



## **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, 2010, 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.

For LOVELOCK & LEWES  
Firm's Registration Number: 301056E  
Chartered Accountants

N. K. VARADARAJAN  
Partner  
Membership No. 90196

Hyderabad, 15th April, 2010.



## REPORT ON CORPORATE GOVERNANCE

As per Clause 49 of the Listing Agreement entered into with the stock exchanges, the Directors present the Company's Report on Corporate Governance for the year ended 31st March, 2010.

### 1. COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE

Your Company is committed to the adoption of the best corporate governance practices and its adherence in the true spirit, at all times. Your Company also endeavours to ensure higher degree of transparency in its dealings and lays emphasis on accountability, 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, 2010, your Company's Board has nine Directors, out of whom 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 <sup>1</sup>	Non-Executive Director	None	8	Nil
Air Chief Marshal I.H. Latif, P.V.S.M. (Retd.)	Independent Non-Executive Director	None	-	Nil
Mr. T. Lakshmanan	Independent Non-Executive Director	None	-	Nil
Mr. R.V.K.M. Suryarau	Independent Non-Executive Director	None	-	Nil
Mr. N. Sai Sankar	Deputy Managing Director & Secretary	None	1	Nil
Mr. S. Thirumalai	Independent Non-Executive Director	None	-	Nil
Mr. Milind Anna Kharat <sup>2</sup>	Independent Non-Executive Director	None	-	Nil

<sup>1</sup> Representing equity interest of promoter group - British American Tobacco, U.K.

<sup>2</sup> Representing equity interest of General Insurers' (Public Sector) Association of India



None of the Independent Non-Executive Directors has 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, 2010, four meetings of the Board were held on 23rd April, 2009, 16th July, 2009, 16th October, 2009 and 13th January, 2010.

The table below gives the number of Board Meetings held and the attendance of Directors during the year ended 31st March, 2010:

Name of the Director	No. of Board Meetings held	No. of Board Meetings attended	Attendance at last AGM
Mr. A. Basu	4	4	Yes
Mr. Raymond S. Noronha	4	4	Yes
Air Chief Marshal I.H. Latif, P.V.S.M. (Retd.)	4	4	Yes
Mr. T. Lakshmanan	4	1	No
Mr. R.V.K.M. Suryarau	4	4	Yes
Mr. N. Sai Sankar	4	4	Yes
Mr. S. Thirumalai	4	4	Yes
Mr. J. D. Bandaranayake	4	3	Yes
Mr. Milind Anna Kharat	4	3	Yes

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

- Annual operating plans and budgets, capital budgets and any updates;
- Quarterly, half yearly and annual results of the Company;
- Minutes of meeting of Audit Committee and other committees;
- Information on recruitment and remuneration of senior officers just below the Board level;
- Contracts in which Directors are interested;
- 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;
- Issue which involves possible public or product liability claims of a substantial nature;
- 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;
- 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, if any; and
- Minutes of meetings of subsidiary company.

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 has 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](http://www.vsthyd.com)].

## **II. Audit Committee**

### **(A) The Audit Committee comprises three Independent Directors, as detailed below:**

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, P.V.S.M. (Retd.)	Member	Independent Non-Executive Director

Mr. N. Sai Sankar, Deputy Managing Director & Secretary, acts as the Secretary to the Audit Committee.

The Chairman of the Audit Committee was present at the Annual General Meeting of the Company held on 16th July, 2009.

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

During the financial year ended 31st March, 2010 four audit committee meetings were held on 21st April, 2009, 15th July, 2009, 15th October, 2009 and 12th January, 2010.

Name of Audit Committee Member	No. of meetings held	No. of meetings attended
Mr. R.V.K.M. Suryarau	4	4
Mr. A. Basu	4	4
Air Chief Marshal I.H. Latif, P.V.S.M. (Retd.)	4	3



### **(C) Powers of Audit Committee**

The primary objective of 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 re-assurance 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 for any other services;
- reviewing and discussing with the statutory auditor and the internal auditor about internal control systems;
- discussing with internal auditors any significant finding and follow-up thereon;
- reviewing major accounting policies and adoption of applicable accounting standards;
- reviewing, if necessary, the findings of any internal investigation by the internal auditors and reporting such matters to the Board;
- reviewing of compliance with listing agreement and various other legal requirements with respect to the financial statements and related party transactions;
- reviewing the quarterly, half yearly and annual financial statements before they are submitted to the Board of Directors for approval;
- reviewing significant financial reporting judgements contained in financial statements;
- reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems;
- monitoring and reviewing the effectiveness/adequacy of internal audit function;
- 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.

