Tamil Nadu	Sales tax in dispute	932	1996-97	Commercial Tax Officer Tamil Nadu
Sales tax Act as applicable in Tamil Nadu	Sales tax in dispute	1,083	1996-97	Appellate Assisstant Commissioner
Sales tax Act as applicable in Tamil Nadu	Sales tax in dispute	193	1997-98	Appellate Assisstant Commissioner
Sales tax Act as applicable in Tamil Nadu	Sales tax in dispute	175	1998-99	Appellate Assisstant Commissioner
Sales tax Act as applicable in Tamil Nadu	Sales tax in dispute	1,300	1999-00	Appellate Assisstant Commissioner
Sales tax Act as applicable in Tamil Nadu	Sales tax in dispute	5,571	2000-01	Appellate Assisstant Commissioner
Central Sales tax	Sales tax in dispute	298	2000-01	Appellate Assisstant Commissioner
Central Sales tax	Sales tax in dispute	630	2001-02	Commercial Tax Officer
	Total	14,248		

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

Hatsun Agro Product Limited

14. According to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments.
15. According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions.
16. *In our opinion and according to the information and explanations given to us, the term loans taken by the Company have been applied for the purpose for which they were raised except for approximately Rs.84,231 thousands which had been borrowed for working capital requirement but had been utilised for long term investment.*
17. According to the information and explanations given to us and on an overall examination of the Balance Sheet of the Company, we are of the opinion that the funds raised on short-term basis have not been used for long-term investment.
18. The Company has not made any preferential allotment of shares to companies/firms/parties covered in the register maintained under Section 301 of the Companies Act, 1956.
19. The Company did not have any outstanding debentures during the year.
20. The Company has not raised any money by public issues during the year.
21. According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the year.

For BSR & CO.,
(Formerly Bharat S. Raut & Co.)
Chartered Accountants,

Place : Chennai
Date : 27th June 2005

S. BALASUBRAHMANYAM
Partner
Membership No.53315

Hatsun Agro Product Limited

BALANCE SHEET AS AT 31ST MARCH 2005

(Rs. in '000s)

	Schedule No.	As at 31 st March 2005	As at 31 st March 2004
SOURCES OF FUNDS			
Shareholders' Funds			
Share Capital	1	67,921	67,921
Reserves and Surplus	2	162,182	154,831
		<u>230,103</u>	<u>222,752</u>
Loan Funds			
Secured Loans	3	692,510	423,671
Unsecured Loans	4	214,994	267,740
		<u>907,504</u>	<u>691,411</u>
Deferred Income		10,420	—
Deferred Tax Liabilities	20(2)(g)	80,488	73,110
		<u>1,228,515</u>	<u>987,273</u>
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	5	1,581,247	1,155,949
Less: Accumulated depreciation		(408,802)	(277,177)
Net Block		<u>1,172,445</u>	<u>878,772</u>
Capital work-in-progress		86,874	89,584
		<u>1,259,319</u>	<u>968,356</u>
Investments	6	—	1,503
Current Assets, Loans and Advances			
Inventories	7	88,468	41,809
Sundry Debtors	8	40,134	23,623
Cash and Bank Balances	9	73,676	114,715
Loans and Advances	10	50,671	137,473
		<u>252,949</u>	<u>317,620</u>
Current Liabilities and Provisions			
Current Liabilities	11	(280,868)	(289,201)
Provisions	12	(2,885)	(11,005)
		<u>(283,753)</u>	<u>(300,206)</u>
Net Current Assets		<u>(30,804)</u>	<u>17,414</u>
		<u>1,228,515</u>	<u>987,273</u>
Significant accounting policies and notes to the Financial Statements	20		

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

For and on behalf of the Board of Directors

As per our report attached of even date

For BSR & CO.,
(Formerly Bharat S. Raut & Co.)
Chartered Accountants

S. BALASUBRAHMANYAM
Partner, Membership No.53315

R.G. CHANDRAMOGAN
Chairman & Managing Director

C. SATHYAN
Executive Director

Place : Chennai
Date : 27th June 2005

B.V. NATH
Company Secretary

Hatsun Agro Product Limited

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH 2005

(Rs. in '000s)

	Schedule No.	Year ended 31 st March 2005	Year ended 31 st March 2004
INCOME			
Sales – Gross	13	4,538,276	3,661,115
Less: Excise Duty		46,401	42,018
– Net		4,491,875	3,619,097
Other income	14	15,914	7,396
		4,507,789	3,626,493
EXPENDITURE			
Cost of manufactured goods	15	3,389,258	2,638,578
Cost of traded goods	16	48,084	35,418
Employee costs	17	122,744	95,060
Manufacturing, administrative and selling expenses	18	737,018	700,655
Interest and finance charges	19	56,931	43,829
Depreciation		137,743	129,719
Depreciation written back		—	(110,530)
		4,491,778	3,532,729
Profit before prior period adjustments and tax		16,011	93,764
Prior period adjustments (net)		—	1,623
Profit before tax		16,011	95,387
Income Tax expense : - Current tax		1,243	7,191
- Interest on current tax		39	585
Deferred Tax expense: - Current period		4,461	33,758
- Prior period		2,917	—
Profit after tax		7,351	53,853
Balance brought forward from previous year		34,108	4,882
Adjustments relating to amalgamation		—	(5,270)
Profit available for appropriation		41,459	53,465
Appropriations:			
Transfer to General reserve		—	4,040
Dividend paid		—	13,516
Proposed dividend on equity shares allotted pursuant to amalgamation (exempt from tax)		—	61
Corporate dividend tax (including Rs.Nil [31 st March 2004:Rs.8] on proposed dividend)		—	1,740
Balance carried to Balance Sheet		41,459	34,108
		41,459	53,465
Earnings per share: - Basic & Diluted (Rs.)		1.08	7.93
Weighted average number of equity shares outstanding		6,788,818	6,788,818
Par value of equity shares (Rs.)		10	10
Significant accounting policies and notes to the Financial Statements	20		

