



VST Industries Limited

ANNEXURE TO THE DIRECTORS' REPORT

Auditors' Certificate regarding compliance of the conditions of Corporate Governance under Clause 49 of the Listing Agreement

To the Members of
VST Industries Limited

We have examined the compliance of conditions of Corporate Governance by VST Industries Limited ("the Company" or "VST"), for the year ended 31st March, 2008, as stipulated in Clause 49 of the Listing Agreement of the said Company with stock exchanges in India.

The compliance of conditions of Corporate Governance is the responsibility of the Company's management. Our examination was carried out in accordance with the "Guidance Note on Certification of Corporate Governance (as stipulated in Clause 49 of the Listing Agreement)", issued by the Institute of Chartered Accountants of India and was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of 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 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.

Hyderabad, 17th April, 2008.

SRINIVAS TALLURI
Partner
Membership No. 29864
For and on behalf of
LOVELOCK & LEWES
Chartered Accountants



REPORT ON CORPORATE GOVERNANCE

As per Clause 49 of the Listing Agreement entered into with Stock Exchanges, the Directors present the Company's Report on Corporate Governance for the year ended 31st March, 2008.

1. COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE

Your Company is committed to the observance of the best corporate governance practices in all its business dealings encompassing customers, employees, shareholders and the society at large. The Company's corporate governance philosophy has been strengthened through Code of Conduct, prevention of Insider Trading and corporate disclosure practices. Your Company has in place an Information Security Policy that ensures proper utilization of IT resources and other aspects of IT management. Your Company also endeavours to ensure higher degree of transparency in its dealings and lays emphasis on integrity, regulatory compliance, improvement in quality of life and meeting social responsibility. Your Company believes that good corporate governance practices enable the management to direct and control the affairs of the Company in an efficient manner and to achieve its ultimate goal of maximising value for all its stakeholders.

2. I. BOARD OF DIRECTORS

(A) Composition of Board

The Board of Directors of your Company has an optimum combination of Executive and Non-Executive Directors. As on 31st March, 2008, your Company's Board has nine Directors, out of which seven Directors are Non-Executive Directors including the Chairman and the remaining two are Executive Directors.

The Directors bring in expertise in the fields of strategy, management, finance and human resource development. The Board provides leadership, strategic guidance, objective and independent view to the Company's management while discharging its fiduciary responsibilities and thereby ensuring that the management adheres to high standards of ethics, transparency and disclosures.

The table below gives the composition of your Board and the number of outside directorships held and number of memberships/chairmanships of board committees of other companies held by each of the Directors -

Name of the Director	Position	Relationship with other Directors	No. of outside directorships held	No. of memberships/ chairmanships of board committees of other companies
Mr. A. Basu	Chairman (Independent Non-Executive Director)	None	–	Nil
Mr. Raymond S. Noronha	Managing Director	None	1	Nil
Mr. J.D. Bandaranayake ¹	Non-Executive Director	None	8	Nil
Air Chief Marshal I.H. Latif (Retd.)	Independent Non-Executive Director	None	–	Nil
Mr. T. Lakshmanan ²	Independent Non-Executive Director	None	–	Nil
Mr. R.V.K.M. Suryarau	Independent Non-Executive Director	None	–	Nil
Mr. N. Sai Sankar	Wholetime Director	None	1	Nil
Mr. S. Thirumalai	Independent Non-Executive Director	None	–	Nil
Mr. Andrew O'Regan ³	Non-Executive Director	None	7	Nil
Mr. V.Sekar ⁴	Independent Non-Executive Director	None	1	Nil

¹ Nominee of British American Tobacco Group, appointed as a Director w.e.f. 29th October, 2007.

² Resigned as a Nominee Director and was appointed as Additional Director w.e.f. 29th October, 2007.

³ Nominee of British American Tobacco Group, resigned from the Board w.e.f. 29th October, 2007.

⁴ Nominee of General Insurer's (Public Sector) Association of India appointed as a Director w.e.f. 29th October, 2007.



None of the Independent Non-Executive Directors have any pecuniary relationship or transactions with the Company, its promoters, its senior management or its subsidiary which in the judgement of Board may affect the independence of the director except receiving sitting fees for attending Board/Committee meetings and commission from the Company.

(B) Non-Executive Directors' compensation and disclosures

All fees and commission paid to Non-Executive Directors including independent directors are fixed by the Board of Directors. Consent of the Members of the Company is also obtained for commission paid to Non-Executive Directors including independent directors. The Company has no Employee Stock Option Scheme and hence, no stock options are granted to Non-Executive Directors, including independent directors.

(C) Other provisions as to Board and Committees

- i. During the financial year ended 31st March, 2008, five meetings of the Board were held on 18th April 2007, 23rd May 2007, 18th July 2007, 29th October 2007 and 17th January 2008.