Minutes of the Audit Committee Meetings are circulated to the Members of the Board of Directors and taken note of.

### **(E) Review of information by Audit Committee**

The Committee 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.



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, 2010.

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

*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, 2010 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 financial year ending 31st March, 2011. 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 systems auditors to review various operations of the Company and determined and approved the fees payable to them for the financial year ending 31st March, 2011.

### **III. Subsidiary Company**

The Company does not have any material unlisted subsidiary company as defined in Clause 49 of the Listing Agreement with the stock exchanges. The minutes of the meeting of the subsidiary company viz., VST Distribution, Storage & Leasing Company Private Limited are regularly placed before the Board of your Company for their review.

### **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 were placed before the audit committee and the committee has reviewed the same for the year ended 31st March, 2010.

The details of related party transactions are disclosed in Note IV on Schedule 19 to the Accounts in the Annual Report.

#### **(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. Significant accounting policies are provided elsewhere in the Annual Report.

#### **(C) Board Disclosures**

##### **i. Risk Management**

Your Company has a comprehensive risk management policy.

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

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 Company's IT governance and risk management framework ensures that IT risk management and information security are continuously monitored and updated to protect the confidentiality, integrity and availability of information systems.

The Audit Committee reviewed on a quarterly basis the adequacy of the risk management framework of the Company, the key risks associated with the businesses of the Company and the measures and steps taken to minimize the same.

## ii. Internal Control Systems

The Company believes that a robust internal control mechanism is a necessary concomitant for effective governance. The Company is committed to ensure an effective internal control environment that helps in preventing and detecting errors, irregularities & frauds, thus ensuring security of the Company's assets and efficiency of operations.

The Company has put in place an adequate system of internal control for all its business processes 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; and
- 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 most essential parts of the control environment relative to financial reporting are included in delegation of power with authority limits for approving revenue as well as capital expenditure. The Company also has an exhaustive budgetary control system to monitor all expenditures against approved budgets on an ongoing basis.

The effectiveness of internal control is reviewed during internal audits on a regular basis. An independent review of the internal control systems is also carried out by the statutory auditors. Any significant deficiency in internal control along with the progress in implementation of recommended remedial measures is regularly presented to and reviewed by the Audit Committee of the Board which in turn 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 issue.

### ***(E) Remuneration of Directors***

No separate remuneration committee has been constituted. The remuneration of Executive Directors is considered by the Committee of Directors before being taken up at the Board, subject further to the approval of Members. Non-Executive Directors' remuneration is considered by the Board subject to Members' approval.



**Details of remuneration paid/payable to the Directors for the financial year ended 31st March, 2010**

Rupees

Name	Position	Salary	Benefits & Contributions to Provident/Pension & Other Funds	Performance Linked Bonus	Commission	Sitting Fees	Total
Mr. A. Basu	Chairman - Independent Non-Executive Director	—	—	—	10,00,000	1,08,000	11,08,000
Mr. R.S. Noronha	Managing Director	1,15,31,040	87,13,591	1,24,53,523	—	—	3,26,98,154
Mr. N. Sai Sankar	Deputy Managing Director & Secretary	72,00,000	43,30,736	77,76,000	—	—	1,93,06,736
Air Chief Marshal I.H. Latif, P.V.S.M. (Retd.)	Independent Non-Executive Director	—	—	—	5,00,000	1,11,000	6,11,000
Mr. T. Lakshmanan	Independent Non-Executive Director	—	—	—	1,00,000	12,000	1,12,000
Mr. R.V.K.M. Suryarau	Independent Non-Executive Director	—	—	—	5,00,000	1,32,000	6,32,000
Mr. S. Thirumalai	Independent Non-Executive Director	—	—	—	2,00,000	84,000	2,84,000
Mr. J. D.Bandaranayake	Non-Executive Director	—	—	—	#	36,000	36,000
Mr. Milind Anna Kharat	Independent Non-Executive Director	—	—	—	@	@	—

# Commission of Rs.1,00,000 paid to British American Tobacco Company, U.K. represented by its Director Mr. J.D. Bandaranayake.