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

For and on behalf of the Board of Directors

As per our report attached of even date

For BSR & CO.,
(Formerly Bharat S. Raut & Co.)
Chartered Accountants

S. BALASUBRAHMANYAM
Partner, Membership No.53315

R.G. CHANDRAMOGAN
Chairman & Managing Director

C. SATHYAN
Executive Director

Place : Chennai
Date : 27th June 2005

B.V. NATH
Company Secretary

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH 2005

	Year ended 31 st March 2005 (Rs. in '000s)	Year ended 31 st March 2004 (Rs. in '000s)
A. Cash Flow from Operating Activities		
Net profit before tax	16,011	95,387
<i>Adjustments for:</i>		
Depreciation	137,743	129,719
Depreciation write back	—	(110,530)
Prior period adjustments - Depreciation	—	710
Provision for Doubtful Debts	—	3,220
Bad Debts written off	2,990	83
Profit on Sale of Assets (net)	(2,715)	(975)
Profit on Sale of Investments	—	(35)
Interest Income	(2,601)	(3,869)
Subsidy received from Government	(326)	—
Dividend Income	(113)	(393)
Interest and Finance Charges	56,931	43,829
	<u>191,909</u>	<u>61,759</u>
Operating Profit before Working Capital Changes	207,920	157,146
<i>Adjustments for:</i>		
(Increase)/Decrease in Inventories	(46,659)	648
(Increase)/Decrease in Sundry Debtors	(19,501)	(6,702)
Decrease/(Increase) in Loans and Advances	6,484	(21,495)
(Decrease)/Increase in Current Liabilities	(1,700)	91,759
(Decrease)/Increase in Provisions	(3,087)	1,611
Cash generated from Operations	143,457	222,967
Income-tax paid	(6,244)	(2,604)
Net Cash from Operating Activities (A)	137,213	220,363
B. Cash Flow from Investing Activities		
Purchase of Fixed Assets	(441,087)	(280,982)
Sale of Fixed Assets	8,814	8,825
Purchase of Investments	(151,497)	(565,303)
Sale of Investments	153,000	563,844
Dividend Income	113	393
Net Cash used in Investing Activities (B)	(430,657)	(273,223)

Hatsun Agro Product Limited

	Year ended 31 st March 2005 (Rs. in '000s)	Year ended 31 st March 2004 (Rs. in '000s)
C. Cash Flow from Financing Activities		
Increase in Borrowings from Financial Institutions	118,011	242,695
Increase in Lease Finance Loans	20,438	9,499
Repayment/(Placement) of Inter-corporate Deposits	80,000	(77,700)
Acceptance of Public Deposits (net)	5,434	1,801
Increase/(Decrease) in Other Loans	71,807	(8,645)
Subsidy received from Government	10,746	—
Interest and Finance Charges paid	(56,881)	(43,817)
Interest Income	2,919	5,099
Dividend paid (including dividend distribution tax)	(69)	(15,107)
Net Cash from Financing Activities (C)	252,405	113,825
Net (Decrease)/Increase in Cash and Cash Equivalents (A+B+C)	(41,039)	60,965
Cash and Cash Equivalents at the beginning of the Year	114,715	52,247
Add: Cash and Cash Equivalents acquired on Amalgamation	—	1,503
Cash and Cash Equivalents at end of the Year	73,676	114,715
Cash and Cash Equivalents include the following, which in the view of the management are restricted in nature		
– in designated Bank Accounts towards security for repayment of Public Deposits	3,650	4,438
– in designated Bank Accounts towards repayment of term loans from banks	—	14,000
– in Margin Money Account	—	164
– in Unpaid Dividend Account	299	234
	3,949	18,836

As per our report attached of even date

For and on behalf of the Board of Directors

For BSR & CO.,
(Formerly Bharat S. Raut & Co.)
Chartered Accountants
S. BALASUBRAHMANYAM
Partner, Membership No.53315

R.G. CHANDRAMOGAN
Chairman & Managing Director

C. SATHYAN
Executive Director

Place : Chennai
Date : 27th June 2005

B.V. NATH
Company Secretary

SCHEDULES FORMING PART OF THE FINANCIAL STATEMENTS

	As at 31 st March 2005 (Rs. in '000s)	As at 31 st March 2004 (Rs. in '000s)
1. Share Capital		
Authorised		
9,000,000 (31 st March 2004: 9,000,000) Equity Shares of Rs.10/- each	90,000	90,000
300,000 (31 st March 2004: 300,000) 12% Non-Cumulative Redeemable Preference Shares of Rs.100/- each	30,000	30,000
	<u>120,000</u>	<u>120,000</u>
Issued and Subscribed		
6,801,818 (31 st March 2004: 6,801,818) Equity Shares of Rs.10/- each	<u>68,018</u>	<u>68,018</u>
Paid-up		
6,788,818 (31 st March 2004: 6,788,818) Equity Shares of Rs.10/- each fully paid-up	67,888	67,888
13,000 Equity Shares partly paid-up, Forfeited	33	33
	<u>67,921</u>	<u>67,921</u>
Paid-up Equity Shares of the Company include:		
a) 30,728 (31 st March 2004: 30,728) Equity Shares of Rs.10/- each allotted pursuant to amalgamation of Hatsun Foods Company Limited, for consideration other than cash		
b) 69,090 (31 st March 2004: 69,090) Equity Shares of Rs.10/- each allotted pursuant to amalgamation of Ajith Dairy Industries Limited, for consideration other than cash.		
c) 1,058,400 (31 st March 2004: 1,058,400) Equity Shares of Rs.10/- each issued as fully paid up bonus shares in July 1995 pursuant to capitalisation of surplus in the Profit and Loss Account and Free Reserves.		
2. Reserves and Surplus		
Securities Premium Account	86,722	86,722
Capital Reserve		
Balance brought forward	7,445	70
Add: Adjustments relating to amalgamation	—	7,375
	<u>7,445</u>	<u>7,445</u>
Capital Redemption Reserve		
Balance brought forward	25,000	25,000
	<u>25,000</u>	<u>25,000</u>
General Reserve		
Balance brought forward	1,556	3,100
Add : Appropriation from Profit and Loss Account	—	4,040
Less: Debit balance in Profit and Loss Account of Hatsun Foods Company Limited	—	(5,584)
	<u>1,556</u>	<u>1,556</u>
Balance in Profit and Loss Account	<u>41,459</u>	<u>34,108</u>
	<u>162,182</u>	<u>154,831</u>

