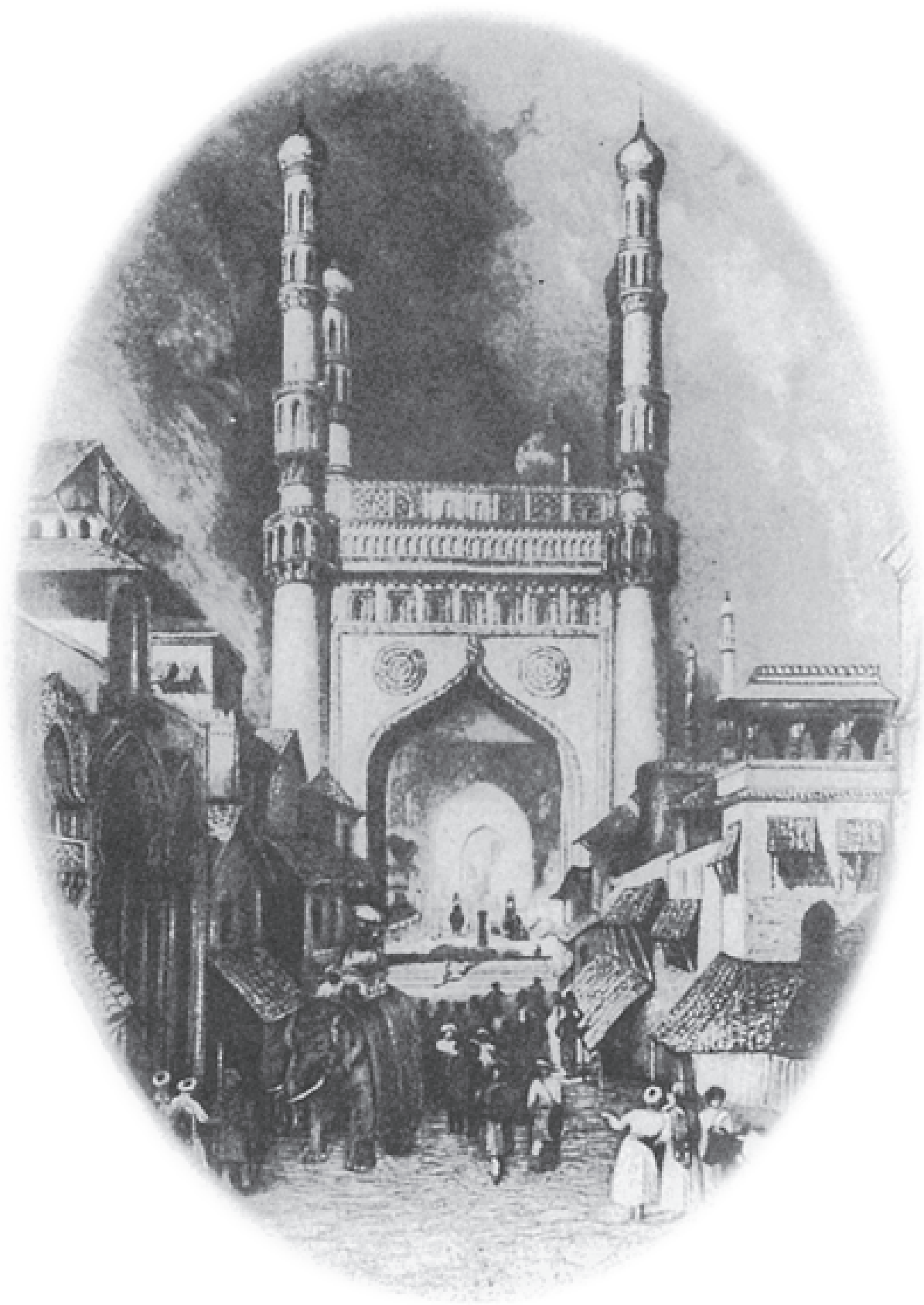




# **VST INDUSTRIES LIMITED**

**ANNUAL REPORT 2008**





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## BOARD OF DIRECTORS

### **Chairman**

ABHIJIT BASU

### **Managing Director**

RAYMOND S. NORONHA

### **Finance Director & Secretary**

N. SAI SANKAR

### **Directors**

JAYAMPATHI DIVALE BANDARANAYAKE

AIR CHIEF MARSHAL IDRIS HASAN LATIF, P.V.S.M. (Retd.)

T. LAKSHMANAN

V. SEKAR

R.V.K.M. SURYARAU

S. THIRUMALAI

### **Auditors**

Lovelock & Lewes

Chartered Accountants

Hyderabad - 500 034

Andhra Pradesh

### **Registered Office**

1-7-1063/1065, Azamabad

Hyderabad - 500 020

Andhra Pradesh

### **Registrars & Share Transfer Agents**

Sathguru Management Consultants Private Limited

Plot No.15, Hindi Nagar

Near Sai Baba Temple, Punjagutta

Hyderabad - 500 034

Phone : 040 - 2335 0586, 2335 6507, 2335 6975

Fax : 040 - 2335 4042

E-mail : sta@sathguru.com



## NOTICE OF MEETING

NOTICE IS HEREBY GIVEN THAT the Seventy Seventh Annual General Meeting of VST INDUSTRIES LIMITED will be held at Hotel Taj Krishna, Road No.1, Banjara Hills, Hyderabad - 500 034 on **Thursday 17th July, 2008 at 10.30 a.m.** for transaction of the following business:

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2008, the Profit and Loss Account, Auditors' Report and Directors' Report for the Company's year ended 31st March, 2008.
2. To declare a Dividend on the Ordinary Share Capital.
3. To elect Directors in place of those retiring by rotation.
4. To appoint Auditors and to fix their remuneration. In this connection to consider and, if thought fit, to pass the following Resolution which will be proposed as an Ordinary Resolution:

"RESOLVED that Messrs. Lovelock & Lewes, Chartered Accountants, be and are hereby appointed as the Auditors of the Company to hold such office until the conclusion of the next Annual General Meeting at a remuneration of Rs.16,00,000 (Rupees Sixteen Lakhs only) payable in two equal instalments plus service tax as applicable and reimbursement of out-of-pocket expenses incurred."

### SPECIAL BUSINESS

5. To consider and, if thought fit, to pass with or without modification(s), the following Resolution which will be proposed as an Ordinary Resolution:

"RESOLVED that Mr. Jayampathi Divale Bandaranayake who was appointed a Director of the Company with effect from 29th October, 2007 nominated by British American Tobacco in place of Mr. Andrew O'Regan and who vacates office at the ensuing Annual General Meeting under Section 262 of the Companies Act, 1956 and Article 98 of the Articles of Association of the Company and in respect of whom the Company has received a notice in writing from a Member proposing his candidature for the office of the Director be and is hereby appointed as a Director of the Company whose period of office shall be liable to determination by the retirement of Directors by rotation."

6. To consider and, if thought fit, to pass with or without modification(s), the following Resolution which will be proposed as an Ordinary Resolution:

"RESOLVED that Mr. V. Sekar who was appointed a Director of the Company with effect from 29th October, 2007 nominated by General Insurer's (Public Sector) Association of India in place of Mr. T. Lakshmanan and who vacates office at the ensuing Annual General Meeting under Section 262 of the Companies Act, 1956 and Article 98 of the Articles of Association of the Company and in respect of whom the Company has received a notice in writing from a Member proposing his candidature for the office of the Director be and is hereby appointed as a Director of the Company whose period of office shall be liable to determination by the retirement of Directors by rotation."

7. To consider and, if thought fit, to pass with or without modification(s), the following Resolution which will be proposed as an Ordinary Resolution:

"RESOLVED that Mr. T. Lakshmanan who was appointed a Director of the Company with effect from 29th October, 2007 under Section 260 of the Companies Act, 1956 and under Article 98 of the Articles of Association of the Company and who holds office upto the date of this Annual General Meeting, be and is hereby appointed a Director of the Company whose period of office is liable to determination by retirement of Directors by rotation."

8. To consider and, if thought fit, to pass with or without modification(s), the following Resolution which will be proposed as an Ordinary Resolution:

"RESOLVED that in accordance with provisions of Sections 269, 309, 310, 311 read with Schedule XIII of the Companies Act, 1956 and other applicable provisions, if any, and subject to the approval of the Members of the Company at the forthcoming Annual General Meeting, Mr. Raymond S. Noronha be and is hereby re-appointed upon expiry of his current term of office as the Managing Director of the Company to hold office for a period of two years from 1st November, 2008 to 31st October, 2010 (both days inclusive) or up to the date of his retirement, whichever is earlier, on the following remuneration:

1. **Consolidated Salary:** At the rate of Rs.8,40,700 per month subject to such increases as the Board may determine in the consolidated salary during the tenure of office as Managing Director having regard to the annual performance of Mr. Raymond S. Noronha and to cover the Consumer Price Index.



- II. **Performance Bonus:** Payable annually for each financial year ending 31st March, 2009 and thereafter, not exceeding 75% of the Consolidated Salary per annum after approval of the accounts as may be determined by the Board of Directors of the Company.