@ Sitting Fees of Rs.36,000 and Commission of Rs.1,00,000 paid to United India Insurance Company Limited represented by its Director Mr. Milind Anna Kharat

Benefits include value of rent free accommodation, house rent allowance, leave travel allowance, reimbursement of medical expenses, insurance, provision of gas, electricity and club subscriptions and perquisite value of white goods provided.

The appointment of Executive Directors is governed by resolutions passed by the Board of Directors and the Members of the Company, which cover the terms and conditions of such appointment read with the service rules of 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 and the rules made thereunder. 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 details given below:

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





Members of the Company have approved payment of commission up to a ceiling of Rs.25 lakhs for all Non-Executive Directors or such amount as may be determined by the Board within the ceiling of Rs.25 lakhs to be divided as per Board's discretion w.e.f. 1st April, 2009 for each of the five financial years of the Company.

Remuneration paid to Non-Executive Directors is determined 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**

As at 31st March, 2010 the number of shares held by Non-Executive Directors is as follows:

Mr. A. Basu	900 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 none held by the Non-Executive Directors during the year ended 31st March, 2010.

### **(F) Management**

- i. The Management Discussion and Analysis is part of Directors' Report to the Members is provided elsewhere in the Annual Report
- ii. For the year ended 31st March, 2010 your Company's Board has obtained declarations from the senior management 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 seeking re-election/appointment/re-appointment:

#### **Mr. A. Basu**

Mr. Abhijit Basu was appointed a Director on the Board of your Company with effect from 19th June, 1989. 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 was last retired and re-appointed at the Annual General Meeting held on 18th July, 2007. Mr. Basu is now due to retire by rotation at the forthcoming Annual General Meeting and being eligible, offers himself for re-appointment.

Mr. Basu is a Graduate in Physics from Oxford University. He has had about 34 years of experience in ITC Limited and held various positions in the areas of Personnel, Leaf, Printing and Packaging and Hotels division. He retired as Deputy Chairman from ITC Limited in 1989 and joined your Company as Chairman. Your Company has been receiving his expert advice and guidance for over two decades of his association with the Company. He is also a Member of the Audit Committee and Committee of Directors of your Company. Mr. Basu holds 900 equity of shares of your Company.

#### **Mr. R.V.K.M. Suryarau**

Mr. R.V.K.M. Suryarau was appointed a Director on the Board of your Company with effect from 9th December, 1989. He was appointed under Section 257 of the Companies Act, 1956 at the Annual General Meeting held on 20th July, 1990 and was last retired and re-appointed at the Annual General meeting held on 18th July, 2007. Mr. Suryarau is now due to retire by rotation at the forthcoming Annual General Meeting and being eligible, offers himself for re-appointment.

Mr. Suryarau is a Graduate in Arts from Oxford University and has nearly 33 years of experience in the business world. He retired as Managing Director and CEO of Coromandel Fertilizers Limited in June 1989. Since then Mr. Suryarau has been associated with your Company giving valuable advice to the Board and also to the Committees.



In addition to being a Member on the Board, he is the Chairman of the Audit Committee, Member of Shareholders Grievance Committee and Committee of Directors of your Company. Mr. Suryarau does not hold any share in the Company.

### **Mr. N. Sai Sankar**

Mr. N. Sai Sankar was appointed a Director on the Board of your Company with effect from 1st January, 2001. He was appointed under the provisions of Section 257 of the Companies Act, 1956 at the Annual General Meeting held on 14th June, 2001. Mr. N. Sai Sankar was re-appointed as Director with effect from 1st January, 2006 for a further period of five years at the Board Meeting held on 21st April, 2005 and this was approved by the Members at the Annual General Meeting held on 28th July, 2005. He was last retired and re-appointed at the Annual General Meeting held on 27th July, 2006. He was appointed as Deputy Managing Director with effect from 1st February, 2009. Mr. N. Sai Sankar's period of office expires on 31st December, 2010 and is being re-appointed for five years as Deputy Managing Director from 1st January, 2011 to 31st December, 2015 (both days inclusive), subject to the approval of the Members.