The table below gives the number of board meetings held and the attendance of directors for the year ended 31st March, 2008 -

Name of the Director	No. of Board Meetings held	No. of Board Meetings attended	Attendance at last AGM
Mr. A. Basu	5	4	Yes
Mr. Raymond S. Noronha	5	5	Yes
Mr. Andrew O'Regan	5	2	Yes
Air Chief Marshal I.H. Latif (Retd.)	5	5	Yes
Mr. T. Lakshmanan	5	5	Yes
Mr. R.V.K.M. Suryarau	5	5	Yes
Mr. N. Sai Sankar	5	5	Yes
Mr. S. Thirumalai	5	5	Yes
Mr. J. D. Bandaranayake ¹	5	1	Not applicable ²
Mr. V. Sekar ¹	5	1	Not applicable ²

¹ Appointed as Director on 29th October, 2007.

² AGM was held on 18th July, 2007 before the date of his appointment.

- ii. Availability of information to the members of the Board

The information placed before the Board includes:

- Annual operating plans and budgets, capital budgets and any updates;
- Quarterly results of the Company;
- Minutes of meeting of Audit Committee and other committees;
- General notices of interest;
- Information on recruitment and remuneration of senior officers just below the Board level;
- Materially important show cause, demand, prosecution and penalty notices;
- Fatal or serious accidents, dangerous occurrences, any material effluent or pollution problems;
- Any materially relevant default in financial obligations to and by the Company, or substantial non-payment for goods sold by the Company;



- Any issue that involves possible public or product liability claims of a substantial nature including any judgement or order which may have passed strictures on the conduct of the Company or taken an adverse view regarding another enterprise that can have negative implications on the Company;
- Significant development on the human resources and industrial relations front;
- Quarterly details of foreign exchange exposure and the steps taken by the management to limit the risks of adverse exchange rate movement; and,
- Non-compliance of any regulatory, statutory or listing requirements as well as shareholders services such as non-payment of dividend and delays in share transfer.

The Board of Directors of your Company is routinely presented with all information under the above heads whenever applicable and materially significant. These are submitted either as part of the agenda papers well in advance of the Board meetings or are tabled in the course of the Board meetings or are tabled before the appropriate Committees of the Board.

- iii. None of the Directors on the Board is a member of more than ten committees or a chairman of more than five such committees, across all the companies in which he is a director as required under Clause 49 of the Listing Agreement. All the Directors have made the requisite disclosures regarding Committee positions held by them in other Companies.

(D) Code of Conduct

Your Board of Directors have adopted Code of Conduct for all the board members and senior management of the Company and all the board members and senior managerial personnel have affirmed compliance with the code of conduct for the current year. The Code of Conduct has also been posted on the website of the Company [www.vsthyd.com].

II. Audit Committee

(A) The Audit Committee comprises three independent directors, the details of which are as follows:

Name of the Director	Position	Nature of Directorship
Mr. R.V.K.M. Suryarau	Chairman	Independent Non-Executive Director
Mr. A. Basu	Member	Independent Non-Executive Director
Air Chief Marshal I.H. Latif (Retd.)	Member	Independent Non-Executive Director

Mr. N. Sai Sankar, who is the Finance Director & Secretary, acts as the Secretary to the Audit Committee.

(B) Meetings of Audit Committee and attendance during the year

During the financial year ended 31st March, 2008 four audit committee meetings were held on 17th April 2007, 17th July 2007, 27th October 2007 and 16th January 2008.

Name of Audit Committee member/secretary	No. of meetings held	No. of meetings attended
Mr. A. Basu	4	3
Mr. R.V.K.M. Suryarau	4	4
Air Chief Marshal I.H. Latif (Retd.)	4	4
Mr. N. Sai Sankar (Secretary)	4	4



(C) Powers of Audit Committee

The primary objective of the Audit Committee is to monitor and provide effective supervision of the management's financial reporting process with a view to ensure accurate, timely and proper disclosures and transparency, integrity and quality of financial reporting. The audit committee has powers to:

- Investigate any activity within its terms of reference;
- Seek information from any employee;
- Obtain outside legal or other professional advice; and,
- Secure attendance of outsiders with relevant expertise wherever it considers necessary.

(D) Role of Audit Committee

The Audit Committee of the Company provides reassurance to the Board on the existence of an effective internal control environment and performs the following functions:

- overseeing the Company's financial reporting process and disclosure of financial information to ensure that the financial statement is correct, sufficient and credible;
- recommending the appointment and removal of external auditor, fixation of audit fee and approval for payment of any other services;
- reviewing with management the quarterly and annual financial statement before submission to the Board for approval;
- reviewing the financial statements of material unlisted subsidiary company, in particular, the investments if any made by the unlisted subsidiary company;
- reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems;
- reviewing the adequacy of internal audit function;
- discussing with internal auditors any significant finding and follow-up thereon;
- reviewing the findings of internal investigation by the internal auditors in matters where there is suspected fraud or irregularity, or a failure of internal control systems of a material nature, and then reporting such matters to the Board;
- discussing with external auditors before the audit commences on the nature and scope of audit, as well as having post-audit discussion to ascertain any area of concern;
- reviewing the Company's financial and risk management policies; and,
- examining reasons for substantial default in the payment to depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors, if any.