Hatsun Agro Product Limited

	As at 31 st March 2005 (Rs. in '000s)	As at 31 st March 2004 (Rs. in '000s)
3. Secured Loans		
Term Loans from Banks (Secured by a charge on the entire Fixed Assets and Current Assets of the Company) (include accrued interest: Rs.371) (31 st March 2004: Rs.891)	589,518	411,117
Working Capital Loans from Banks (Secured by charge on the entire Current Assets of the Company)	70,000	—
Lease Finance Loans (Secured by assets acquired on Lease)	32,992	12,554
	<u>692,510</u>	<u>423,671</u>
4. Unsecured Loans		
Short Term Loans from Banks	20,000	149,989
Public Deposits (Include accrued interest and unclaimed deposits: Rs.Nil and Rs.548 respectively [31 st March 2004: Rs.9 and Rs.136])	47,829	42,395
Interest-free sales tax deferral loan	18,980	20,029
Others	128,185	55,327
	<u>214,994</u>	<u>267,740</u>
Of the above secured and unsecured loans, Managing Director has given personal guarantee (including those by pledge of equity shares) for the following:		
Term Loans	589,518	411,117
Working Capital Loans	70,000	—
Short Term Loans from Banks	—	149,989
Others	128,185	55,327

5. Fixed Assets

(Rs. in '000s)

Description	Gross Block				Accumulated depreciation				Net Block	
	As at 1 st April 2004	Additions for the year (refer note 1)	Deletions	As at 31 st March 2005	As at 1 st April 2004	For the Year (refer notes 2, 3 and 4)	Deletions	As at 31 st March 2005	As at 31 st March 2005	As at 31 st March 2004
Intangible Assets:										
Goodwill	32,488	—	—	32,488	20,021	6,498	—	26,519	5,969	12,467
Non-Compete Fee	23,947	—	—	23,947	11,974	5,987	—	17,961	5,986	11,973
Brands	28,222	—	—	28,222	10,717	6,704	—	17,421	10,801	17,505
ERP Software	12,418	1,823	—	14,241	3,742	2,809	—	6,551	7,690	8,676
Tangible Assets:										
Freehold Land	103,762	14,033	—	117,795	—	—	—	—	117,795	103,762
Buildings	202,144	91,369	—	293,513	18,140	8,006	—	26,146	267,367	184,004
Plant and Machinery	678,354	284,688	8,303	954,739	194,230	98,914	4,684	288,460	666,279	484,124
Furniture and Fixtures	9,860	1,808	—	11,668	3,895	1,176	—	5,071	6,597	5,965
Office Equipment	9,798	2,666	39	12,425	2,816	848	8	3,656	8,769	6,982
Vehicles	30,275	4,824	2,968	32,131	8,124	2,979	1,116	9,987	22,144	22,151
Improvement to Leasehold Assets	—	1,422	—	1,422	—	197	—	197	1,225	—
Leased Assets:										
Computers	13,190	—	—	13,190	2,336	2,129	—	4,465	8,725	10,854
Vehicles	11,491	2,664	907	13,248	1,182	1,085	310	1,957	11,291	10,309
Plant and Machinery	—	32,218	—	32,218	—	411	—	411	31,807	—
Total	1,155,949	437,515	12,217	1,581,247	277,177	137,743	6,118	408,802	1,172,445	878,772
31 st March 2004	890,914	328,643	63,608	1,155,949	300,420	32,515	55,758	277,177	878,772	

Notes:

1. Includes interest capitalised - Rs.6,176 (31st March 2004 : Rs.558) and exchange gain adjusted - Rs.930 (31st March 2004 : Rs.5,879).
2. Includes prior period adjustment of Rs Nil (31st March 2004 : Rs.4,912) arising out of amalgamation
3. Includes additions on amalgamation of Rs.Nil (31st March 2004: Rs.12,616)
4. Includes prior period adjustment - Rs.Nil (31st March 2004 : Rs.710).

Hatsun Agro Product Limited

	As at 31 st March 2005 (Rs. in '000s)	As at 31 st March 2004 (Rs. in '000s)
6. Investments		
Current Investments, Non Trade - Quoted at Cost		
<i>Units of Rs. 10/- each of Mutual Funds:</i>		
Nil (31 st March 2004: 141,280) units of HDFC Cash Management Plan - Short Term (including accrued dividend) (7,363,530 units purchased and 7,504,810 units sold during the year)	—	1,503
	—	1,503
Aggregate Market Value of Investments	—	1,503

Details of other mutual funds investments purchased and sold during the year:

Name of the Fund	As at 31 st March 2005	As at 31 st March 2004
	Number of units	Number of units
Chola Liquid Fund	1,998,082	—
Grindlays Floating Rate Fund	35,013,809	10,212,827
HSBC Cash Fund	—	6,976,651
DSP Merrill Lynch Liquidity Fund	17,539,319	6,756,406
Grindlays Cash Fund	15,014,181	4,236,991
Birla Cash Plus	—	2,814,157
Alliance Cash Manager	24,508,561	2,504,709
ING Vysya Liquid Fund	15,006,551	1,905,315
DSP Merrill Lynch Floating Rate Fund	—	1,690,282
Principal Cash Management Fund	—	1,450,550
Deutsche Insta Cash Plus Fund	—	1,117,571
Templeton Floating Rate Income Fund	—	900,024
Kotak Liquid Institutional Plan	—	818,331
Kotak Liquid Regular Plan	10,007,793	499,331
Kotak Floater	—	498,863
Reliance Liquid Fund	—	492,573
IL & FS Liquid Fund	—	360,576
HDFC Short Term Plan	—	336,326
Templeton India Liquid Fund	—	330,370
Sundaram Money Fund	—	198,731
JM High Liquidity Fund	—	48,130
TATA Liquid Fund	10,007,181	44,975
Templeton India Treasury Management Account	—	1,655

7. Inventories

Raw Materials and Packing Materials	28,476	27,204
Work-in-process	2,598	2,360
Finished Goods		
- manufactured	47,428	7,771
- traded	827	837
- machineries	—	1,900
- goods in transit	7,083	—
Stores, Spares and Loose Tools	2,056	1,737
	88,468	41,809

Hatsun Agro Product Limited

	As at 31 st March 2005 (Rs. in '000s)	As at 31 st March 2004 (Rs. in '000s)
8. Sundry Debtors		
<i>Unsecured, considered good</i>		
Debts outstanding for a period exceeding six months	—	—
Other Debts	20,879	7,922
	<u>20,879</u>	<u>7,922</u>
<i>Secured, considered good</i>		
Debts outstanding for a period exceeding six months	725	—
Other Debts	18,530	15,701
	<u>19,255</u>	<u>15,701</u>
<i>Unsecured, considered doubtful</i>		
Debts outstanding for a period exceeding six months	3,220	2,225
Other Debts	—	995
	<u>3,220</u>	<u>3,220</u>
Less: Provision for Doubtful Debts	3,220	3,220
	<u>40,134</u>	<u>23,623</u>
9. Cash and Bank Balances		
Cash in Hand	6,111	6,878
Balances with Scheduled Banks		
- in Current Accounts	61,855	87,155
- in Deposit Accounts	1,761	1,551
- in Margin Money Account	—	164
- in designated Bank Accounts towards repayment of Term Loans from Banks	—	14,000
- in Unpaid Dividend Accounts	299	234
- in designated Bank Accounts towards security for repayment of Public Deposits	3,650	4,438
Balances with Non-Scheduled Banks in Current Accounts	—	295
	<u>73,676</u>	<u>114,715</u>
Maximum amount outstanding during the year with Non-Scheduled Banks in Current Accounts:		
Kancheepuram Central Co-operative Bank - Gumudipoondi	112	806
Kancheepuram Central Co-operative Bank - Ponneri	33	901
Periyapalayam Agricultural Co-operative Bank - Periyapalayam	150	621
10. Loans and Advances		
<i>Unsecured, considered good</i>		
Advances recoverable in cash or in kind or for value to be received	10,262	7,735
Forward Contract Receivable	62	—
Deposits	28,819	22,490
Inter-Corporate Deposit	—	80,000
Advance to Suppliers	11,352	26,754
Accrued Interest	176	494
	<u>50,671</u>	<u>137,473</u>
11. Current Liabilities		
Sundry Creditors (refer note 2 (p) of Schedule 20)		
- dues to Small Scale Industrial Undertakings	12,972	6,102
- dues to Others	157,273	181,747
Security Deposits (refer note 2 (q) of Schedule 20)	89,959	82,357
Advance from Customers	8,185	7,314
Other Liabilities	10,481	10,311
Unclaimed Dividend	230	181
Interest Accrued and not due	1,768	1,189
	<u>280,868</u>	<u>289,201</u>

Hatsun Agro Product Limited

	As at 31 st March 2005 (Rs. in '000s)	As at 31 st March 2004 (Rs. in '000s)
12. Provisions		
For Gratuity	2,207	5,294
For Tax (net of tax deducted at source and advance tax)	678	5,642
Proposed Dividend	—	61
Corporate Dividend Tax	—	8
	<u>2,885</u>	<u>11,005</u>
	<u>2,885</u>	<u>11,005</u>
	Year ended 31 st March 2005 (Rs. in '000s)	Year ended 31 st March 2004 (Rs. in '000s)
13. Sales		
Milk	3,901,499	3,207,602
Ice Cream	331,185	312,305
Milk Products	253,899	101,987
Machineries	1,900	543
Others	49,793	38,678
	<u>4,538,276</u>	<u>3,661,115</u>
	<u>4,538,276</u>	<u>3,661,115</u>
14. Other Income		
Interest Income [Tax deducted at source - Rs.545 (31 st March 2004: Rs.776)]	2,601	3,869
Profit on Sale of Assets, net	2,715	975
Profit on Sale of Investment	—	35
Foreign Exchange Gain, net	933	—
Dividend	113	393
Miscellaneous Income	9,552	2,124
	<u>15,914</u>	<u>7,396</u>
	<u>15,914</u>	<u>7,396</u>
15. Cost of Manufactured Goods		
Consumption of Raw Materials and Packing Materials:		
Opening Inventory	27,204	17,103
Add : Addition on Amalgamation	—	8,634
	<u>27,204</u>	<u>25,737</u>
Add : Purchases	3,437,508	2,636,024
	<u>3,464,712</u>	<u>2,661,761</u>
Less: Closing Inventory	28,476	27,204
	<u>3,436,236</u>	<u>2,634,557</u>
Add : Opening Inventory		
Work-in-process	2,360	2,370
Addition on Amalgamation	—	98
	<u>2,360</u>	
Finished Goods	7,771	6,337
Addition on Amalgamation	—	1,906
Transfer from Traded Goods*	—	3,441
	<u>7,771</u>	
Less: Closing Inventory		
Work-in-process	2,598	2,360
Finished Goods	54,511	7,771
	<u>57,109</u>	<u>10,431</u>
	<u>3,389,258</u>	<u>2,638,578</u>
	<u>3,389,258</u>	<u>2,638,578</u>

* Represents value of ice cream transferred from 'traded goods' to 'manufactured goods' upon amalgamation of Hatsun Foods Company Limited with the Company.