Mr. N. Sai Sankar is a Commerce Graduate from St. Xavier's College, Kolkata and is a Fellow Member of Institute of Chartered Accountants of India, Institute of Cost & Works Accountants of India and Institute of Company Secretaries of India. He has about 29 years of experience in finance, accounting and secretarial field. He is a member of the Committee of Directors and Shareholders Grievance Committee of the Company and is also a director on the board of the Tobacco Institute of India. He is also the Secretary to the Audit Committee. Mr. N. Sai Sankar does not hold any share in the Company.

### **Mr. Peter G Henriques**

Mr. Peter Garneau Henriques has been in the tobacco industry for 19 years and is currently Head of Office of Chief Operating Officer - BAT, reporting to the Chief Operating Officer, based in London, United Kingdom. He worked 8½ years at Philip Morris in end-market and regional marketing roles, including PMUSA (1990-94) and the Latin America Region (1995-98).

He joined Rothmans in November 1998 as Regional Marketing Director-Pacific, based in Sydney, Australia. After working on the BAT/Rothmans merger during 1999-2000, he was appointed Head of e-Commerce Australasia and General Manager - Quatro in July 2000, based in Sydney.

In June 2004, was appointed General Manager - South Pacific and Area Head of Strategy Australasia, Sydney based. In 2005, was appointed General Manager - New Zealand and South Pacific and relocated to Auckland, New Zealand.

In November 2008, was appointed to his current role, Head of Office of Chief Operating Officer - BAT, based in Globe House, London.

Originally from Greenwich, Connecticut, USA, holding dual Australian and USA citizenship, he holds Bachelor of Arts degrees in History and International Relations from Syracuse University in New York, and a Master's degree in International Affairs from Columbia University in New York City.

- 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 were no presentations made by the Company to analysts. The Company has been having conference calls on financial results with investors/analysts.

### **iii. Shareholders Grievance Committee**

The Shareholders Grievance Committee has been constituted to oversee redressal of shareholder complaints related to transfer of shares, non-receipt of declared dividends, non-receipt of annual report etc. The Committee also oversees the performance of the Registrar and Transfer Agents of the Company and recommends measures for overall improvements in the quality of investor services.

**Composition, name of Members and Chairman**

Name of the Director	Position	Nature of Directorship
Air Chief Marshal I.H. Latif, P.V.S.M. (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	Deputy Managing Director & Secretary
Mr. S. Thirumalai	Member	Independent Non-Executive Director

**Name and designation of Compliance Officer**

Mr. N. Sai Sankar, Deputy Managing Director & Secretary

Phone: +91 40 2761 0478

E-mail: saisankar@vstind.com

**Meetings and attendance during the year**

During the financial year ended 31st March, 2010 four meetings of Shareholders Grievance Committee were held on 21st April, 2009, 15th July, 2009, 15th October, 2009 and 12th January, 2010.

Name of Shareholders Grievance Committee Member	No. of meetings held	No. of meetings attended
Air Chief Marshal I.H. Latif, P.V.S.M. (Retd.)	4	3
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	2	2
Transmission of shares	74	74
Non-receipt of dividend warrants	96	96
Non-receipt of Annual Report	6	6
Letters from stock exchanges/SEBI	2	2

The Shareholders/Investors complaints and other complaints are normally responded to within a period of 7 working days except where constrained by disputes or legal impediments. There are a few 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 the 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, 2010 has been enclosed at the end of this report. Similarly, the CEO/CFO also give quarterly certification on financial results while placing the quarterly financial results before the Board in terms of Clause 41 of the Listing Agreement entered into with the stock exchanges.

**vi. Adoption of mandatory and non-mandatory requirements of Clause 49**

The Company has complied with all the mandatory requirements of Clause 49. Non-mandatory requirements have not been adopted and are being reviewed for implementation.