In addition to the aforesaid Consolidated Salary and Performance Bonus, Mr. Raymond S. Noronha shall be entitled to perquisites like gas, electricity, water, furnishings, medical reimbursement and leave travel concession for self and family, club fees, personal accident insurance etc. in accordance with the Rules of the Company, the monetary value of such perquisites being limited to Rs.10,00,000 per annum, for the purposes of which limit perquisites shall be evaluated as per Income Tax Rules, wherever applicable, and in absence of any such Rule, perquisites shall be evaluated at actual cost. However, the following shall not be included in the aforesaid perquisite limit:

- a. Rent free furnished accommodation owned/leased/rented by the Company or Housing Allowance in lieu thereof, as per the Rules of the Company.
- b. Contribution to Provident Fund and Superannuation Fund upto 27% of salary and contribution to Gratuity Fund upto 8.33% of salary as defined in the Rules of the respective Funds, or upto such other limit as may be prescribed under the Income Tax Act, 1961 and the Rules thereunder for this purpose.
- c. Use of Company car for official purposes and telephone at residence (including payment for local calls and long distance official calls).
- d. Encashment of unavailed leave as per the Rules of the Company at the time of retirement/cessation of service.
- e. Long service award as per the Rules of the Company.
- f. Costs and expenses incurred by the Company in connection with joining/transfer from one location to another as per the Rules of the Company.

- III. **Minimum Remuneration:** Notwithstanding anything to the contrary contained herein, where, in any financial year during the currency of the

tenure of Mr. Raymond S. Noronha, the Company has no profits or its profits are inadequate, the Company will pay salary and perquisites to the maximum as laid down in Section II of Part II of Schedule XIII as Minimum Remuneration.

The aggregate of the remuneration and perquisites/benefits including contribution towards Provident Fund, Superannuation Fund and Gratuity Fund, payable to Mr. Raymond S. Noronha shall always be subject to the overall ceilings laid down in Sections 198 and 309 of the Companies Act, 1956.

FURTHER RESOLVED that the Board of Directors, be and is hereby authorized to do all things and deeds incidental thereto including entering into an agreement with Mr. Raymond S. Noronha for the above purpose.

FURTHER RESOLVED that Mr. N. Sai Sankar, Secretary of the Company be and is hereby authorized to do all such acts and deeds as may be required to give effect to the above resolution."

The Register of Members of the Company will remain closed from 15th July, 2008 to 17th July, 2008 (both days inclusive) for payment of dividend, if approved.

Transfer of shares received in order by the Company's Registrars and Share Transfer Agents, M/s. Sathguru Management Consultants Private Limited, Plot No.15, Hindi Nagar, Near Sai Baba Temple, Punjagutta, Hyderabad - 500 034, before the close of business on 14th July, 2008, will be registered in time for the transferees to become eligible for dividend, if declared.

Dividend, if approved, will be paid on or before 16th August, 2008 to those shareholders whose names appear in the Register of Members of the Company on 17th July, 2008 or to their Mandatees, subject however to the provisions of Section 206A of the Companies Act, 1956, or any amendment or modification thereof. In respect of dematerialised shares the dividend will be payable on the basis of beneficial ownership as per details to be furnished by National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) for this purpose.

By Order of the Board,

N. SAI SANKAR  
Secretary

Dated this 17th day of April, 2008.  
Azamabad, Hyderabad - 500 020,  
Andhra Pradesh.



## NOTES

1. **A Member entitled to attend and vote at the General Meeting may appoint a proxy, who need not be a Member, to attend and on a poll, to vote on his behalf. The proxies should be deposited at the Registered Office of the Company not less than forty eight hours before the commencement of the Meeting.**
2. In accordance with Section 173(2) of the Companies Act, 1956, an Explanatory Statement in respect of items 5 to 8 being items of Special Business is annexed to the Notice of the Meeting.
3. In accordance with the provisions of Article 93 of the Articles of Association of the Company, Air Chief Marshal I.H. Latif (Retd.) and Mr. Raymond S. Noronha will retire by rotation at this Annual General Meeting and being eligible offer themselves for re-appointment.
4. Shareholders should inform the Company's Registrars and Share Transfer Agents, M/s. Sathguru Management Consultants Private Limited of any change in their registered address, before 15th July, 2008.
5. Shareholders who have multiple folios in identical names or joint names in the same order are requested to intimate to the Registrars and Share Transfer Agents, M/s. Sathguru Management Consultants Private Limited, these folios to enable consolidation of all such shareholdings into one folio.
6. Shareholders are requested to refer to the "Shareholder Referencer" which inter-alia contains details regarding unclaimed dividend.
7. Shareholders are requested to bring their copy of the Annual Report to the Meeting.

## EXPLANATORY STATEMENT

In accordance with Section 173(2) of the Companies Act, 1956, the following information is given in explanation of the items of Special Business set out in the attached Notice of the Seventy Seventh Annual General Meeting of the Company to be held at Hotel Taj Krishna, Road No. 1, Banjara Hills, Hyderabad - 500 034 on **Thursday, 17th July, 2008**.

### Item No. 5

Mr. Jayampathi Divale Bandaranayake who was appointed as a Director of the Company on 29th October, 2007 to fill the casual vacancy caused by the resignation of Mr. Andrew O'Regan in terms of Section 262 of Companies Act, 1956 and Article 98 of the Articles of Association of the Company, vacates office at this Annual General Meeting.

A notice has been received by the Company along with a deposit of Rs.500 from a Member under Section 257 of the Companies Act, 1956, proposing the appointment of Mr. Bandaranayake as a Director at this meeting having filed his consent with the Company to act as Director.

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 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.

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

The Board commends this Resolution for your approval.

### Item No. 6

Mr. V. Sekar who was appointed as a Director of the Company on 29th October, 2007 to fill the casual vacancy





caused by the resignation of Mr.T. Lakshmanan in terms of Section 262 of Companies Act, 1956 and Article 98 of the Articles of Association of the Company, vacates office at this Annual General Meeting.

A notice has been received by the Company along with a deposit of Rs.500 from a Member under Section 257 of the Companies Act, 1956, proposing the appointment of Mr. Sekar as a Director at this meeting having filed his consent with the Company to act as Director.

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.

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

The Board commends this Resolution for your approval.

#### **Item No. 7**

Mr. T. Lakshmanan who was appointed as Additional Director of the Company on 29th October, 2007 in terms of Section 260 of Companies Act, 1956 and Article 98 of the Articles of Association of the Company, vacates office at this Annual General Meeting.

A notice has been received by the Company along with a deposit of Rs.500 from a Member under Section 257 of the Companies Act, 1956, proposing the appointment of Mr. Lakshmanan as a Director at this meeting having filed his consent with the Company to act as Director.

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 resigned as a nominee Director from the Board of your Company and is appointed as an Additional Director.

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

The Board commends this Resolution for your approval.

#### **Item No. 8**

At the Seventy Second Annual General Meeting of your Company held on 24th July, 2003, the shareholders had approved the appointment of Mr. Raymond S. Noronha as Director and Managing Director of the Company with effect from 1st November, 2003 to hold office for a period of five years or up to the date of his retirement, whichever is earlier.

The Board of Directors at their meeting held on 17th April, 2008, have subject to the approval of the shareholders at the Seventy Seventh Annual General Meeting, re-appointed Mr. Noronha as a Managing Director of the Company to hold office for a period of two years from 1st November, 2008 to 31st October, 2010 (both days inclusive) or upto the date of his retirement whichever is earlier.

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.

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

The Board commends this Resolution for your approval.

The Resolution and the Explanatory Statement may be treated as the abstract of terms under Section 302 of the Companies Act, 1956.

By Order of the Board,

N. SAI SANKAR  
Secretary

Dated this 17th day of April, 2008.  
Azamabad, Hyderabad - 500 020,  
Andhra Pradesh.





# REPORT OF THE BOARD OF DIRECTORS & MANAGEMENT DISCUSSION AND ANALYSIS TO THE SHAREHOLDERS FOR THE YEAR ENDED 31ST MARCH, 2008

VST Industries Limited

The Directors of your Company have pleasure in presenting their Annual Report and Accounts for the year ended 31st March, 2008.

## Financial Results

Rs. Lakhs

The Net Profit for the year, after deducting all charges, expenses and taxation but before extraordinary item amounts to	.. .. .	5835.31
Adding thereto Profit brought forward from the previous year	... ..	<u>6440.96</u>
The amount available for disposal was	... ..	<u>12276.27</u>
Out of which the following appropriation has been made :		
General Reserve	... ..	<u>600.00</u>
Leaving a balance of	... ..	<u>11676.27</u>
Out of which your Board recommends	... ..	3613.25
Should be distributed as Dividend on the Ordinary Share Capital at the rate of Rs.20 per share and inclusive of Dividend Tax		
Leaving an undistributed amount of	.. .. .	<u><u>8063.02</u></u>
in the Profit and Loss Account to be carried forward to the following year.		

for reporting. Geographical segments considered for disclosure mainly consist of sales within India and sales outside India. The entire activity pertaining to sales outside India is carried out from India.

## Market Scenario

In spite of the twin challenges mentioned above, your Company was able to grow volumes by 1% during the current financial year. More heartening, was the change in mix with filters share improving substantially. The value for money filter brand "**Moments**" was launched during the last quarter of the year 2006-07 and continues to show promise. It is also pertinent to add that brands launched during the last five years, namely **Special Extra Smooth, Moments, Shaan, etc.** have continued to show great promise and **currently their share in the total volume is around 20%.**

The improved economic conditions as well as your Company's strategic thrust in concentrating on the tobacco business, have helped your Company to continue on the growth path despite great adversities.

The current Union Budget 2008-09 has dealt yet another unprecedented blow to the cigarette industry as a whole and has much more significant adverse effect on your Company in particular. The excise duty for non-filter cigarettes has been increased by **two and a half times to five times**, a selective increase not seen in the history of the cigarette industry. Upto length of 60mm brands the duty has been increased from Rs.168 per 1000 cigarettes to Rs.819 per 1000 cigarettes, **nearly 5 times.** For cigarettes between 60mm to 70mm, the excise duty has been increased from

## INDUSTRY STRUCTURE & DEVELOPMENT

The financial year 2007-08 was one of the most challenging one for the industry and in particular, for your Company. Two issues namely imposition of Value Added Tax (VAT) and Graphic Health Warnings (GHW) on cigarette packets dominated the year and made the markets remain in a turbulent state.