Hatsun Agro Product Limited

	Year ended 31 st March 2005 (Rs. in '000s)	Year ended 31 st March 2004 (Rs. in '000s)
16. Cost of Traded Goods		
Opening Inventory	837	3,683
Less: Transferred to Manufactured Goods*	—	3,441
Add : Purchases	<u>48,074</u>	<u>36,013</u>
	48,911	36,255
Less: Closing Inventory	<u>827</u>	<u>837</u>
	<u>48,084</u>	<u>35,418</u>
* Represents value of ice cream transferred from 'traded goods' to 'manufactured goods' upon amalgamation of Hatsun Foods Company Limited with the Company.		
17 Employee Costs		
Salaries, Wages and Other Allowances	94,721	71,105
Contribution to Provident and Other Funds	6,366	5,066
Gratuity	2,943	1,874
Staff Welfare Expenses	<u>18,714</u>	<u>17,015</u>
	<u>122,744</u>	<u>95,060</u>
18. Manufacturing, Administrative and Selling Expenses		
Power and Fuel (net of power credits)	159,080	103,738
Stores and Spares Consumed	12,376	9,459
Sales Promotion Expenses	161,684	250,962
Freight Outwards	209,884	173,221
Bad Debts written off	2,990	83
Provision for Doubtful Debts	—	3,220
Repairs and Maintenance - Buildings	3,139	4,237
- Plant and Machinery	39,247	32,214
- Others	6,109	5,840
Travelling and Conveyance	33,267	25,655
Printing and Stationery	8,090	7,890
Rent	16,608	8,414
Rates and Taxes	8,331	7,549
Insurance	4,946	3,542
Directors' Sitting Fees	95	75
Miscellaneous Expenses	<u>71,172</u>	<u>64,556</u>
	<u>737,018</u>	<u>700,655</u>
19. Interest and Finance Charges		
Interest:		
- on Term Loans	32,444	29,969
- Others	8,562	4,733
Hire Purchase and Other Finance Charges	9,594	5,361
Bank Charges	<u>6,331</u>	<u>3,766</u>
	<u>56,931</u>	<u>43,829</u>

Schedules Forming part of the Financial Statements (Continued)

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

20. Significant Accounting Policies and Notes to the Financial Statements

1. Significant accounting policies

a. Basis of preparation of financial statements

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

b. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities on the date of the financial statements. Actual results could differ from those estimates. Any revision to accounting estimates is recognized prospectively in current and future periods.

c. Fixed Assets and Depreciation

Fixed Assets are carried at cost of acquisition or construction less accumulated depreciation. Borrowing costs directly attributable to acquisition or construction of those fixed assets which necessarily take a substantial period of time to get ready for their intended use are capitalized. The cost of fixed assets also includes the exchange differences (favourable as well as unfavourable) arising in respect of foreign currency loans or other liabilities incurred for the purpose of their acquisition or construction.

Leases under which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Such assets acquired on or after 1st April 2001 are capitalized at fair value of the asset or present value of the minimum lease payments at the inception of the lease, whichever is lower.

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

Description	Estimated useful life (in years)
<i>Included under Plant and Machinery</i>	
Insulated Boxes	3
Cans and Crates	1
Mini Parlours	5
Procurement Centre Accessories	1
<i>Included under Vehicles</i>	
Push Carts	3
<i>Included under Furniture and Fixtures</i>	
Procurement Centre Furniture	1

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

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

Description	Estimated useful life (in years)
Goodwill	5
Non-Compete Fee	4
Enterprise Resource Planning (ERP) Software	5
Brands	4 – 5

Hatsun Agro Product Limited

Capital work-in-progress includes the cost of fixed assets that are not ready for their intended use, advances paid to acquire fixed assets and cost of assets not put to use before the Balance Sheet date.

d. Investments

Long-term investments are stated at cost less any other-than-temporary diminution in value, determined separately for each individual investment. Current investments are carried at the lower of cost and fair value. The comparison of cost and fair value is carried out separately in respect of each category of investments. Profit or loss on sale of investments is determined on the basis of weighted average carrying amount of investments disposed of.

e. Inventories

Raw materials, work-in-progress, finished goods, stores and spares, and loose tools are carried at the lower of cost and net realizable value. In determining the cost, weighted average cost method is used. Fixed production overheads are allocated on the basis of normal capacity of production facilities. The comparison of cost and net realizable value is made on an item-by-item basis. The net realizable value of work-in-progress is determined with reference to the selling prices of related finished goods. Raw materials and other supplies held for use in production of inventories are not written down below cost except in cases where material prices have declined, and it is estimated that the cost of finished products will exceed their net realizable value.

f. Retirement Benefits

Till the previous year 31st March 2004 gratuity, which is a defined benefit plan, was accrued based on actuarial valuation at the balance sheet date carried out by an independent actuary. During the current year ended 31st March 2005, the Company entered into an agreement with Life Insurance Corporation of India (LIC) for opening an Employees' Group Gratuity Scheme. As per the agreement, LIC will carry out the actuarial valuation on gratuity liability and administer the gratuity scheme. The Company has contributed to LIC the actuarial gratuity liability amount determined by LIC. Contributions payable to the recognized provident fund which is a defined contribution scheme, are charged to the profit and loss account. Leave encashment costs, being a defined benefit, is accrued based on the earned leave to the credit of employees at the year end in accordance with the service rules of the Company.

g. Revenue Recognition

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

h. Foreign Currency Transactions

Foreign currency transactions are recorded at the exchange rates prevailing on the date of the transactions. Exchange differences arising on foreign exchange transactions during the year are recognized in the profit and loss account of the year, except that transactions in foreign currencies entered into by the Company upto 31st March 2004 and exchange differences related to acquisition of fixed assets from a country outside India are adjusted in the carrying amount of the related fixed assets.