(E) Review of information by Audit Committee

Based on the information placed by the internal and external auditor, the management is responsible for the Company's internal controls and the financial reporting process. The independent auditors are responsible for performing audit of the Company's financial statements in accordance with generally accepted auditing standards. The Committee's responsibility is to monitor these processes. The Committee is also responsible for overseeing the process related to the financial reporting and information dissemination. In addition, the Committee recommends to the Board the appointment of the Company's internal and external auditors.

Relying on the review and discussions conducted with the management and the independent auditors, the audit committee believes that the Company's financial statements are fairly presented in conformity with generally accepted



accounting principles in all material aspects. The Committee also reviewed the statement of related party transactions, submitted by the management and the same is disclosed in the financial statements for the year ended 31st March, 2008.

The Committee also reviewed the internal controls put in place to ensure that the accounts of the Company are properly maintained and that the accounting transactions are in accordance with prevailing laws and regulations. In conducting such reviews, the Committee found no material discrepancy or weakness in the internal control systems of the Company.

The Committee has also reviewed the financial and risk management policies of the Company and expressed its satisfaction with the same.

Based on the Committee's discussion with the management and the auditors, the Committee has recommended the following to the Board of Directors:

- a. The financial statements prepared as per the generally accepted accounting principles in India, of the Company and its subsidiary for the financial year ended 31st March, 2008 be accepted by the Board as a true and fair statement of financial status of the Company.

The Committee has recommended to the Board the re-appointment of Lovelock & Lewes, Chartered Accountants, as the statutory auditors of the Company and the fees payable for the fiscal year ending 31st March, 2009. The necessary resolution for appointing them as auditors is placed before the members of the Company.

The Committee also reviewed the appointment of Ernst & Young Private Limited as system auditors to review various operations of the Company and determined and approved the fees payable to them for the fiscal year ending 31st March, 2009.

III. Subsidiary Company

The minutes of the Board meetings of the subsidiary viz., VST Distribution, Storage & Leasing Company Private Limited are placed before the Board of your Company and all significant transactions and arrangements entered into by the subsidiary are reviewed.

IV. Disclosures

(A) Basis of related party transactions

There have been no materially significant related party transactions that may have potential conflict with the interest of the Company at large.

The details of transactions with related parties are placed before the Audit Committee and the Committee has reviewed the same for the year ended 31st March, 2008.

(B) Disclosure of Accounting Treatment

The Company has complied with the appropriate accounting policies and has ensured that they have been applied consistently. There have been no deviations from the treatment prescribed in the Accounting Standards notified under Section 211 (3C) of the Companies Act, 1956. The management reviews the accounting treatments adopted and wherever deviations noted, are presented in the financial statements. A detailed report on significant accounting policies is provided elsewhere in the Annual Report.

(C) Board Disclosures

i. Risk Management

The Management analyses and evaluates the risk management, to address risks inherent to strategy, operations, finance and compliance and their resulting organizational impact and associated with its business on a continuous basis and adopts risk management practices to minimize the adverse impact.



Over the last fiscal year, several improvements to the risk management process across business lines, were made.

The Strategy Risks are discussed at Corporate Executive Committee (CEC) and operational risks discussed at Business Risk Identification Team (BRIT) and Business Risk Evaluation Team (BRET) meetings, thus monitoring the effectiveness of the risk management processes of the organization.

Business risks are identified and prioritized through a Company wide exercise. Appropriate de-risking strategies are developed and systems put in place.

The Audit Committee receives the updated status report on risk management on quarterly basis and monitors the progress of risk management.

ii. Internal Control System

The Company has put in place an established system of internal control for all its business operations in order to provide:

- Reliable financial and operational information
- Effectiveness and efficiency of operations
- Safeguarding assets from unauthorized use or losses
- Compliance with systems, applicable laws and regulations
- Review of Information Technology and other business process systems

The Company has a well defined management audit system in the organization which, on an ongoing basis, assesses the various risks and existence of adequate controls to mitigate them. Management uses effective diagnostic as well as transaction analysis through software tool for prioritizing areas of Key process controls based on risks and also to evaluate the existence of internal controls. The system of internal control achieves the objectives of:

- the Company's organization and mode of operations, with well-defined roles and responsibilities and delegations of authority;
- steering documents, such as policies and procedures, and a Code of Business Ethics; and,
- Several well-defined processes for planning, operations and support.

The most essential parts of the control environment relating to financial reporting are included in delegation of power with authority limits for approving revenue as well as capital expenditure.

Besides, the Company uses a state-of-the-art Enterprise Resource Package, which was implemented in the year 2001-02, and the same has been upgraded in the year 2007-08 which enabled the Company to strengthen its control mechanism.

The Company has appointed Ernst & Young Private Limited to carry out systems audit of the Company's activities. The audit is based on a systems audit plan, which is reviewed each year in consultation with the audit committee. In line with international practice, the planning and conduct of systems audit is oriented towards the review of systems in the management of risks and opportunities in the Company's activities.

The Audit Committee of the Board periodically reviews audit plans, observations and recommendations of the internal and external auditors, with reference to significant risk areas and adequacy of internal controls and keeps the Board of Directors informed of its comments from time to time.

(D) Proceeds from public issues, rights issues, preferential issues, etc.