### Industry Issues

On 1st April, 2007, VAT on cigarettes was imposed for the first time in most markets where your Company operates. VAT being ad valorem in nature, is imposed on the invoice price and had an impact of 12.5% in the price to the consumer. This coupled with an

increase of 6% (inclusive of cess) in Excise Duties in the Union Budget 2007 resulted in increase of cigarette prices by more than 22%. It was expected that the industry would shrink in the current year as this rise was unprecedented in the cigarette industry. GHW has been the other issue which remained in news throughout the year. Originally scheduled for implementation during February, 2007, it was postponed a number of times during the year and the current revised date is June 2008. This uncertainty of the GHW being implemented resulted in creating uncertain market conditions through the year.

## SEGMENT WISE PERFORMANCE

Your Company considers tobacco and related products as the primary segment



Rs.546 per 1000 cigarettes to Rs.1323 per 1000 cigarettes, an increase of nearly **two and a half times**. On the other hand, Excise Duty rates for the entire filter segment, accounting for 70% of industry volume **remain unchanged**.

You are aware these two plain segments constitute around 55% of your Company's market and such record increases can only create significant competitive disadvantages for us in the market place. As this move by the Government is selectively punitive, representations have been made to the Finance Ministry in New Delhi and also been taken up by the industry to moderate duty increases. Nevertheless, your Company has responded to such challenges in the past and is confident that it will overcome the current crises. For the industry however, this translates to impact of 30% on volumes and it would be fair to estimate that there would be substantial reduction in volumes in these two segments, as to render them virtually insignificant.

During the year under review the cigarette volumes grew from 8653 mns in 2006-07 to 8823 mns in 2007-08. The value realizations were also higher at Rs.709.94 crore up from Rs.674.98 crore in the previous year.

### Leaf Tobacco

We are happy to report that your Company has recorded Rs.59.55 crore leaf export turnover, which is 32% higher than the year 2006-07, despite severe competition and rupee appreciation.

Your Company has established special tobaccos for niche markets, which are being produced by the large farmer base of your Company. This has helped in optimising the turnover and

profit and also helped in economic uplift of the backward regions. Your Company had entered into long term (10 years) tie-ups with potential customers for Oriental Tobacco development and marketing. We are now in the second year of commercial operations, and we look forward to 13% export growth for next three years. We have established markets with premium customers for Air cured Burley exports and Fire cured tobaccos and this will also ensure steady export growth in the years to come. Your Company continues to retain the premier status in Sun/Air/Fire cured tobaccos. There is however increased incidence of freelancers getting into development areas due to spurt in demand for Sun/Air/Fire cured tobaccos.

You will be pleased to learn that your Company's farmers continue to grow tobacco with lowest pesticide residue levels and well within international standards.

As a social responsibility to conserve greenery, your Company is continuing social forestry through afforestation and Trees for Life and also actively discouraging child labour involvement in tobacco growing/processing. Leaf function has been recommended for SA 8000 Certification by Registro Italiano Navale India (RINA).

## PRODUCTION AND PLANT MODERNISATION

### Primary Manufacturing Department (PMD)

Cut lamina conditioning tunnel has been installed in Lamina Cutting Line to ensure improved expansion and filling power.

Stem flattener has been installed in Stem Cutting Line to ensure better and consistent quality stem cutting.

On line moisture meter at drier entry and new design weigh feeders have been installed in Lamina Drying Line to achieve accurate moisture control.

Tobacco rejection in the processing lines has reduced by 0.86% over the last year.

### Secondary Manufacturing Department (SMD)

The following technology has been put in place in accordance with ongoing modernisation plan of Secondary Manufacturing Department, to improve productivity and quality -

- One Molins MK9 MTF 5500 cpm Making machine has been installed
- Direct transportation of CFCs from SMD Packing lines to the warehouse on the Plains line
- One GD HRC (Half Round Corner) packer with S90 Cig Reservoir & GD wrapper along with the Parceller has been installed. HRC Capacity increased by 100 Mnc/month
- One GD 121 - 12000 Filter making Machine along with Filter Shooter installed

## HUMAN RESOURCE DEVELOPMENT

Your Company's Human Resource Management focus continues to be in making available a talent pool, for meeting challenges in the competitive market place.

Development plans have been drawn up for key managers for job enrichment, as well as to increase effectiveness.

As on 31st March, 2008, your Company had a strength of 1,079 employees, with 275 management staff and 804 workmen.



## CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

Information in accordance with clause (e) of sub-section (1) of Section 217 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is given in the Annexure to this Report.

## ENVIRONMENT, HEALTH & SAFETY (EHS) AND COMMUNITY SERVICES

One Year Accident Free Award and EHS Merit Award for working 3 million man hours without a lost workday case injury were received from British American Tobacco Company on 20th February, 2008.

Gold Award for the year 2007 was given by Royal Society for Prevention of Accidents (RoSPA), UK for maintaining highest standards in occupational health and safety.

Safety Innovation Award for the year 2007 was awarded to your Company by Safety & Quality Forum, Institute of Engineers (India) for implementing innovative safety management systems.

Environment, Health and Safety (EHS) in day-to-day business operations is given very high priority by your Company. 350 employees and 11 contractors had undergone EHS training programme during the period to comply with the Company EHS guidelines. Involvement by workmen in Quarterly EHS reviews along with staff members and periodical inspections have kept the performance monitoring on vigil. Quarterly and Annual EHS audits of Company operations, including leaf godowns, was carried out to ensure compliance of EHS

requirements to measure the EHS progress. EHS Road Map rating for your Company was assessed at 3.52 on a scale of 4.0 for the year 2007.

Your Company celebrated National Safety Day on 4th March, 2008 by conducting Safety Meetings inside factory and all contractors attended a safety programme conducted by National Safety Council.

Surveillance Reviews of ISO 14001: 2004 & OHSAS 18001 for the year 2007 by Registro Italiano Navale India (RINA) revalidated the Company's certifications.

On the environmental side, as a responsible corporate citizen your Company continues to put in sustained efforts in the upkeep and improvisation of existing systems like scrubber, dust removal fan, rain water harvesting pits, effluent treatment plant with soil bio technology.

Statutory compliances are in place.

The thrust on EHS will continue while emphasizing the focus on Best International Work practices.

## FINANCE

### a. Profits

The Profit After Tax for the year at Rs.58.35 crore is the highest ever recorded by the Company in its history. Tight Working Capital Management and cost control measures with specific emphasis on non-value added activities have contributed to improvement in profitability. Further your Company's focus on improving the tobacco business has yielded favourable results.

The performance is all the more commendable, having been achieved under the most difficult conditions.

### b. Treasury Operations

Your Company continues to follow a conservative approach in deploying its temporary surplus funds. Predominantly these have been invested in Fixed Maturity Plans (Debt Scheme). A very small portion has been deployed in Equity Schemes.

Capital preservation with optimal returns has been the principle the Company has been following consistently.

## ENTERPRISE RESOURCE PLANNING (ERP)

Your Company has now upgraded to the latest version ECC 6 of SAP, ERP. Your Company has formed a Core Team in-house to manage the issues arising out of SAP. M/s. Wipro Limited continue to be our partner for IT infrastructure maintenance.

Alignment of business process is an ongoing process and your Company is able to achieve improved benefits using SAP, ERP.

## FIXED DEPOSITS

As on 31st March, 2008 your Company does not have any deposits for the purpose of its business. Letters have been written to 4 depositors who did not claim their deposits (amounting to Rs.18,000), before and after the date of maturity for repayment.

Your Company has stopped accepting fresh deposits for the last several years.

## RATING

The Credit Rating Information Services India Limited (CRISIL) have re-affirmed the rating of your Company at "FAAA" for Fixed Deposit Schemes and at "AA+" for Long Term Non-convertible Debentures.



## UNCLAIMED DIVIDENDS

Your Company had by its letter dated 25th October, 2001 communicated to all shareholders about the promulgation of Rules pertaining to the Investor Education and Protection Fund. Dividends which remain unpaid or unclaimed for a period of seven years would be deposited in the Investor Education and Protection Fund. The final dividend for the year ended 31st March, 2001 remaining unpaid would be deposited by 18th July, 2008 in accordance with Section 205C read with Investor Education and Protection Fund (Awareness and Protection of Investors) Rules, 2001.

## CORPORATE GOVERNANCE

The Company's Report on Corporate Governance is annexed to this Report.

Certificate of the Auditors of your Company regarding compliance of the conditions of Corporate Governance as stipulated in Clause 49 of the Listing Agreement with stock exchanges is annexed to this Report.

Your Company has taken adequate steps for strict compliance with the Corporate Governance provisions including the revisions made from time to time.

## INTERNAL CONTROL SYSTEMS

Your Company remains committed to improving the effectiveness of internal control environment which provides assurance on the efficiency of operations and security of its assets.

The internal audit process captures the control environment prevalent in the organization. Over a period of three years, the entire business process of your Company is reviewed, potential high risk areas identified and steps to mitigate these are put in place.

The Audit Committee of your Board met four times during the year. Review of audit observations covering the operations, consideration of accounts on a quarterly basis and monitoring the implementation of audit recommendations were the key areas of focus. The Statutory Auditors/Internal Auditors were invited to attend all the Audit Committee meetings and share their views on adequacy of internal controls as well as their findings.

The self-evaluation system which was put in place in the previous year on internal controls has been working effectively.