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

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

i. Contingencies

Loss contingencies from claims, litigation, assessment, fines, penalties, etc. are recorded when it is probable that a liability has been incurred, and the amount can be reasonably estimated.

j. Taxation

Income-tax expense comprise current tax (i.e. amount of tax for the period determined in accordance with the income-tax law) and deferred tax charge or credit (reflecting that tax effects of timing differences between accounting income and taxable income for the period). The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognized using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognized only to the extent there is a reasonable certainty that the assets can be realized in future; however, where there

Hatsun Agro Product Limited

is unabsorbed depreciation or carried forward loss under taxation laws, deferred tax assets are recognized only if there is a virtual certainty of realization of such assets. Deferred tax assets are reviewed as at the balance sheet date and written down or written up to reflect the amount that is reasonably/virtually certain (as the case may be) to be realized. Current tax and deferred tax assets and liabilities are offset to the extent to which the Company has a legally enforceable right to set off and they relate to taxes on income levied by the same governing taxation laws.

k. Accounting for Impairment of Assets

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

l. Earnings Per Share

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

m. Accounting for Deferred Income

Government grants related to depreciable fixed assets are treated as deferred income which is recognised in the profit and loss account over the useful life of the asset in the proportion in which the depreciation on those assets is charged.

2. Notes to the financial statements

a. Capital Commitments and Contingencies

	Rs. in '000s	
	As at 31 st March 2005	As at 31 st March 2004
Estimated amount of contracts remaining to be executed on capital account (net of capital advances) and not provided for	12,141	47,517
Claims made against the Company not acknowledged as debts (including that relating to Sales Tax as per note 'b' below)	16,212	46,478

b. Disputes with Taxation Authorities

	Period	Forum where dispute is pending	As at 31 st March 2005
Sales tax	1993-94	Commercial Tax officer	181
Sales tax	1995-96	Commercial Tax officer	3,638
	1995-96	Appellate Tribunal	247
Sales tax	1996-97	Commercial Tax officer	932
	1996-97	Appellate Assistant Commissioner	1,083
Sales tax	1997-98	Appellate Assistant Commissioner	193
Sales tax	1998-99	Appellate Assistant Commissioner	175
Sales tax	1999-00	Appellate Assistant Commissioner	235
	1999-00	Appellate Assistant Commissioner	1,065
Sales tax	2000-01	Appellate Assistant Commissioner	480
Sales tax	2000-01	Appellate Assistant Commissioner	298
Sales tax	2000-01	Appellate Assistant Commissioner	5,091
Sales tax	2001-02	Commercial Tax officer	630
			14,248

c. Managerial Remuneration

	Year ended 31 st March 2005	Year ended 31 st March 2004
Salaries and Allowances	3,045	3,133
Contribution to Provident and Other Funds	30	30
Other Benefits	181	118
Total	3,256	3,281

The Chairman and Managing Director, and other Whole-Time Directors are covered under the Company's group gratuity scheme along with the other employees of the Company. Proportionate amount of gratuity is not included in the above disclosure.

Hatsun Agro Product Limited

	Year ended 31 st March 2005	Year ended 31 st March 2004
d. Auditors' Remuneration (included under Miscellaneous Expenses)		
Audit fees	1,200	1,250
Other services	325	375
Out-of-pocket expenses	33	28

e. Segment Information

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

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

Business (primary) Segments of the Company are:

- a) Milk and Milk Products; and
- b) Ice Creams.

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

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

The Company operates mainly in three geographical areas covering the states of Tamil Nadu, Karnataka and West Bengal. Management has reviewed these geographical areas vis-à-vis the risks and returns that encompass them. While arriving at this, management has reviewed the similarity of the economic and political conditions, relationships between operations in these geographical areas, proximity of operations, and special risks if any associated with operations in these areas. Based on this, the management believes that its main three geographical areas are not subject to significantly differing risks and returns and consequently does not have any reportable geographical segment in accordance with Accounting Standard – 17 segment reporting prescribed by ICAI.

Primary Segment Information

	Rs. in '000s	
	Year ended / As at 31 st March 2005	Year ended / As at 31 st March 2004
Segment Revenues		
- Milk and Milk Products	4,199,834	3,348,267
- Ice Cream	338,442	312,848
	<u>4,538,276</u>	<u>3,661,115</u>
Segment Results		
- Milk and Milk Products	133,694	104,982
- Ice Cream	23,507	786
	<u>157,201</u>	<u>105,768</u>
Finance charges (net)	(54,330)	(39,960)
Depreciation write back	—	110,530
Other unallocable expenditure net of unallocable income	(86,860)	(82,574)
	<u>16,011</u>	<u>93,764</u>
Profit before prior period adjustments and taxation	16,011	93,764
Prior period adjustments	—	1,623
Taxes (expense)/benefit	8,660	(41,534)
	<u>7,351</u>	<u>53,853</u>
Profit after Taxation	7,351	53,853

Hatsun Agro Product Limited

Primary Segment Information (contd.)