During the year, your Company has not raised any money through public issue, rights issue or preferential issues.

**(E) Remuneration of Directors**

No separate remuneration committee has been constituted. The remuneration of executive directors is considered by the committee of directors before taking up at the Board, subject further to the approval of shareholders. Non-Executive Director's remuneration is considered by the Board subject to shareholders' approval.

Details of remuneration paid/payable to the Directors for the financial year ended 31st March, 2008

Rupees

Name	Position	Salary	Benefits & Contributions to Provident/Pension & Other Funds	Performance Linked Bonus	Commission	Sitting Fees	Total
Mr. A. Basu	Chairman	-	-	-	8,00,000	93,000	8,93,000
Mr. R.S. Noronha	Managing Director	90,72,000	60,88,798	68,04,000	-	-	2,19,64,798
Mr. N. Sai Sankar	Finance Director & Secretary	53,76,000	31,50,202	40,32,000	-	-	1,25,58,202
Air Chief Marshal I.H. Latif (Retd.)	Non-Executive Director	-	-	-	4,00,000	1,44,000	5,44,000
Mr. T. Lakshmanan ^	Non-Executive Director	-	-	-	42,000 ^	60,000	1,02,000
Mr. R.V.K.M. Suryarau	Non-Executive Director	-	-	-	4,00,000	1,44,000	5,44,000
Mr. S. Thirumalai	Non-Executive Director	-	-	-	1,58,000	96,000	2,54,000
Mr. Andrew O'Regan®	Non-Executive Director	-	-	-	®	24,000	24,000
Mr. J.D. Bandaranayake®	Non-Executive Director	-	-	-	®	12,000	12,000
Mr. V. Sekar*	Non-Executive Director	-	-	-	*	12,000	12,000

^ Rs.58,000 Commission paid to General Insurance Corporation of India represented by its Director, Mr. T. Lakshmanan as its nominee from 1st April, 2007 to 28th October, 2007. Rs.42,000 - Commission paid to Mr. T. Lakshmanan from 29th October, 2007 to 31st March, 2008.

® Rs.1,00,000 Commission paid to British American Tobacco Company represented by its Directors - Mr. Andrew O'Regan from 1st April, 2007 to 28th October, 2007 and Mr. J. D. Bandaranayake from 29th October, 2007 to 31st March, 2008.

* Rs.42,000 Commission paid to United India Insurance Company Limited represented by its Director, Mr. V. Sekar from 29th October, 2007 to 31st March, 2008.

Benefits include value of Rent Free Accommodation, Furniture, Leave Travel Assistance (Gross), Medical Expenses, Insurance, Gas, Electricity and Clubs.

The appointment of Executive Directors is governed by resolutions passed by the Board of Directors and the Shareholders of the Company, which covers the terms and conditions of such appointment read with the service rules of the Company. The Executive Directors have entered into service contracts with the Company. The notice period for Executive Directors is six months as per Article No.101 of the Articles of Association of the Company.

The Company has no stock option scheme and hence no stock options have been granted to the Directors.

Criteria for making payments to Non-Executive Directors

The Board periodically reviews the criteria for making payments to Non-Executive Directors and these are calculated as per the provisions of Companies Act, 1956. The method of calculation of directors' remuneration is disclosed separately in the financial statements.



The Non-Executive Directors are paid sitting fees for attending each meeting of the Board or its Committee as per the details given below:

	Rupees
Board Meeting	12,000
Audit Committee	9,000
Shareholders Grievance Committee	6,000
Committee of Directors	6,000

Shareholders of the Company have approved payment of commission up to a ceiling of Rs.20 lakhs for all Non-Executive Directors or such amount as may be determined by the Board within the ceiling of Rs.20 lakhs to be divided as per Board's discretion w.e.f. 1st April, 2004 for each of the five financial years of the Company.

Remuneration paid to Non-Executive Directors is determined by keeping in view industry benchmarks and also on the basis of their memberships in various committees of the Board.

Number of shares and convertible instruments held by Non-Executive Directors

For the year ended 31st March, 2008 the number of shares held by Non-Executive Directors is as follows:

Mr. A. Basu	800 equity shares of Rs.10 each
Mr. S. Thirumalai	25 equity shares of Rs.10 each

There are no convertible instruments issued by the Company and hence not held by the Non-Executive Directors during the year ended 31st March, 2008.

(F) Management

- i. The Management Discussion and Analysis as part of the Directors' Report to the Shareholders is provided elsewhere in the Annual Report.
- ii. For the year ended 31st March, 2008 your Company's Board has obtained senior management declaration relating to any material, financial and commercial transactions where they have personal interest that may have a potential conflict with the interests of the Company at large.

(G) Shareholders Information

- i. Details of Directors who have been appointed by the Board and those seeking appointment/re-appointment:

Air Chief Marshal I. H. Latif (Retd.)

Air Chief Marshal Latif was appointed a Director on the Board of your Company with effect from 22nd May, 1990. He was appointed under the provisions of Section 257 of the Companies Act, 1956 at the Annual General Meeting held on 20th July, 1990 and had last retired and re-appointed at the Annual General Meeting held on 28th July, 2005. Air Chief Marshal Latif is now due to retire by rotation at the forthcoming Annual General Meeting and being eligible, offers himself for re-appointment.