Internal control guidelines covering the entire business process has been put in place. This will be reviewed on a continuous basis and would form an effective tool for improving internal controls on a continuous basis.

## Risk Management

Risk Management is monitored by a Committee comprising members from various functions. The Committee meets periodically to identify the potential risks as well as to take adequate steps for mitigating the risks so identified. These are subject to reporting at every Board Meeting.

## DIRECTORS

### Directors retiring by rotation

In accordance with Article 93 of the Articles of Association of your Company, Air Chief Marshal I.H. Latif (Retd.) and Mr. Raymond S. Noronha retire from the Board and being eligible, offer themselves, for re-election. Your Board recommends their re-appointment.

#### a. 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 was 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 organisation 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.

#### b. 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 was 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.

## **Directors' Resignation and Appointments**

### **a. Mr. Jayampathi Divale Bandaranayake**

Mr. J.D. 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 the 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 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., Coca 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.

The Board of Directors place on record their deep appreciation of the contribution made to your Company by Mr. Andrew O'Regan.

### **b. 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 the 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.

### **c. 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 the 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.

Separate Resolutions for the appointments of Mr. J.D. Bandaranayake, Mr. V. Sekar and Mr. T. Lakshmanan are being put up for your approval.

## **DIRECTORS' RESPONSIBILITY STATEMENT**

Pursuant to Section 217(2AA) of the Companies (Amendment) Act, 2000 the Directors confirm that:

1. in the preparation of the Annual Accounts, the applicable accounting standards have been followed;



2. appropriate accounting policies have been applied consistently. Judgement and estimates which are reasonable and prudent have been made so as to give a true and fair view of the state of affairs of your Company as at the end of the financial year and of the profit of your Company for the period;
3. proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of your Company and for preventing and detecting fraud and other irregularities;
4. the Annual Accounts have been prepared on a going concern basis.

## TAXATION

### i. Income Tax

It may be recalled that your Company had diversified into Financial Services Business and Foods Business in the early nineties. Subsequently in the year 1998-99, your Company incurred a total loss of Rs.38.67 crore of which Rs.29.70 crore was claimed as loss under the head "Income from Business" and Rs.8.97 crore was claimed as a capital loss under the provisions of the Income Tax Act.

The Income Tax Appellate Tribunal allowed the entire amount of Rs.38.67 crore as a capital loss. It may be noted that the department had treated the entire loss as a "Speculation Loss".

Your Company has preferred to appeal the matter in the High Court.

Further in connection with its divestment from the Foods Business

in the financial year 1999-2000, your Company had incurred a total loss of Rs.53.68 crore, of which Rs.44.18 crore was claimed as a loss under the head "Income from Business" and Rs.9.50 crore was claimed as a capital loss under the provisions of the Income Tax Act. The Income Tax Department has disallowed the entire amount excepting Rs.5.70 crore which was allowed as a capital loss. The Commissioner of Income Tax (Appeals) further allowed Rs.11.24 crore out of the balance amount of Rs.47.98 crore, on appeal before him. Your Company has preferred an appeal against the above order and the matter is now before the Income Tax Appellate Tribunal.

Consequent to the above orders, Income Tax Department had issued consequential orders under Section 154 of the Income Tax Act demanding Rs.28.86 crore (revised) which was paid by your Company.

### ii. Luxury Tax

A Contempt Petition has been filed in the Supreme Court by the Commercial Tax Officer, on behalf of the Government of Andhra Pradesh against the Managing Director of your Company alleging contempt of the Supreme Court's judgement dated 20th January, 2005 setting aside levy of Luxury Tax, due to failure to pay an amount of Rs.34.86 crore being the Luxury Tax allegedly collected from the customers by the Company after passing of the interim order dated 1st June, 1999, but not paid to the State Government of Andhra Pradesh which is in violation of the judgement dated 20th January, 2005 of the Supreme Court. An

amount of Rs.29.81 crore has also been claimed as interest thereon @24% per annum. The matter is still pending at the admission stage in the Supreme Court. Your Company and the Managing Director have both filed separate counter affidavits strenuously denying that there has been any contempt on their part, of the said Supreme Court judgement.

### iii. Entry Tax

Entry Tax has been struck down by virtually every High Court in the country including those in the States of Uttar Pradesh, Andhra Pradesh, Kerala, Tamil Nadu and Assam broadly on the ground that it is violative of Article 301 and not saved under Article 304(b) of the Constitution as it is not compensatory in nature as required in terms of the Supreme Court judgement in case of M/s. Jindal Stainless Limited. Your Company has stopped paying/providing for Entry Tax in all these states. In Assam and Tamil Nadu, Division Benches of the Guwahati and Madras High Court respectively have upheld your Company's contention that the Entry Tax is unconstitutional. Appeals have been filed by the state governments in the Supreme Court and tagged along with those relating to other states in the batch of cases attached to Jindal Steels. Your Company is in the process of seeking refund of Entry Tax excess paid in Assam.

### iv. Value Added Tax

The Cigarette Industry was brought under the Sales Tax Regime for the first time from 1st April, 2007 consequent to amendment of the Central Sales Tax Act, 1956 and



Additional Duties of Excise (Goods of Special Importance) Act, 1956 enabling States to levy Value Added Tax (VAT). All major states in which your Company operates in, have since levied VAT @12.5% on sale of cigarettes.

## EXCISE

### i. Gay Wrappers

The Excise Department had demanded an amount of Rs.3.62 crore (including penalty and interest @24%) from your Company on the ground that Gay Wrappers (printed paper used for wrapping cigarette packets) had been manufactured and consumed by your Company without payment of duty during the period April 1996 to March 2002. Your Company had preferred an Appeal to the Customs, Excise and Service Tax Appellate Tribunal, Bangalore which had initially granted a complete stay against pre-deposit of the amounts demanded. Subsequently, the Tribunal by its Order dated 8th October, 2004 had set aside the demands and allowed your Company's Appeal. The Excise Department has filed an Appeal against the said Order in the Supreme Court which is still pending. Notices have been received by your Company for subsequent periods, which are also pending.

### ii. North-East

Your Company had assisted its four contract manufacturers to clear the liability of the entire principal amount of Rs.31.20 crore demanded by the Excise Department consequent upon the Supreme Court upholding Section

154 of the Finance Act, 2003 in terms of its Order dated 19th September, 2005. The Excise Department has now demanded a sum of Rs.6.90 crore from two contract manufacturers by way of interest. Your Company is given to understand that the contract manufacturers have been advised that the levy of interest in the manner contemplated is contrary to law and therefore two of them have taken steps to seek appropriate legal remedies in the Guwahati High Court.

Out of the total interest demand of Rs.12.69 crore an amount of Rs.10.67 crore is outstanding on date.

### iii. Misclassification of Plain cigarettes

The Excise Department has issued a show cause notice dated 5th February, 2008 on your Company demanding differential duties of about Rs.41.12 crore covering the period from July 2003 to December 2007 on account of alleged misclassification of filter cigarettes as non-filter cigarettes. This is with regard to manufacture of certain brands of non-filter cigarette where the mouth-end of the cigarette rod comprising of Cut Rag Stem (CRS) has been considered by the Department to be a filter and differential duty demanded as payable for a filter cigarette. The Department's contention is baseless and contrary to facts. Accordingly, your Company is taking necessary steps to resist the demand by following the departmental remedies.

### iv. Post Manufacturing Expenses

Your Company has been involved in a long running dispute with the

Excise Department spread over three decades on deduction of allowable post manufacturing expenses for the period 1st March, 1975 to 28th February, 1983 and finalization of provisional assessments for that period. Although your Company had already won the case on merits up to the level of the Supreme Court, the Department had refused to grant refund of Rs.7.15 crore on ground of unjust enrichment. This has now been settled in favour of your Company by the Hon'ble High Court of Andhra Pradesh in terms of their recent judgement dated 24th September, 2007. Consequently, your Company has received a refund of the above amount along with interest of Rs.5.46 crore. As a matter of prudence, the said amount of refund received has not been accounted in the Profit & Loss Account for the year ended 31st March, 2008.

## PUBLIC INTEREST LITIGATION

### Smoking & Health

- i. A Public Interest Petition has been filed in the Delhi High Court by the Tobacco Control Foundation of India (TCFI) against the Government and the cigarette manufacturers seeking a complete ban on the manufacture and sale of tobacco. The Foundation also has sought directions for an increase in taxation rates and deposit of Rs.1802 crore (of which your Company's share is Rs. 65 crore), for setting up of a Smokers' Welfare Fund along with other reliefs. An amended petition was filed by TCFI on 19th February, 2006 seeking directions to the Government to include an





excise tax structure which penalises those cigarettes containing 100% tobacco with twice the excise duty rate, while giving incentives to those who reduce tobacco content by 25%. The said prayer was not approved by the Court. TCFI filed another application seeking directions for all the tobacco companies to adopt harm reduction strategy to curb tobacco consumption instead of seeking an outright ban of cigarettes. On 9th January, 2008, at the request of TCFI itself, the Delhi High court dismissed the petition as withdrawn.

- ii. Another Public Interest Petition has been filed in the Supreme Court by M/s. Narinder Sarma and Himanshu Sarma, Advocates, against various cigarettes, zarda, pan masala and beedi manufacturers including your Company and the Tobacco Institute of India seeking proper and prompt implementation of the Cigarettes and Other Tobacco Products (Prohibition of Advertisement and Regulation of Trade and Commerce, Production, Supply and Distribution) Act, 2003 and other health related warnings. The matter came up for admission on 25th January 2008 and notice was ordered. Your Company has already received the notice and will be taking steps along with other members of the industry and the Tobacco Institute of India to defend itself in these proceedings.