**3. GENERAL BODY MEETINGS**

Location and time of last three Annual General Meetings are as under:

Year	Venue	Date	Time
2008-2009	Hotel Taj Krishna, Banjara Hills, Hyderabad	16.7.2009	10.30. a.m.
2007-2008	Hotel Taj Krishna, Banjara Hills, Hyderabad	17.7.2008	10.30. a.m.
2006-2007	Hotel Taj Krishna, Banjara Hills, Hyderabad	18.7.2007	10.30. a.m.

The following Special Resolutions were passed by the members at the last three Annual General Meetings:

**Annual General Meeting held on 16th July, 2009**

- Redesignation of Wholetime Director & Secretary and payment of adhoc performance payment
- Payment of commission to Non-Wholetime Directors
- Alteration of Article 93 of the Articles of Association of the Company

**Annual General Meeting held on 17th July, 2008** - No special resolution was passed.

**Annual General Meeting held on 18th July, 2007** - No special resolution was passed.

No special resolution requiring a postal ballot under Section 192A of the Companies Act, 1956, was placed before the last Annual General Meeting. Similarly, no special resolution requiring a postal ballot is being proposed at the ensuing Annual General Meeting.

**4. MEANS OF COMMUNICATION**

- The quarterly, half yearly and annual results are published in Business Standard and in a vernacular newspaper i.e., Andhra Prabha. The results are also posted on the Company's website viz., [www.vsthyd.com](http://www.vsthyd.com). Apart from the above, the Company also provides the above information to stock exchanges as per the requirements of Listing Agreement. Further as required, these are uploaded in the SEBI's website under Electronic Data Information Filing and Retrieval System (EDIFAR) and can be retrieved from the website [www.sebiedifar.nic.in](http://www.sebiedifar.nic.in). During the year, there were no presentations made to institutional investors or to the analysts.
- There have been no instances of non-compliance by the Company and no penalties, strictures were imposed on the Company by stock exchanges or SEBI or any statutory authority, on any matter related to capital markets, during the last three years.

**5. GENERAL SHAREHOLDER INFORMATION*****Date, Time and Venue of the Annual General Meeting***

Friday, 16th July, 2010 at 10.30 a.m. at Hotel Taj Krishna, Road No. 1, Banjara Hills, Hyderabad - 500 034, Andhra Pradesh.

***Financial Calendar - 2010-2011 (Tentative)***

First Quarter Results	July, 2010
Second Quarter and Half Yearly Results	October, 2010
Third Quarter Results	January, 2011
Annual Results	April, 2011



**Dates of Book Closure**

14th July, 2010 to 16th July, 2010 (both days inclusive)

**Dividend Payment Date**

Within 30 days from 16th July, 2010

**Listing on Stock Exchanges with Stock Code**

S.No.	Name of the Stock Exchange	Stock Code
1	Bombay Stock Exchange Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400 001	509966
2	National Stock Exchange of India Limited Exchange Plaza, Bandra-Kurla Complex, Bandra (E), Mumbai - 400 051	VSTIND

Listing fees for the year 2010-2011 has been paid to the above stock exchanges.

**Market Price Data: High/Low during each month in the last financial year (2009-2010)**

Rupees

Period	Bombay Stock Exchange Limited		National Stock Exchange of India Limited	
	High	Low	High	Low
April, 2009	345.00	225.00	344.00	222.00
May, 2009	376.00	310.05	375.00	318.10
June, 2009	415.00	335.40	409.20	334.00
July, 2009	450.00	332.00	450.00	288.00
August, 2009	433.00	381.00	435.00	385.05
September, 2009	460.00	406.00	460.00	409.55
October, 2009	540.00	422.80	543.00	381.00
November, 2009	528.00	450.00	559.00	433.20
December, 2009	555.00	480.00	554.00	490.00
January, 2010	585.00	486.00	550.00	482.10
February, 2010	538.00	460.00	538.00	457.50
March, 2010	554.85	472.10	570.00	475.00

**Performance in comparison with BSE Sensex**

(based on closing price/Sensex)





## **CONTACT INFORMATION**

Registered Office  
VST Industries Limited  
1-7-1063/1065, Azamabad  
Hyderabad - 500 020  
Phone: +91 40 2761 0460  
Fax : +91 40 2761 5336

Correspondence to the following officer may be addressed at the Registered Office of the Company:

Mr. N. Sai Sankar  
Company Secretary  
Phone: +91 40 2761 0478  
Fax : +91 40 2760 6649  
Email : saisankar@vstind.com

## **Registrar and Transfer Agents**

As a VST Shareholder, for all your share related services and queries, you are encouraged to contact the Registrars whose address is given below:

M/s. Sathguru Management Consultants Private Limited  
Plot No. 15, Hindi Nagar, Punjagutta,  
Hyderabad - 500 034  
Phone: +91 40 2335 6507, 2335 0586, 2335 6975  
Fax : +91 40 4004 0554  
Email : sta@sathguru.com

Contact person: Mr. R. Chandra Sekar, Senior Divisional Manager, Capital Markets

## **Share Transfer System**

The share transfers which are received in physical form 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. The Board has delegated the authority for approving transfer, transmission etc., of the Company's securities to the Managing Director and Deputy Managing Director & Secretary. A summary of transfer and transmission of shares of the Company approved is placed at meeting of the Shareholders Grievance Committee.

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. There are no pending share transfers as at 31st March, 2010.

## **Secretarial Audit**

For each quarter of the financial year 2009-2010, a qualified Company Secretary in Practice has carried out secretarial audit to reconcile the total admitted capital with NSDL and CDSL and total issued and listed capital. The audit report confirms that the total issued/paid-up capital is in agreement with the total number of shares in physical form and the total number of dematerialized shares held with NSDL and CDSL.

Similarly, the Company obtains from a Company Secretary in Practice, half-yearly certificate of compliance with the share transfer formalities as required under Clause 47(c) of the Listing Agreement with stock exchanges and copy of the same is filed with BSE and NSE.

**Categories of shareholding as on 31st March, 2010**

Category	Number of Shares Held	Percentage of Shareholding
Promoters and Associates	49,65,902	32.16
Foreign Institutional Investors	550	0.00
Public Financial Institutions	10,70,320	6.93
Mutual Funds	3,84,980	2.49
Nationalised banks and other banks	12,805	0.08
NRIs and OCBs	1,01,682	0.66
Bodies Corporate	63,90,287	41.38
Indian Public and Others	25,15,394	16.30
<b>TOTAL</b>	<b>1,54,41,920</b>	<b>100.00</b>

**Distribution of shareholding as on 31st March, 2010**

Slab	No. of Shares	%	No. of Shareholders	%
1 - 500	10,10,201	6.54	10,363	91.35
501 - 1000	3,89,529	2.52	538	4.74
1001 - 2000	3,00,554	1.95	218	1.92
2001 - 3000	2,26,995	1.47	93	0.82
3001 - 4000	95,185	0.62	27	0.24
4001 - 5000	1,28,191	0.83	29	0.26
5001 - 10000	2,51,210	1.63	35	0.31
10001 and above	1,30,40,055	84.44	41	0.36
<b>Total</b>	<b>1,54,41,920</b>	<b>100.00</b>	<b>11,344</b>	<b>100.00</b>
Physical Mode	59,05,245	38.24	4,671	41.18
Demat Mode	95,36,675	61.76	6,673	58.82

**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, 2010, 95,36,675 Equity Shares of the Company constituting 61.76% of Issued and Subscribed Capital, were held in depository mode. The processing activities with respect to the requests received for dematerialisation are generally completed within one working day. Under the depository system, the International Securities Identification Number (ISIN) allotted to the Company's shares is INE710A01016. The annual custodial fees for the financial year 2010-2011 has been paid to NSDL and CDSL, the depositories.

The Company's shares are regularly traded both in Bombay Stock Exchange Limited (BSE) and National Stock Exchange of India Limited (NSE).



***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  
Andhra Pradesh

**6. AUDITORS' CERTIFICATE ON CORPORATE GOVERNANCE**

As required by Clause 49 of the Listing Agreement with the stock exchanges, the statutory auditor's certificate that the Company has complied with the conditions of corporate governance is given as an annexure to the Report of the Directors & Management Discussion and Analysis. This certificate will be forwarded to the stock exchanges where the securities of the Company are listed, along with the Annual Report of the Company.