Air Chief Marshal Latif has had nearly 52 years of experience in Government service, first in the Air Force where he became the Chief, and thereafter as Governor of Maharashtra and finally as Ambassador to France. He thus brings to the Board valuable experience and expertise not only in technology and engineering but also organization and management of human resources. In addition to being a Member on the Board of your Company, he is also the Chairman of Shareholders Grievance Committee and a Member of Audit Committee and Committee of Directors of your Company. He is also a member of various institutes, committees and societies.

Mr. Raymond S. Noronha

Mr. Raymond S. Noronha was appointed a Director on the Board of your Company with effect from 1st November, 1998. He was appointed under the provisions of Section 257 of the Companies Act, 1956 at the Annual General Meeting held on 27th September, 1999 and had last retired and re-appointed at the Annual General



Meeting held on 28th July, 2005. Mr. Noronha is due to retire by rotation at the forthcoming Annual General Meeting and being eligible, offers himself for re-appointment.

Mr. Noronha is a B.A. (Hons.) from St. Stephen's College, Delhi and attended the Wharton Advanced Management Program (1995) at Philadelphia, USA. He has had over 34 years of varied experience in the cigarette business both international and domestic and has held several top level positions for over a decade. He is a Member of the Committee of Directors and Shareholders Grievance Committee of your Company. He is a director on the board of the Tobacco Institute of India.

Mr. Jayampathi Divale Bandaranayake

Mr. Jayampathi Divale Bandaranayake was nominated by British American Tobacco as a Director of your Company with effect from 29th October, 2007 in place of Mr. Andrew O'Regan. He holds office upto the date of forthcoming Annual General Meeting. A notice has been received from a Member pursuant to Section 257 of the Companies Act, 1956 intimating the intention to propose a resolution for the appointment of Mr. Bandaranayake as a Director of your Company.

Mr. Bandaranayake is a Graduate of Law (Sri Lanka) and a Fellow of the Institute of Chartered Secretaries and Administrators (UK) and a Fellow of the Institute of Personnel Management (Sri Lanka). Mr. Bandaranayake retired as Deputy Managing Director of Ceylon Tobacco Company, Sri Lanka in July 2007 after 40 years of service. He is a director on the board of Ceylon Tobacco Co. Ltd., Coco Cola Beverages, Sampath Bank Ltd., James Finlay & Co. Ltd., Union Assurance Ltd., Hayleys Ltd. and West Coast Power (Pvt) Ltd., all in Sri Lanka. He is also a director on the Board of Investment of Sri Lanka. He is the Vice Chairman of the Ceylon Chamber of Commerce.

Mr. V. Sekar

Mr. V. Sekar was nominated by General Insurer's (Public Sector) Association of India as a Director of your Company with effect from 29th October, 2007 in place of Mr. T. Lakshmanan. He holds office upto the date of forthcoming Annual General Meeting. A notice has been received from a Member pursuant to Section 257 of the Companies Act, 1956 intimating the intention to propose a resolution for the appointment of Mr. Sekar as a Director of your Company.

Mr. Sekar is a Chartered Accountant. He joined the general insurance industry in 1975 and has held various positions in the Oriental Insurance Co. Ltd. prior to his assignment as General Manager of United India Insurance Co. Ltd. He has rich experience of more than three decades in the Oriental Insurance Co. Ltd. He is also a director on the board of United India Insurance Co. Ltd., Chennai.

Mr. T. Lakshmanan

Mr. T. Lakshmanan resigned from the Board of your Company as a Nominee Director and was appointed as Additional Director of your Company with effect from 29th October, 2007. He holds office upto the date of forthcoming Annual General Meeting. A notice has been received from a Member pursuant to Section 257 of the Companies Act, 1956 intimating the intention to propose a resolution for the appointment of Mr. Lakshmanan as a Director of your Company.

Mr. Lakshmanan is a Post Graduate in Science and a Member of FFII. He has over 33 years of experience in various departments of General Insurance Corporation (GIC) and retired as General Manager of GIC in 2001. He was a Nominee Director on the Board of your Company prior to his appointment as an Additional Director.

- ii. The quarterly results are sent to the stock exchanges on which the Company is listed so as to display the same on its own website. During the year there are no presentations made by the Company to analysts.

- iii. **Shareholders Grievance Committee**

The Shareholders Grievance Committee has been constituted to oversee redressal of shareholder complaints.

**Composition, name of members and Chairman**

Name of the Director	Position	Nature of Directorship
Air Chief Marshal I.H. Latif (Retd.)	Chairman	Independent Non-Executive Director
Mr. R.V.K.M. Suryarau	Member	Independent Non-Executive Director
Mr. Raymond S. Noronha	Member	Managing Director
Mr. N. Sai Sankar	Member	Finance Director & Secretary
Mr. S. Thirumalai	Member	Independent Non-Executive Director

Name and designation of Compliance Officer

Mr. N. Sai Sankar, Finance Director & Secretary
e-mail: saisankar@vstind.com

Meetings and attendance during the year

During the financial year ended 31st March, 2008 four meetings of Shareholders Grievance Committee were held on 17th April 2007, 17th July 2007, 29th October 2007 and 16th January 2008.