### FINANCIAL SERVICES BUSINESS

Your Company had entered into the Financial Services Business in 1993 through its subsidiary company, VST

Investments Limited (VSTI). Since your Company wanted to exit from the financial services business, VSTI was amalgamated with ITC Agro Tech Finance and Investments Limited (ITCATF) with effect from 1st April, 1996 and the said amalgamation was approved by the Hon'ble A.P. High Court by its Order dated 30th December, 1996. However, certain amounts due to your Company remained with ITCATF.

Your Company had also nominated two of its employees as directors on the Board of ITCATF to look after the investments and seek their recovery. Subsequently, ITCATF went into losses and eventually a winding up petition was instituted. The Andhra Pradesh High Court, by an Order dated 28th June, 2001 directed winding up of ITCATF and appointed the Official Liquidator (OL) as its Liquidator to take necessary steps. A Company petition was filed by the OL in the Hon'ble A.P. High Court seeking directions to some of the ex-Directors of ITCATF to file a Statement of Affairs which had not been done. An application was also filed by the OL against some of the Directors of ITCATF (in liquidation) for a direction to deliver possession of the assets, books and records of ITCATF and pursuant to the said directions, some records pertaining to ITCATF were received by the OL. The Hon'ble A.P. High Court decided to implead your Company along with ITC Limited and Agro Tech Foods Limited in order to assist in the matter. Discharge petitions have been filed by all five ex-Directors of ITCATF and their trial commenced. Meanwhile, one of the ex-Directors has filed the Statement of Affairs in the prescribed format.

By order dated 28th February, 2006, the Hon'ble A.P. High Court had directed

investigation into the matter to find out the whereabouts of records and documents. Your Company along with ITC filed an Appeal against this order and the Division Bench was pleased to grant stay of the said Order. By its Order dated 10th July, 2007, the Division Bench was pleased to allow your Company's appeal and directed the Regional Director, Corporate Affairs, Chennai to conduct an investigation and submit a report showing who were the persons who promoted ITCATF and who were the persons responsible for running its affairs until its winding up. This investigation is still in progress.

In the meantime, one of the ex-Directors of ITCATF filed an application for the Court to summon original documents and also to recall the OL for cross examination. This was dismissed by a single judge of the Hon'ble A.P. High Court by its Order dated 27th September, 2006. Against this an Appeal was filed before the Division Bench who, by Order dated 12th February, 2007, were pleased to grant stay of proceedings until further orders. As a result of this, the learned single judge of Hon'ble A.P. High Court has indefinitely stayed further proceedings in the trial of the five ex-Directors of ITCATF.

### THE CIGARETTES AND OTHER TOBACCO PRODUCTS (PROHIBITION OF ADVERTISEMENT AND REGULATION OF TRADE AND COMMERCE, PRODUCTION, SUPPLY AND DISTRIBUTION) ACT, 2003

Some of the provisions of the above Act have come into force with effect from 1st May, 2004. These include ban on advertising in print and visual media, ban on out door advertising, regulation of on-store advertising, ban on smoking in public places, prohibition of sale of cigarettes to persons below the age of 18 years, etc.



For the first time, the tobacco industry has been told to print the prescribed graphic health warnings on all its product packing. The Cigarettes and Other Tobacco Products (Packaging & Labelling) Rules, 2006 had originally prescribed pictorial warnings along with health messages and sign of skull and cross bones. However, due to vociferous objections from various sections of the industry and public, a Committee of a Group of Ministers was constituted to relook at the warnings. Based on their recommendations, a new set of labelling requirements have been prescribed under the Cigarettes and Other Tobacco Products (Packaging and Labelling) Rules, 2008 which were published on 16th March, 2008. These revised labelling requirements have to be implemented within three months from the date of notification, which is yet to be published. Your Company is once again taking various steps to comply with the revised labelling requirements which will involve considerable amount of investment in addition to the amount already spent, to develop the required

printing technology and also to redesign all the packaging in accordance with the labelling rules.

#### **COMPANY EMPLOYEES**

Under the provisions of Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 as amended, the particulars of employees are set out in annexure to this Report.

Your Directors take this opportunity to record their deep appreciation of the continuous support and contribution from all employees in your Company.

#### **AUDITORS**

The Auditors, Messrs. Lovelock & Lewes, Chartered Accountants, retire at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

#### **THE FUTURE**

The severe blow dealt by the Union Budget has raised significant &

unprecedented challenges on your Company.

The focus of your Company will continue to remain on cigarettes with greater thrust on improving market share in both existing as well as new geographies. Efforts would be made to improve the share of filters in the total portfolio. Despite the plain and micro segment markets being currently in severe disruption, the Company is hopeful of mitigating the current difficult conditions as much as possible. Your Company is also committed to improving the export turnover of unmanufactured tobacco with thrust on new crop varieties.

On behalf of the Board,

A. BASU  
Chairman

Dated this 17th day of April, 2008.  
Azamabad, Hyderabad - 500 020,  
Andhra Pradesh.



## ANNEXURE TO THE DIRECTORS' REPORT

Information in accordance with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, and forming part of the Directors' Report for the year ended 31st March, 2008.

### A. CONSERVATION OF ENERGY

1. Energy conservation measures taken:
  - i. Modification to PMD Utility System
  - ii. Replaced old Air Lift Fans with Energy Efficient Fans
  - iii. Operating lighting load at optimum usage
  - iv. Generate awareness among employees towards Energy Conservation
  - v. Energy Efficient Water Pumping System
  - vi. Upgraded Harmonic Filters
  - vii. New efficient Earth Pits
2. Additional investments and proposals, for motors if any, being implemented for reduction of consumption of energy:
  - i. VFDs for Boiler fans & Pumping System
  - ii. Energy Efficient Motors
  - iii. Automation for Compressed air system
  - iv. Modification to SMD Vacuum Pumping
3. Impact of the measures at (1) & (2) above for reduction of energy consumption and consequent impact on the cost of production of goods:

Achieved on account of the above:

- i. Savings - 3.2% of electrical energy consumption

### B. TECHNOLOGY ABSORPTION Research & Development (R&D)

1. Specific areas in which R&D carried out by the Company:
  - i. Developed new Blends as per domestic and export requirements
  - ii. Developed new Brands in various segments as per market requirements/General Consumer Survey feedback
  - iii. Worked closely with international suppliers of Tobacco flavors and developed new flavors for new blends
  - iv. Introduced new technology at PMD & SMD to improve cut tobacco & finished product quality
  - v. Trained all workmen and gave inputs with respect to technical skills development and product quality awareness, evaluation & improvement
  - vi. Introduced two more parameters analysis (Ash & silica content in tobacco) at R&D
2. Benefits derived as a result of the above R&D:
  - i. Launched new brands/variants in domestic market
  - ii. Met export requirements from time to time

- iii. Improved Product Quality Indices (for Filters 86.5 to 87.3 & for Plains 84 to 85) and WMS utilisation
- iv. R&D is equipped with all the parameters of Cigarette analysis as per export market Government rules/guidelines

### 3. Future plan of action:

- i. Development of new blends & brands as per domestic and export market requirements
- ii. To give further technical inputs to technical staff and workmen to further improve product quality, EHS rating & utilization of tobacco and non tobacco materials
- iii. NABL Certification for R&D Laboratory - a recognition by Department of Science & Technology, Government of India - accepted by Government authorities - Export markets - world wide

Expenditure on R&D	Rs.Lakhs
a. Capital	15.46
b. Recurring	279.68
<b>TOTAL</b>	<b>295.14</b>
c. Total R&D expenditure as a percentage of:	
Gross Turnover	0.38 %
Net Turnover	0.87 %

### C. FOREIGN EXCHANGE EARNINGS AND OUTGO

1. Activities relating to exports:
  - i. Your Company is exporting Cut Tobacco & Finished Product to various export markets



<p>ii. Your Company is marketing Dark Fire Cured, Light Soil Burley, Oriental, Flue Cured tobacco and other Sun/Air Cured tobacco</p> <p>iii. Improved leaf growing technology for quality / farm yield improvement and minimizing TSNA levels. Creating awareness to minimize / eliminate NTRM (Non-tobacco related material)</p> <p>iv. To increase the exports further, tie up with merchant companies, production of low pesticide residue</p> <p>v. Upgradation of processing &amp; manufacturing technology</p> <p>2. Initiatives taken to increase exports and development of new export</p>	<p>markets for products &amp; services and export plans:</p> <p>i. Selection of tobacco, smoke analysis, on-line testing of cigarettes produced</p> <p>ii. Modernisation of process and technology to upgrade quality</p> <p>3. Total Foreign Exchange: Rs.Lakhs Used:</p> <p>Raw Materials : 515.82</p> <p>Spare Parts : 59.83</p> <p>Capital Goods : 2571.36</p> <p>Overseas Travel, Advertisement &amp; Subscriptions, etc. : 127.38</p> <p>Dividends : <u>993.18</u></p> <p style="text-align: right;"><u><u>4267.57</u></u></p>	<p>Earned:</p> <p>Cigarettes (CIF, C&amp;F &amp; FOB) : 38.44</p> <p>Tobacco (CIF, C&amp;F &amp; FOB) : 5955.25</p> <p>Cut Tobacco (CIF, C&amp;F &amp; FOB) : <u>163.64</u></p> <p style="text-align: right;"><u><u>6157.33</u></u></p> <p style="text-align: right;">On behalf of the Board,</p> <p style="text-align: right;">A. BASU Chairman</p> <p>Dated this 17th day of April, 2008. Azamabad, Hyderabad - 500 020, Andhra Pradesh.</p>
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**ANNEXURE TO THE DIRECTORS' REPORT****Information under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the year ended 31st March, 2008**