**7. CORPORATE GOVERNANCE - VOLUNTARY GUIDELINES 2009**

In December, 2009, the Ministry of Corporate Affairs, Government of India has announced the Corporate Governance - Voluntary Guidelines 2009 and has given one year time to adopt the same. The Company has already adopted majority of the clauses. As for the balance, your Company is in the process of examining the various clauses for implementation.





## 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. Members 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 2001-2002 viz., Dividend No. 167 has been transferred to Investor Education and Protection Fund Account on 28th August, 2009.

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 31.03.2010 Rs.	Due for transfer to IEPF on
2002-2003	168	24.07.2003	8,49,30,560.00	12,38,219.00	28.08.2010
2003-2004	169	22.07.2004	9,26,51,520.00	13,84,458.00	26.08.2011
2004-2005	170	28.07.2005	19,30,24,000.00	25,39,333.00	30.08.2012
2005-2006	171	27.07.2006	19,30,24,000.00	28,93,764.00	31.08.2013
2006-2007	172	18.07.2007	30,88,38,400.00	41,94,960.00	23.08.2014
2007-2008	173	17.07.2008	30,88,38,400.00	41,38,060.00	22.08.2015
2008-2009	174	16.07.2009	46,32,57,600.00	65,33,472.61	21.08.2016

Members 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

Members 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 - name of the bank, branch with complete address and account number which will be printed on the dividend warrants to prevent fraudulent encashment.

Members holding shares in dematerialised form are requested to notify the following to their Depository Participant:

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



## **NATIONAL ELECTRONIC CLEARING SERVICE (NECS) FACILITY**

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

Ahmedabad, Baroda, Bengaluru, Bhopal, Bhubaneswar, Coimbatore, Chennai, Chandigarh, Ernakulam, Gandhinagar, Guwahati, Hyderabad, Indore, Jaipur, Kolkata, Kanpur, Lucknow, Mangalore, Madurai, Mumbai, New Delhi, Nagpur, Panaji, Patna, Pune, Rajkot, Thiruvananthapuram, Vijayawada and Visakhapatnam.

Members holding shares in physical form, who now wish to avail NECS facility, may send their NECS mandate in the prescribed form to the Company. The NECS mandate form can be furnished by the Registrars and Transfer Agents on request or can be downloaded from the Company's website [www.vsthyd.com](http://www.vsthyd.com) under the section Investor Relations - NECS / Bank Mandate. Members holding shares in demat form are requested to update their bank accounts with their respective depository participants.

## **DEPOSITORY SERVICES**

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

### **National Securities Depository Limited**

Trade World, 4th Floor, Kamala Mills Compound,  
Senapati Bapat Marg, Lower Parel,  
Mumbai - 400 013  
Phone : +91 22 2499 4200  
Fax : +91 22 2497 2993 / 2497 6351  
e-mail : [info@nsdl.co.in](mailto:info@nsdl.co.in)  
website: [www.nsdl.co.in](http://www.nsdl.co.in)

### **Central Depository Services (India) Limited**

Phiroze Jeejeebhoy Towers  
16th Floor, Dalal Street,  
Mumbai - 400 001  
Phone : +91 22 2272 3333 / 2272 3224  
Fax : +91 22 2272 3199 / 2272 2072  
e-mail : [investors@cdslindia.com](mailto:investors@cdslindia.com)  
website: [www.cdslindia.com](http://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 Members can send their queries to the e-mail ID: [investors@vstind.com](mailto:investors@vstind.com)

## **NOMINATION FACILITY**

The Companies (Amendment) Act, 1999 has introduced through Section 109A, the facility of nomination to Members which is mainly useful for Members 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. Members are advised to avail of this facility by submitting the nomination in Form 2B which could be obtained from Registrars - 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 Members to their respective Depository Participant directly, as per the format prescribed by them.



## Declaration on Code of Conduct

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, 2010.

For VST INDUSTRIES LIMITED

Hyderabad, 15th April, 2010

RAYMOND S. NORONHA  
Managing Director

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

We, Raymond S. Noronha, Managing Director and N. Sai Sankar, Deputy Managing 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, 2010.
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.

RAYMOND S. NORONHA  
Managing Director

N. SAI SANKAR  
Deputy Managing Director & Secretary

Hyderabad, 15th April, 2010