Name of Shareholders Grievance Committee Member	No. of meetings held	No. of meetings attended
Air Chief Marshal I.H. Latif (Retd.)	4	4
Mr. R.V.K.M. Suryarau	4	4
Mr. Raymond S. Noronha	4	4
Mr. N. Sai Sankar	4	4
Mr. S. Thirumalai	4	3

Number of shareholder complaints received, number not solved to the satisfaction of the shareholder and number of pending transfers:

Nature of Complaints/queries	Received	Attended to
Non-receipt of share certificates - transfers	6	6
Transmission of shares	39	39
Non-receipt of dividend warrants	32	32
Letter from Stock Exchange/SEBI	1	1

The Shareholders/Investors complaints and other complaints are normally responded within a period of 7 working days except where constrained by disputes or legal impediments. There are some pending cases relating to disputes over the title to shares in which the Company has been made a party. However, these cases are not material in nature.

- iv. To expedite the process of share transfers, your Board has delegated the above power to Registrar and Transfer Agents - M/s. Sathguru Management Consultants Private Limited.

V. CEO/CFO Certification

The CEO/CFO certification for the year ended 31st March, 2008 has been enclosed at the end of this report.

VI. Report on Corporate Governance

Clause 49 of the Listing Agreement mandates your Company to obtain a certificate from either the Auditors or Practicing Company Secretary regarding compliance of conditions of corporate governance as stipulated in the Clause and annexe the certificate with the directors' report, which is sent annually to all the shareholders. Accordingly, your Company has obtained a certificate to this effect from the auditors of the Company and the same is given as annexure to the Directors' report.



Dates of Book Closure

15th July, 2008 to 17th July, 2008 (both days inclusive)

Dividend Payment Date

Within 30 days from 17th July, 2008

Listing on Stock Exchanges with Stock Code

S.No.	Name of the Stock Exchange	Stock Code
1	National Stock Exchange of India Limited	VSTIND
2	Bombay Stock Exchange Limited	509966

Listing Fees for the year 2008-2009 has been paid to the above stock exchanges.

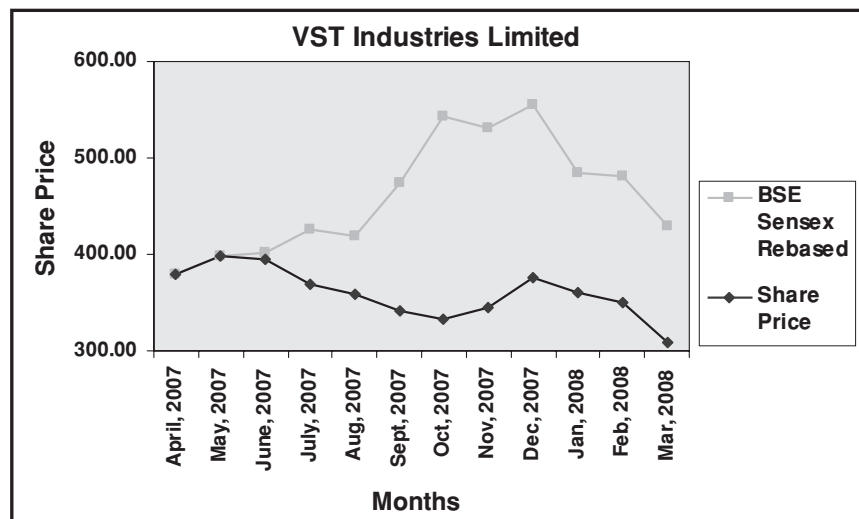
Market Price Data: High/Low during each month in the last financial year (2007-08)

Rupees

Period	Bombay Stock Exchange Limited		National Stock Exchange of India Limited	
	High	Low	High	Low
April, 2007	409.95	321.10	409.00	310.10
May, 2007	409.00	370.00	399.90	370.00
June, 2007	400.00	376.00	410.00	371.05
July, 2007	415.00	351.00	418.50	308.85
August, 2007	375.00	340.00	407.90	339.00
September, 2007	365.95	335.00	380.00	334.05
October, 2007	370.00	322.05	399.40	326.00
November, 2007	369.00	308.00	390.00	311.30
December, 2007	377.00	320.25	380.00	322.55
January, 2008	490.00	310.00	484.40	280.10
February, 2008	392.00	303.00	398.90	310.20
March, 2008	357.40	275.10	350.40	279.90

Performance in comparison with BSE Sensex

(based on closing price/Sensex)



**Registrar and Transfer Agents, Share transfer system**

M/s. Sathguru Management Consultants Private Limited is the Share Transfer Agents of the Company and all shareholders related matters are handled by them. Share transfers are registered and returned in the normal course within an average period of 15 days from the date of receipt, if the documents are clear in all respects. Requests for dematerialisation of shares are processed and confirmation is given to the respective depositories i.e., National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) within 3 working days from the date of receipt of request.