Name	Age	Qualifications	Designation & Nature of Duties	Date of Commencement of Employment	Experience in years	Remuneration Received/Receivable Rs.	Last Employment
<b>Employed throughout the Financial Year</b>							
Devraj Lahiri	35	B.Com., M.B.A.	Vice President - Brands	12-03-2001	10	35,93,334	NFO Singapore
Madhava Reddy Y.	55	B.Sc.(Ag.)	Vice President - Leaf	15-09-1976	31	43,92,419	-
Ramadhar Reddy B.	51	B.Com., M.B.A., Diploma in Labour Law	Vice President - HR	13-11-2000	28	38,64,784	Ballarpur Industries Ltd.
Raymond S. Noronha	57	B.A.(Hons.)	Managing Director	01-11-1998	34	2,19,64,798	British American Tobacco Co., Mauritius
Sai Sankar N.	50	B.Com.(Hons.), F.C.A., F.I.C.W.A., F.C.S.	Finance Director & Secretary	17-03-1995	27	1,25,58,202	Finance Manager, Palmtech India Ltd.
Sanjay Khanna	52	B.A., LL.B.	Corporate General Counsel	15-03-1983	27	28,81,240	Advocate in the office of Mr. K.Srinivasamurthy
Dr. Subba Rao M.	57	M.Sc., Ph.D.	Vice President - Technical	06-11-1984	31	47,15,689	Scientific Officer - Bhabha Atomic Research Centre, Mumbai.
<b>Employed for the part of the Financial Year</b>							
Venkatnarayan Rao J.	58	L.E.E.	Shift Manager-Secondary Manufacturing Department	01-10-1971	35	2,99,684	-

**NOTES:**

- All appointments are/were contractual.
- No Director is related to any other Director or employee of the Company listed above.
- Remuneration Received/Receivable includes salary, dearness allowance, bonus, commission, medical expenses, leave travel assistance, compensation, the Company's contribution to Provident Fund and other Funds, rent/allowance paid for providing residential accommodation and where it is not possible to ascertain the actual expenditure incurred by the Company in providing a perquisite, the monetary value of such perquisite is calculated in accordance with the Income Tax Act, 1961, and the Rules made thereunder.

On behalf of the Board,

Dated this 17th day of April, 2008.  
Azamabad, Hyderabad - 500 020,  
Andhra Pradesh.

A. BASU  
Chairman

**STATEMENT REGARDING SUBSIDIARY COMPANY****Pursuant to Section 212 of the Companies Act, 1956**

Name of the Subsidiary	Holding Company's Interest: Entire Issued Share Capital Comprising of:		Net aggregate amount of Subsidiary's Profit/(Loss) not dealt with in the Holding Company's Accounts	
	Financial Year Ended	Equity Shares of Rs.10 each fully paid	Current Financial Year	Previous Years
		Nos.	Rs. in Lakhs	Rs. in Lakhs
VST Distribution, Storage & Leasing Company Private Limited	31st March, 2008	50,000	12.43	148.03

## NOTE :

Net aggregate of Subsidiary's Profit / (Loss) dealt with in the Holding Company's Accounts:

- |                           |     |
|---------------------------|-----|
| a. Current Financial Year | Nil |
| b. Previous Year          | Nil |

Hyderabad, 17th April, 2008.

On behalf of the Board,

A. BASU	Chairman
R.S. NORONHA	Managing Director
N. SAI SANKAR	Finance Director & Secretary



## 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 <sup>1</sup>	Non-Executive Director	None	8	Nil
Air Chief Marshal I.H. Latif (Retd.)	Independent Non-Executive Director	None	–	Nil
Mr. T. Lakshmanan <sup>2</sup>	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 <sup>3</sup>	Non-Executive Director	None	7	Nil
Mr. V.Sekar <sup>4</sup>	Independent Non-Executive Director	None	1	Nil

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

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

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

<sup>4</sup> 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 <sup>1</sup>	5	1	Not applicable <sup>2</sup>
Mr. V. Sekar <sup>1</sup>	5	1	Not applicable <sup>2</sup>

<sup>1</sup> Appointed as Director on 29th October, 2007.

<sup>2</sup> 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](http://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.



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

### 3. GENERAL BODY MEETINGS

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

Year	Venue	Date	Time
2006-07	Hotel Taj Krishna, Banjara Hills, Hyderabad	18.7.2007	10.30 a.m.
2005-06	Hotel Taj Krishna, Banjara Hills, Hyderabad	27.7.2006	10.30 a.m.
2004-05	Hotel Viceroy, Tankbund Road, Hyderabad	28.7.2005	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 18th July, 2007** - No special resolutions were passed

**Annual General Meeting held on 27th July, 2006**

- Variation in the remuneration payable to Wholetime Director
- To delist the Company's shares from The Hyderabad Stock Exchange Limited

**Annual General Meeting held on 28th July, 2005**

- Re-appointment of Wholetime Director
- Amendment of Articles of Association of the Company relating to dematerialisation and notice period for Managing and Wholetime Director

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

### 4. MEANS OF COMMUNICATION

- The quarterly, half yearly and annual results are published in Business Standard and in a vernacular newspaper i.e., Andhra Bhoomi. The annual results are now being 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**

Thursday, 17th July, 2008, at 10.30 a.m. at Hotel Taj Krishna, Road No.1, Banjara Hills, Hyderabad - 500 034, Andhra Pradesh.

#### **Financial Calendar 2008 - 2009 (Tentative)**

First Quarter Results	July, 2008
Second Quarter and Half Yearly Results	October, 2008
Third Quarter Results	January, 2009
Annual Results	April, 2009



**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.

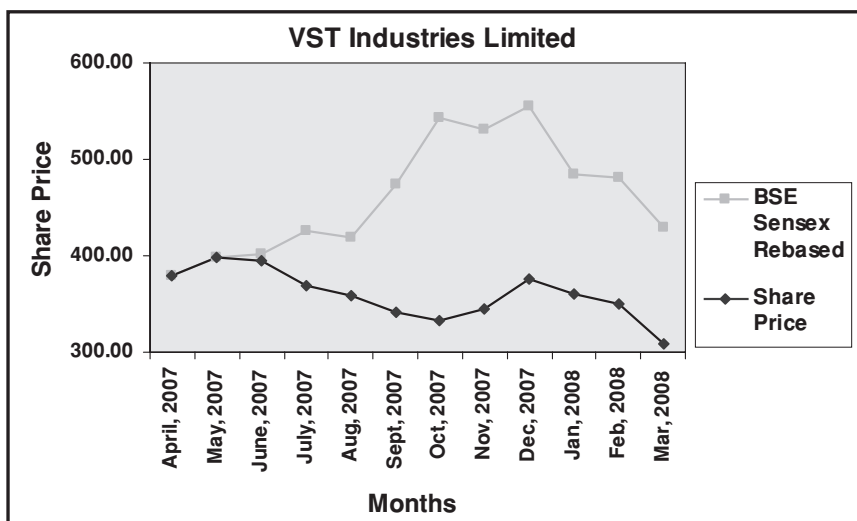
**Market Price Data: High/Low during each month in the last financial year (2007-08)**

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
<b>TOTAL</b>	<b>1,54,41,920</b>	<b>100.00</b>

### **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
<b>TOTAL</b>	<b>1,54,41,920</b>	<b>100.00</b>	<b>10,482</b>	<b>100.00</b>
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.



## REPORT OF THE AUDITORS

To the Members of  
VST Industries Limited

1. We have audited the attached Balance Sheet of VST Industries Limited ("the Company"), as at 31st March, 2008, the related Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto, which we have signed under reference to this report. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of 'The Companies Act, 1956' of India (the 'Act') and on the basis of such checks of the books and records of the Company as we considered appropriate and according to the information and explanations given to us, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:
  - (a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
    - (b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
    - (c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
    - (d) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Act;
    - (e) On the basis of written representations received from the Directors, as on 31st March, 2008, and taken on record by the Board of Directors, none of the directors is disqualified as on 31st March, 2008, from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act;
    - (f) In our opinion and to the best of our information and according to the explanations given to us, the said financial statements together with the notes thereon and attached thereto give in the prescribed manner the information required by the Act and give a true and fair view in conformity with the accounting principles generally accepted in India:
      - i. in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2008;
      - ii. in the case of the Profit and Loss Account, of the profit for the year ended on that date; and
      - iii. in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

SRINIVAS TALLURI

Partner

Membership No. 29864

For and on behalf of

LOVELOCK & LEWES

Chartered Accountants

Hyderabad, 17th April, 2008.



## ANNEXURE TO THE AUDITORS' REPORT

[Referred to in paragraph 3 of the Auditors' Report of even date to the Members of VST Industries Limited on the financial statements as at and for the year ended 31st March, 2008.]