	Rs. in '000s	
	Year ended / As at 31 st March 2005	Year ended / As at 31 st March 2004
Depreciation and Amortization		
- Milk and Milk Products	100,409	97,627
- Ice Cream	9,305	8,516
- Unallocable	28,029	23,576
	<u>137,743</u>	<u>129,719</u>
Capital Expenditure Incurred		
- Milk and Milk Products	374,875	231,127
- Ice Cream	16,918	97,955
- Unallocable	43,012	44,944
	<u>434,805</u>	<u>374,026</u>
Segment Assets		
- Milk and Milk Products	1,180,903	853,924
- Ice Cream	157,875	150,507
- Unallocable Assets	173,490	283,048
	<u>1,512,268</u>	<u>1,287,479</u>
Segment Liabilities		
- Milk and Milk Products	206,157	206,457
- Ice Cream	63,277	70,956
- Unallocable Liabilities	1,012,731	787,314
	<u>1,282,165</u>	<u>1,064,727</u>

f. Related Party Disclosures

Related parties of the Company

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

Companies under the same management : None (31st March 2004: None)

Transactions with Related Parties

	Year ended 31 st March 2005	Year ended 31 st March 2004
Advances received from Directors	—	15,200
Advances repaid (includes opening balance of Rs.3,067 assumed on amalgamation with Hatsun Foods Company Limited) to Directors	—	18,267

Details of remuneration paid to the key management personnel are provided in Note 2(c) above and guarantees given by Directors towards loans obtained by the Company are provided in Schedules 3 and 4 to the financial statements.

g. Income Taxes

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

	As at 31 st March 2005	As at 31 st March 2004
Assets		
Current Liabilities	4,006	4,814
Carried forward tax loss	16,994	8,954
	<u>21,000</u>	<u>13,768</u>
Liabilities		
Fixed assets	(101,488)	(86,878)
Net Deferred Tax liabilities	<u>(80,488)</u>	<u>(73,110)</u>

The movement in the net deferred tax liabilities during the year is outlined below.

Opening balance	(73,110)	(40,002)
Net deferred tax assets of HFC acquired on amalgamation	—	737
Charge for the year	(7,378)	(33,758)
Deferred tax adjustments included under 'Adjustments relating to amalgamation' in the Profit and Loss Account	—	(87)
Closing balance	<u>(80,488)</u>	<u>(73,110)</u>

Hatsun Agro Product Limited

h. Quantitative Information

Description	Opening Stock		Purchases/ Production	Sales		Closing Stock	
	Qty. ('000s)	Value (Rs.'000s)	Qty. ('000s)	Qty. ('000s)	Value (Rs.'000s)	Qty. ('000s)	Value (Rs.'000s)
Traded Goods							
- Cattle feed	148 <i>37</i>	837 <i>242</i>	7,191 <i>6,461</i>	7,226 <i>6,350</i>	44,166 <i>37,498</i>	113 <i>148</i>	827 <i>837</i>
- Machineries	1 <i>—</i>	1,900 <i>—</i>	— <i>2</i>	1 <i>1</i>	1,900 <i>543</i>	— <i>1</i>	— <i>1,900</i>
- Others	— <i>—</i>	— <i>—</i>	** <i>—</i>	** <i>—</i>	5,627 <i>—</i>	— <i>—</i>	— <i>—</i>
Manufactured Goods							
- Ice Cream	128 <i>54</i>	6,338 <i>3,441</i>	4,142 <i>3,666</i>	4,161 <i>3,592</i>	331,185 <i>312,305</i>	109 <i>128</i>	5,989 <i>6,338</i>
- Milk and Skimmed Milk	101 <i>563</i>	1,311 <i>5,786</i>	287,738 <i>236,170</i>	287,361 <i>236,632</i>	3,962,430 <i>3,207,602</i>	478 <i>101</i>	5,083 <i>1,311</i>
- Milk Powders	— <i>—</i>	— <i>—</i>	1,538 <i>—</i>	1,174 <i>—</i>	97,341 <i>—</i>	364 <i>—</i>	30,523 <i>—</i>
- Others	6 <i>7</i>	122 <i>551</i>	2,169 <i>1,804</i>	2,015 <i>1,805</i>	95,627 <i>103,167</i>	160 <i>6</i>	12,916 <i>122</i>

Units of measurement – Litres, except for cattle feed measured in Kgs. Previous year's figures are shown in italics.

** Comprises various spares & consumables which cannot be quantified.

i. Consumption of Imported and Indigenous Raw Materials and Packing Materials

	Year ended 31 st March 2005		Year ended 31 st March 2004	
	%	Value (Rs.'000s)	%	Value (Rs.'000s)
Imported	—	—	—	—
Indigenous	100	3,389,258	100	2,634,557
Total	100	3,389,258	100	2,634,557

j. Consumption of Raw Materials and Packing Materials

	Qty. ('000s)	Value (Rs.'000s)	Qty. ('000s)	Value (Rs.'000s)
Milk (quantity in litres)	312,202	3,021,479	256,902	2,337,880
Others (individually constituting less than 10% of the total value of consumption)	—	367,779	—	296,677
Total		3,389,258		2,634,557

k. Other Financial Information

	Year ended 31 st March 2005	Year ended 31 st March, 2004
Exports on FOB basis	61,586	543
CIF value of imports – capital goods	1,491	12,886
Expenditure in foreign currency		
- Travel	313	325
- Professional charges	—	915
- Others	—	1,520
Dividend remitted outside India		
- Amount remitted	—	683
- Number of shares	NA	341,300
- Number of non-resident shareholders	NA	2