All the transfers received are processed and approved by the Share Transfer Committee at its meeting/by Circular Resolution. There are no pending share transfers as at 31st March, 2008.

As a VST Shareholder, you are encouraged to contact the Registrars for all your share related services and queries. They can be reached at any of the number provided under "Address for correspondence".

You can also e-mail to the Registrars for quicker response at e-mail address provided under "Address for correspondence".

Any Shareholder who receive(s) more than one copy of this annual report can contact the Registrars and arrange to have his / her accounts consolidated.

Categories of Shareholding as on 31st March, 2008

Category	Number of Shares Held	Percentage of Shareholding
Promoters and associates	49,65,902	32.16
Foreign Institutional Investors	59,354	0.38
Public Financial Institutions	17,91,090	11.60
Mutual Funds	250	0.00
Nationalised banks and other banks	16,270	0.11
NRIs and OCBs	55,745	0.36
Bodies corporate	61,95,634	40.13
Indian public and others	23,57,675	15.26
TOTAL	<u>1,54,41,920</u>	<u>100.00</u>

Distribution of shareholding as on 31st March, 2008

Slab	No. of Shares	%	No. of Shareholders	%
1 - 500	9,69,970	6.28	9,567	91.27
501 - 1000	3,69,508	2.39	506	4.83
1001 - 2000	2,79,234	1.81	205	1.95
2001 - 3000	2,23,210	1.45	92	0.88
3001 - 4000	1,06,675	0.69	31	0.29
4001 - 5000	1,10,889	0.72	25	0.24
5001 - 10000	1,84,301	1.19	26	0.25
10001 and above	1,31,98,133	85.47	30	0.29
TOTAL	<u>1,54,41,920</u>	<u>100.00</u>	<u>10,482</u>	<u>100.00</u>
Physical Mode	60,18,872	38.98	5,075	48.42
Demat Mode	94,23,048	61.02	5,407	51.58



Dematerialisation of shares and liquidity

With effect from 26th June, 2000, trading in the Company's shares was made compulsory in the dematerialised form. The Company's shares are available for trading in the depository systems of both National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL).

As at 31st March, 2008, 61.02% of the Equity Share Capital, representing 94,23,048 shares were held in depository mode. The processing activities with respect to the requests received for dematerialisation are generally completed within 3 working days from the date of receipt of request. Under the Depository System, the International Securities Identification Number (ISIN) allotted to the Company's shares is INE710A01016.

Outstanding GDRs/ADRs/Warrants or any convertible instruments, conversion date and likely impact on Equity

Not applicable as the Company has not made any such issue.

Plant Location

1-7-1063/1065, Azamabad,
Hyderabad - 500 020

Address for correspondence

M/s. Sathguru Management Consultants Private Limited
Plot No. 15, Hindi Nagar, Near Sai Baba Temple,
Panjagutta, Hyderabad - 500 034
Phone : 040 - 2335 6507, 2335 0586, 2335 6975, 6666 2190
Fax : 040 - 2335 4042
e-mail : sta@sathguru.com

6. AUDITORS' CERTIFICATE ON CORPORATE GOVERNANCE

As required by Clause 49 of the Listing Agreement, the auditor's certificate is given as an annexure to the Directors' Report.



SHAREHOLDER REFERENCER

Pursuant to Section 205A(5) of the Companies Act, 1956, unclaimed dividends upto and including for the financial year 1994-1995 have been transferred to the General Revenue Account of the Central Government. Shareholders who have not encashed their dividend warrant(s) relating to financial year(s) upto and including the financial year 1994-1995 are requested to claim the amounts from the Registrar of Companies, Andhra Pradesh, 2nd Floor, Kendriya Sadan, No. 3-5-998, Sultan Bazar, Hyderabad - 500 095 in the prescribed form, which can be furnished by the Company's Registrar on request. However, no claim shall lie either with the Company or Investor Education and Protection Fund (IEPF), in terms of Section 205C of Companies Act, 1956, in respect of the unclaimed dividend transferred to IEPF for the financial year 1995-1996 and thereafter. The dividend for the financial year 1999-2000 viz., Dividend No. 165 has been transferred to Investor Education and Protection Fund Account on 12th November, 2007.

The dividends for the following years remaining unclaimed for 7 years will be transferred on their respective due dates by the Company to the Investor Education and Protection Fund established by the Central Government pursuant to Section 205C of the Companies Act, 1956.

Financial Year	Dividend No.	Date of Declaration	Amount of Dividend Rs.	Amount of Unpaid Dividend as on 31.03.2008 Rs.	Due for transfer on
2000-2001	166	14.06.2001	3,86,04,800	5,48,227	18.07.2008
2001-2002	167	24.07.2002	6,94,88,640	10,27,179	28.08.2009
2002-2003	168	24.07.2003	8,49,30,560	13,54,623	28.08.2010
2003-2004	169	22.07.2004	9,26,51,520	14,90,922	26.08.2011
2004-2005	170	28.07.2005	19,30,24,000	27,46,465	30.08.2012
2005-2006	171	27.07.2006	19,30,24,000	31,10,857	31.08.2013
2006-2007	172	18.07.2007	30,88,38,400	46,23,300	23.08.2014

Shareholders who have not so far encashed their dividend warrant(s) or have not received the same are requested to seek issue of duplicate warrant(s) by writing to the Company's Registrar confirming non-encashment/non-receipt of dividend warrant(s). Once the unclaimed dividend is transferred to Investor Education and Protection Fund, no claim shall lie in respect thereof against the Fund or the Company.