1. (a) The Company is maintaining proper records showing full particulars including quantitative details and situation of fixed assets.  
(b) The fixed assets of the Company are physically verified by the management according to a phased programme designed to cover all the items over a period of three years, which in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. Pursuant to the programme, a portion of the fixed assets of the Company has been physically verified by the management during the year and no material discrepancies between the book records and the physical inventory have been noticed.  
(c) In our opinion, and according to the information and explanations given to us, a substantial part of fixed assets has not been disposed off by the Company during the year.
2. (a) The inventory of the Company has been physically verified by the management during the year according to a phased programme normally so designed that each material item is physically verified at least once in a year and at more frequent intervals in appropriate cases. In our opinion the frequency of verification is reasonable.  
(b) In our opinion, the procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.  
(c) On the basis of our examination of the inventory records, in our opinion, the Company is maintaining proper records of inventory. The discrepancies noticed on physical verification of inventory as compared to book records were not material.
3. (a) The Company has not granted any loans, secured or unsecured, to companies, firms or other parties covered in the register maintained under Section 301 of the Act.  
(b) The Company has not taken any loans, secured or unsecured, from companies, firms or other parties covered in the register maintained under Section 301 of the Act.
4. In our opinion and according to the information and explanations given to us, having regard to the explanation that certain items of fixed assets purchased are of special nature for which suitable alternative sources do not exist for obtaining comparative quotations, there is an adequate internal control system commensurate with the size of the Company and the nature of its business, for the purchase of inventory, fixed assets and for the sale of goods. The activities of the Company do not involve sale of services. Further on the basis of our examination of the books and records of the Company and according to the information and explanations given to us, we have neither come across nor have been informed of any continuing failure to correct major weaknesses in the aforesaid internal control system.
5. According to the information and explanations given to us there have been no contracts or arrangements referred to in Section 301 of the Act, during the year to be entered in the register required to be maintained under that section. Accordingly, commenting on transactions made in pursuance of such contracts or arrangements does not arise.
6. In our opinion and according to the information and explanations given to us, the Company has complied with the provisions of Sections 58A and 58AA and other relevant provisions of the Act and the Companies (Acceptance of Deposits) Rules, 1975 with regard to the deposits accepted from the public. According to the information and explanations given to us, no Order has been passed by the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other tribunal on the Company in respect of the aforesaid deposits.
7. In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.
8. The Central Government of India has not prescribed the maintenance of cost records under clause (d) of sub-section (1) of Section 209 of the Act for any of the products of the Company.
9. (a) According to the information and explanations given to us and the records of the Company



examined by us, in our opinion, the Company is generally regular in depositing the undisputed statutory dues including provident fund, investor education and protection fund, Income Tax, Sales Tax, Wealth Tax, Service Tax, Customs Duty, Excise Duty, Cess and other material statutory dues as applicable with the appropriate authorities. Employees' state insurance is not applicable to the Company for the current year.

(b) According to the information and explanations given to us and the records of the Company examined by us, the particulars of dues of Income Tax, Sales Tax, Wealth Tax, Service Tax, Customs Duty, Excise Duty and Cess, which have not been deposited on account of a dispute (without considering cases wherein the disputed dues have been deposited under protest) are as follows:

Name of the statute	Nature of dues	Amount Rs. in Lakhs	Period to which the amount relates	Forum where the dispute is pending
The Central Excise Act, 1944	Excise duty on Printed Gay Wrappers	129.14	April 1996 to March 2002	Hon'ble Supreme Court of India
The Central Excise Act, 1944	Excise duty on Printed Gay Wrappers	102.96	April 2002 to November 2007	*
Andhra Pradesh General Sales Tax Act, 1957	Sales tax dues relating to dispute on applicable rate of tax	14.39	Financial Year 1999 - 2000	Sales Tax Appellate Tribunal

\* Same grounds as the above matter pending at Hon'ble Supreme Court of India.

10. The Company has no accumulated losses as at 31st March, 2008, and it has not incurred any cash losses in the financial year ended on that date or in the immediately preceding financial year.
11. The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
12. The provisions of any special statute applicable to chit fund/nidhi/mutual benefit fund/societies are not applicable to the Company.
13. In our opinion, the Company is not a dealer or trader in shares, securities, debentures and other investments.
14. In our opinion, and according to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions during the year.
15. The Company has not obtained any term loans.
16. On the basis of an overall examination of the Balance Sheet of the Company, in our opinion and according to the information and explanations given to us, there are no funds raised on a short-term basis which have been used for long-term investment.
17. The Company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Act, during the year.
18. The Company has not raised any money by public issues during the year.
19. During the course of our examination of the books and records of the Company, carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, we have neither come across any instance of fraud on or by the Company, noticed or reported during the year, nor have we been informed of such case by the management.
20. The other clauses, (iii) (b), (iii) (c), (iii) (d), (iii) (f), (iii) (g), (xi) and (xix) of paragraph 4 of the Companies (Auditor's Report) Order, 2003, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004, are not applicable in the case of the Company for the current year, since in our opinion there is no matter which arises to be reported in the aforesaid order.

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

Hyderabad, 17th April, 2008.



# BALANCE SHEET AS AT 31ST MARCH, 2008

Rs. in Lakhs

	Schedule	2008	2007
<b>I. SOURCES OF FUNDS</b>			
<b>1. Shareholders' Funds</b>			
(a) Capital	1	1544.19	1544.19
(b) Reserves and Surplus	2	<u>21649.01</u>	<u>19479.16</u>
TOTAL		<u>23193.20</u>	<u>21023.35</u>
<b>II. APPLICATION OF FUNDS</b>			
<b>1. Fixed Assets</b>			
(a) Gross Block	3	23058.25	19325.99
(b) Less : Depreciation		<u>11172.72</u>	<u>9843.38</u>
(c) Net Block		11885.53	9482.61
(d) Capital Work-in-Progress		<u>286.83</u>	<u>225.37</u>
		12172.36	9707.98
<b>2. Investments</b>	4	22333.91	18729.92
<b>3. Deferred Tax - Net</b>	5	923.76	1098.13
<b>4. Current Assets, Loans and Advances</b>			
(a) Inventories	6	7609.69	5799.96
(b) Sundry Debtors	7	431.76	524.78
(c) Cash and Bank Balances	8	457.87	3145.58
(d) Other Current Assets	9	21.13	142.20
(e) Loans and Advances	10	<u>1302.92</u>	<u>1110.92</u>
		<u>9823.37</u>	<u>10723.44</u>
Less : Current Liabilities and Provisions			
(a) Liabilities	11	18836.07	15390.41
(b) Provisions	12	<u>3224.13</u>	<u>3845.71</u>
		<u>22060.20</u>	<u>19236.12</u>
<b>Net Current Assets</b>		(12236.83)	(8512.68)
TOTAL		<u>23193.20</u>	<u>21023.35</u>
Capital Expenditure Commitments	13		
Notes to Balance Sheet	14		

The schedules referred to above and the Statement on Significant Accounting policies form an integral part of the Balance Sheet.

This is the Balance Sheet referred to in our report of even date.

SRINIVAS TALLURI  
Partner  
for and on behalf of  
LOVELOCK & LEWES  
Chartered Accountants

Hyderabad, 17th April, 2008.

On behalf of the Board,

A. BASU Chairman  
R. S. NORONHA Managing Director  
N. SAI SANKAR Finance Director & Secretary

Hyderabad, 17th April, 2008.





# PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2008

VST Industries Limited

Rs. in Lakhs

	Schedule	2008	2007
<b>I. Income</b>			
Sales (Gross)		77343.57	72522.87
Less : Excise Duty		<u>43346.78</u>	<u>38903.27</u>
Sales (Net)		33996.79	33619.60
Other Income	15	<u>1578.22</u>	<u>1580.72</u>
		<u><u>35575.01</u></u>	<u><u>35200.32</u></u>
<b>II. Expenditure</b>			
Raw Materials, Purchases and Stock-in-Trade	16	13690.72	11653.59
Manufacturing, Selling, Distribution and Administration Expenses, etc.	17	11906.63	13922.87
Depreciation		<u>1371.92</u>	<u>1147.60</u>
		<u><u>26969.27</u></u>	<u><u>26724.06</u></u>
<b>III. Profit before Taxation</b>		8605.74	8476.26
Fringe Benefit Tax		125.00	150.00
Taxation	18	<u>2645.43</u>	<u>2817.09</u>
<b>IV. Profit after Taxation</b>		5835.31	5509.17
Balance Brought Forward		6440.96	5145.04
<b>V. Profit available for Appropriation</b>		<u><u>12276.27</u></u>	<u><u>10654.21</u></u>
<b>VI. Appropriations</b>			
Transfer to General Reserve		600.00	600.00
Dividends on			
Ordinary Shares - Final (Proposed)		3088.38	3088.38
Dividend Tax thereon		<u>524.87</u>	<u>524.87</u>
		<u><u>4213.25</u></u>	<u><u>4213.25</u></u>
<b>VII. Balance Carried Forward</b>		<u><u>8063.02</u></u>	<u><u>6440.96</u></u>
Basic and diluted Earnings Per Share (Rs.)		37.79	35.68
Notes to Profit and Loss Account	19 & 20		

The schedules referred to above and the Statement on Significant Accounting policies form an integral part of the Profit and Loss Account.

This is the Profit and Loss Account referred to in our report of even date.

SRINIVAS TALLURI  
Partner  
for and on behalf of  
LOVELOCK & LEWES  
Chartered Accountants

Hyderabad, 17th April, 2008.

On behalf of the Board,

A. BASU Chairman  
R. S. NORONHA Managing Director  
N. SAI SANKAR Finance Director  
& Secretary

Hyderabad, 17th April, 2008.