Hatsun Agro Product Limited

I. Licensed and Installed Capacities

	('000 litres per day)	
	Year ended 31 st March 2005	Year ended 31 st March 2004
Licensed capacity (represents registered capacity for dairy)	1,500	1,500
Licensed capacity for Ice Cream	NA	NA
Installed capacity for Dairy	1,500	1,200
Installed capacity for Ice Cream	25	25

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

m. Prior Period Adjustments

Rectification relating to accounting of leased assets	—	1,623
	—	1,623

n. Outstanding Lease Obligations

Particulars	Rs. in '000s	
	As at 31 st March 2005	As at 31 st March 2004
Finance Lease Obligations		
<i>Future minimum lease payments</i>		
Not later than one year	12,706	7,754
Later than one year and not later than five years	24,628	5,730
Total	37,334	13,484
Less: Amounts representing future interest	4,342	930
Present value of minimum lease payments	32,992	12,554
Less: Amounts due not later than one year	10,730	7,074
Amounts due later than one year and not later than five years	22,262	5,480
Operating Lease Obligations		
<i>Future minimum lease payments</i>		
Not later than one year	4,241	1,490
Later than one year and not later than five years	2,460	—
Later than five years	57	—
Total	6,758	1,490

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

o. Changes in Accounting Policies

The Company, during the year has capitalized procurement centre accessories. Such assets were expensed off as and when incurred till the year ended 31st March 2004. This, in the opinion of management, would result in a more appropriate presentation of the financial statements of the Company.

Pursuant to the change, the charge to the profit and loss account has been reduced by Rs.1,855 (net of the depreciation charges on these assets during the year of Rs.1,249). Consequently, the profit after tax and reserves and surplus are higher by Rs.2,010, deferred tax liability is lower by Rs.300 and net fixed assets are higher by Rs.1,855.

p. The names of small-scale industrial undertakings, determined by the Company on the basis of information available, to whom the Company owes any sum together with interest outstanding for more than thirty days are outlined below.

Eesha Packaging, Gothi Poly-Craft Industries, Bajo Plastics, Gothi Plascon, Glory Polyfilms Pvt. Ltd., Raja Weighing Service and ARV Engineering Industries Pvt. Ltd.

q. Security deposits amounting to Rs.89,959 (31st March 2004: Rs.82,357) includes deposits from dealers and distributors amounting to Rs.82,393 (31st March 2004: Rs.75,909) which has been classified under current liabilities. It is the considered opinion of the management based on the actual experience of the past years that these deposits, though classified under current liabilities, would not fall due for repayment in full within one year. The net deposits from dealers and distributors have only increased over the past few years in line with the increase in the Company's turnover. The Company during the year has received Rs.19,878 (31st March 2004: Rs.25,364) as security deposits from dealers and distributors and has refunded Rs.13,394 (31st March 2004: Rs.14,007) only.

r. Previous year comparatives have been regrouped wherever necessary to conform to current year classification.

Hatsun Agro Product Limited

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I. Registration Details

Registration No.	1	2	7	4	7	State Code	1	8
Balance Sheet Date	3	1	0	3	2	0	0	5
	Date		Month		Year			

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

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

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

Total Liabilities	1	2	2	8	5	1	5	Total Assets	1	2	2	8	5	1	5
-------------------	---	---	---	---	---	---	---	--------------	---	---	---	---	---	---	---

Sources of Funds

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

Application of Funds

Net Fixed Assets	1	2	5	9	3	1	9	Investments	N	I	L
Net Current Assets	-	3	0	8	0	4	Miscellaneous Expenditure	N	I	L	
Accumulated Losses	N	I	L								

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

Turnover (including Other Income)	4	5	0	7	7	8	9	Total Expenditure	4	4	9	1	7	7	8
+ - Profit before tax	✓	1	6	0	1	1	+ - Profit after tax	✓	7	3	5	1			
Earning per Share in Rs.	1	.	0	8	Dividend Rate %	N	I	L							

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

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

For and on behalf of the Board

R.G. CHANDRAMOGAN
Chairman & Managing Director

C. SATHYAN
Executive Director

Place : Chennai
Date : 27th June 2005

B.V. NATH
Company Secretary

ATTENDANCE SLIP

HATSUN AGRO PRODUCT LIMITED

Regd. Office: No.5-A, Vijayaraghava Road, T.Nagar, Chennai - 600 017.

Name of the Shareholder		Folio No./ DP I.D. & Client I.D.	
Name of the Proxy		No. of shares held	

I hereby record my presence at the **20th Annual General Meeting** of the Company held on **Thursday, the 29th September 2005 at 11.00 a.m.** at **Andhra Social & Cultural Association, No.44, Vijayaraghava Road, T.Nagar, Chennai - 600 017.**

Notes:

Signature of the Shareholder / Proxy

1. Please fill Attendance Slip and hand it over at the entrance of the meeting hall.
2. If you are attending the meeting in person / by proxy, your copy of Annual Report may please be brought by you / your proxy, for reference at the meeting.



HATSUN AGRO PRODUCT LIMITED

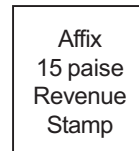
Regd. Office: No.5-A, Vijayaraghava Road, T.Nagar, Chennai - 600 017.

Folio No./DP I.D. & Client I.D.	
---------------------------------	--

PROXY FORM

I/We of
 being a member/members of **Hatsun Agro Product Limited** hereby appoint
 of or failing him
 of as
 my/our Proxy to attend and vote on behalf of me/us at the **20th Annual General Meeting** to be held on **Thursday, the 29th September, 2005 at 11.00 a.m.** or at any adjournment thereof.

Signed this.....day of..... 2005.



Signature of Shareholder

Note: The proxy form in order to be valid should be duly stamped, completed and signed and must be deposited at the Registered Office of the Company not less than 48 hours before the commencement of the aforesaid meeting. The Proxy need not be a member of the Company.