BANK DETAILS

Shareholders holding shares in physical form are requested to notify/send the following to the Registrar to facilitate better service.

- any change in their address/mandate/bank details and
- particulars of their bank account - account number with complete address

Shareholders holding shares in dematerialised form are requested to notify the following to their Depository Participant.

- any change in their address/mandate/bank details
- particulars of bank account including account number, MICR codes of their bank with complete address



ELECTRONIC CLEARING SERVICE (ECS) FACILITY

With respect to the payment of dividend, the Company provides the facility of ECS to Shareholders residing in the following cities:

Ahmedabad, Bengaluru, Bhubaneswar, Chennai, Chandigarh, Guwahati, Hyderabad, Jaipur, Kolkata, Kanpur, Mumbai, New Delhi, Nagpur, Patna and Thiruvananthapuram.

Shareholders holding shares in physical form, who now wish to avail ECS facility, may authorise the Registrars with their ECS mandate in the prescribed form enclosed, in case the same has not been furnished earlier. Shareholders holding shares in demat form are requested to update their bank accounts with their respective depository participants.

DEPOSITORY SERVICES

For guidance on depository services, Shareholders may write to the Registrar and Transfer Agents or to the respective depositories:

National Securities Depository Limited

Trade World, 5th Floor, Kamala Mills Compound,
Senapati Bapat Marg, Lower Parel,
Mumbai - 400 013

Phone : 022 - 2499 4200
Fax : 022 - 2497 2993 / 2497 6351
e-mail : info@nsdl.co.in
website : www.nsdl.co.in

Central Depository Services (India) Limited

Phiroze Jeejeebhoy Towers
28th Floor, Dalal Street,
Mumbai - 400 023

Phone : 022 - 2272 3333 / 2272 3224
Fax : 022 - 2272 3199 / 2272 2072
e-mail : investors@cdslindia.com
website : www.cdslindia.com

INVESTOR GRIEVANCES

As required under Clause 47(f) of Listing Agreement with Stock Exchanges, your Company has created exclusive e-mail ID for redressal of investor grievances. The Shareholders can send their queries to the below mentioned e-mail ID:

investors@vstind.com

NOMINATION FACILITY

The Companies (Amendment) Act, 1999 has introduced through Section 109A, the facility of nomination to shareholders which is mainly useful for shareholders holding the shares in single name. In cases where the shares are held in joint names, the nomination will be effective only in the event of the death of all the holders. Shareholders are advised to avail of this facility by submitting the nomination in Form 2B which could be obtained from Sathguru Management Consultants Private Limited at the address mentioned above.

Where the shares are held in dematerialised form, the nomination has to be conveyed by the shareholders to their respective Depository Participant directly, as per the format prescribed by them.



Certificate of Compliance with the Code of Conduct Policy

As provided under Clause 49 of the Listing Agreement with the Stock Exchanges, the Board Members and the senior management personnel have affirmed compliance with the Code of Conduct for the year ended 31st March, 2008.

Hyderabad, 17th April, 2008.

R.S. NORONHA
Managing Director

Chief Executive Officer (CEO) and Chief Financial Officer (CFO) Certification

We, Raymond S. Noronha, Managing Director and N. Sai Sankar, Finance Director & Secretary of VST Industries Limited, to the best of our knowledge and belief, certify that:

1. We have reviewed the Balance Sheet and Profit and Loss Account and all its schedules and notes on accounts as well as the Cash Flow Statements for the year ended 31st March, 2008.
2. To the best of our knowledge and belief,
 - (i) these statements do not contain any untrue statement or omit any material fact or contain statements that might be misleading;
 - (ii) the financial statements and other financial information included in this report present a true and fair view of the Company's affairs and are in compliance with existing accounting standards and applicable laws and regulations.
3. To the best of our knowledge and belief, there are no transactions entered into by the Company during the year which are fraudulent, illegal or violative of the Company's code of conduct.
4. We accept responsibility for establishing and maintaining internal controls for financial reporting. We have evaluated the effectiveness of internal control systems of the Company pertaining to financial reporting and have disclosed to the Auditors and the Audit Committee, deficiencies in the design or operation of such internal controls, if any, of which we are aware and steps taken or proposed to be taken for rectifying these deficiencies.
5. We have indicated to the Company's auditors and the Audit Committee of the Company's board of directors that during the year:
 - (i) there are no significant changes in internal control over financial reporting;
 - (ii) there are no significant changes in accounting policies, and,
 - (iii) there are no frauds, whether or not material that involves management or other employees who have significant role in the Company's internal control system over financial reporting.

R.S. NORONHA
Managing Director

N. SAI SANKAR
Finance Director & Secretary

Hyderabad, 17th April, 2008.