# SCHEDULES TO THE BALANCE SHEET

VST Industries Limited

Rs. in Lakhs

	2008	2007
<b>1. Capital</b>		
<b>AUTHORISED</b>		
5,00,00,000 Ordinary Shares of Rs.10 each	5000.00	5000.00
50,00,000 Cumulative Redeemable Preference Shares of Rs.100 each	5000.00	5000.00
	<u>10000.00</u>	<u>10000.00</u>
<b>ISSUED AND SUBSCRIBED</b>		
1,54,41,920 Ordinary Shares of Rs.10 each fully paid up	<u>1544.19</u>	<u>1544.19</u>
<b>OF THE ABOVE ORDINARY SHARES:</b>		
81,065 Ordinary Shares of Rs.10 each were partly paid for in cash to the extent of Rs.6,94,843 and partly paid to the extent of Rs.1,15,807 for a consideration other than cash as Bonus Shares by Capitalisation of Reserves	8.11	8.11
9,18,935 Ordinary Shares of Rs.10 each were partly paid to the extent of Rs.1,54,286 pursuant to an agreement without payment being received in cash and partly paid to the extent of Rs.90,35,064 for a consideration other than cash as Bonus Shares by Capitalisation of Reserves	91.89	91.89
1,26,71,920 Ordinary Shares of Rs.10 each were allotted for a consideration other than cash as Bonus Shares by Capitalisation of Reserves	<u>1267.19</u>	<u>1267.19</u>
	<u>1367.19</u>	<u>1367.19</u>
<b>2. Reserves and Surplus</b>		
<b>CAPITAL REDEMPTION RESERVE</b>	1000.00	1000.00
<b>GENERAL RESERVE</b>		
As at the commencement of the year	11566.09	10997.94
Add - Transfer from Profit and Loss Account	600.00	600.00
Less - Provision towards Employee Retirement and Other benefits (Refer note IV on Schedule 14)	<u>        -</u> 12166.09	<u>        31.85</u> 11566.09
<b>REVALUATION RESERVE</b>		
As at the commencement of the year	472.11	490.03
Transfer to Profit and Loss Account - Depreciation (Refer note VI on Schedule 3)	<u>52.21</u> 419.90	<u>17.92</u> 472.11
<b>PROFIT AND LOSS ACCOUNT - BALANCE</b>	<u>8063.02</u>	<u>6440.96</u>
	<u>21649.01</u>	<u>19479.16</u>



Rs. in Lakhs

	Goodwill & Trade Marks	Land Freehold	Buildings Freehold	Leasehold Property	Plant & Machinery	Furniture & Fixtures	Leasehold Equipment	Motor Vehicles	Total 2008	Total 2007
<b>3. Fixed Assets</b>										
<b>COST/REVALUATION</b>										
As at 1st April, 2007	5.81	328.12	464.09	1223.07	16446.76	525.13	205.76	127.25	19325.99	17672.01
Additions	—	—	—	5.63	3498.10	75.91	78.91	179.86	3838.41	1893.91
	5.81	328.12	464.09	1228.70	19944.86	601.04	284.67	307.11	23164.40	19565.92
Disposals	—	—	—	—	22.87	25.56	9.79	47.93	106.15	239.93
<b>GROSS BLOCK</b>										
As at 31st March, 2008	5.81	328.12	464.09	1228.70	19921.99	575.48	274.88	259.18	23058.25	19325.99
<b>DEPRECIATION/ADJUSTMENTS</b>										
As at 1st April, 2007	5.81	—	191.60	1025.71	8052.43	387.36	88.97	91.50	9843.38	8864.75
For the year	—	—	83.92	(2.79)	1194.16	49.07	61.70	38.07	1424.13	1165.52
	5.81	—	275.52	1022.92	9246.59	436.43	150.67	129.57	11267.51	10030.27
Adjustment on Disposals	—	—	—	—	19.47	22.47	9.25	43.60	94.79	186.89
Depreciation as at 31st March, 2008	5.81	—	275.52	1022.92	9227.12	413.96	141.42	85.97	11172.72	9843.38
<b>NET BLOCK</b>										
As at 31st March, 2008	—	328.12	188.57	205.78	10694.87	161.52	133.46	173.21	11885.53	9482.61
Capital Work-in-Progress	—	—	—	—	—	—	—	—	286.83	225.37
Per Balance Sheet 31st March, 2008	—	328.12	188.57	205.78	10694.87	161.52	133.46	173.21	12172.36	9707.98
Per Balance Sheet 31st March, 2007	—	328.12	272.49	197.36	8394.33	137.77	116.79	35.75	9707.98	

NOTES:

- (I) Exemption in respect of Land under the Urban Land (Ceiling and Regulation) Act, 1976 has been obtained in respect of certain properties, while in the case of others, it is still pending.
- (II) Leasehold property include Buildings on Leasehold Land cost Rs.570.16 Lakhs (2007 - Rs.564.53 Lakhs), Depreciation Rs.428.63 Lakhs (2007 - Rs.405.55 Lakhs).
- (III) Deeds of conveyance are to be executed for Land Freehold Rs.0.83 Lakhs (2007 - Rs.0.83 Lakhs), Building Freehold Rs.11.28 Lakhs (2007 - Rs.11.28 Lakhs).
- (IV) Furniture and Fixtures as at the year end include, Computer software cost Rs.169.72 Lakhs (2007 - Rs.119.17 Lakhs), Depreciation Rs.120.75 Lakhs (2007 - Rs.108.38 Lakhs).
- (V) Leasehold Equipment represents Computers and related assets acquired under finance lease.
- (VI) Depreciation for the year ended 31st March, 2008 of Rs.1424.13 Lakhs (2007 - Rs.1165.52 Lakhs) includes Rs.52.21 Lakhs (2007 - Rs.17.92 Lakhs) transferred from Revaluation Reserve.
- (VII) Additions during the year includes Rs.Nil (2007 - Rs.1.26 Lakhs) towards fluctuation in foreign exchange.
- (VIII) Capital Work-in-Progress includes Capital Advances of Rs.272.95 Lakhs (2007 - Rs.159.67 Lakhs) which are Unsecured and Considered Good.



Rs. in Lakhs

	2008	2007
<b>4. Investments</b>		
<b>Long Term Other than Trade - at Cost</b>		
QUOTED		
Housing Development Finance Corporation Limited 1,200 Equity Shares of Rs.10 each fully paid up	0.08	0.08
HDFC Bank Limited 500 Equity Shares of Rs.10 each fully paid up	0.05	0.05
[Aggregate Market Value of Quoted Investments Rs.33.77 Lakhs, (Previous Year - Rs.23.08 Lakhs)]	0.13	0.13
UNQUOTED		
Government/Trust Securities National Savings Certificate cost Rs.500 (Previous Year - Rs.500) Lodged with Government Authority		
<b>Subsidiary Company</b>		
VST Distribution, Storage & Leasing Company Private Limited 50,000 Equity Shares of Rs.10 each fully paid up	5.00	5.00
30,80,000 1% Unsecured Optionally Convertible Debentures of Rs.10 each fully paid up - Redeemed during the year	-	308.00
	5.00	313.00
<b>Other Investments</b>		
Unit Trust of India		
8,31,209 6.75 % Tax free US64 Bonds of Rs.100 each fully paid up	831.76	831.76
50,025 6.60 % Tax free ARS Bonds of Rs.100 each fully paid up	51.32	51.32
HDFC - Top 200 Fund		
50,000 Units of Rs.10 each fully paid up	5.00	5.00
Andhra Pradesh Gas Power Corporation Limited		
1,39,360 shares of Rs.10 each fully paid up	220.38	220.38
Principal Deposit Fund (FMP-4-20) 460 Days Plan - Growth Plan - February 2006		
50,00,000 units of Rs.10 each fully paid up - Sold during the year	-	500.00
Principal PNB FMP 385 Days Series I-Institutional Growth Plan		
50,00,000 units of Rs.10 each fully paid up - Sold during the year	-	500.00
Prudential ICICI FMP - Growth Yearly XII Institutional		
50,00,000 units of Rs.10 each fully paid up - Sold during the year	-	500.00
Grindlays Fixed Maturity 20th Plan - Growth		
50,00,000 units of Rs.10 each fully paid up - Sold during the year	-	500.00
Grindlays Fixed Maturity 22nd Plan - Growth		
50,00,000 units of Rs.10 each fully paid up - Sold during the year	-	500.00
HDFC FMP 13 Months March 2006 (1) Institutional Plan Growth		
25,00,000 units of Rs.10 each fully paid up - Sold during the year	-	250.00
P140 RG Prudential ICICI Institutional FMP - 15 Month Plan Regular Series XXV		
46,65,620 units of Rs.10 each fully paid up - Sold during the year	-	500.12
Prudential ICICI FMP Plan Institutional Series 28 (370 days) Growth		
50,00,000 units of Rs.10 each fully paid up - Sold during the year	-	500.00
HSBC Fixed Series IV Growth		
53,66,020 units of Rs.10 each fully paid up - Sold during the year	-	536.60
HSBC Fixed Time Series 13 Institutional - Growth		
50,00,000 units of Rs.10 each fully paid up - Sold during the year	-	500.00



Rs. in Lakhs

	2008	2007
<b>4. Investments (Contd.)</b>		
Franklin Infotech Fund - Growth 1,17,084 (2007- 2,51, 239) units of Rs.10 each fully paid up (1,34,155 Units - Sold during the year)	52.23	110.93
Franklin Templeton Fixed Tenure Fund Series V 13 Months Plan - Growth 50,00,000 units of Rs.10 each fully paid up - Sold during the year	-	500.00
DSP Merrill Lynch Fixed Term Plan - Series 3A Growth 50,000 units of Rs.1,000 each fully paid up - Sold during the year	-	500.00
Reliance Equity Fund - Growth 6,44,745 (2007 - 10,00,000) units of Rs.10 each fully paid up (10,00,000 Units Sold during the year and 6,44,745 Units Purchased during the year)	100.00	100.00
Deutsche Fixed Term Fund - Series 9 - Growth 50,00,000 units of Rs.10 each fully paid up - Sold during the year	-	500.00
L135G SBI Debt Fund Series-13 Months (March 07) - Growth 50,00,000 units of Rs.10 each fully paid up	500.00	500.00
OF211G HSBC Fixed Term Series - 21 Institutional - Growth 1,00,00,000 units of Rs.10 each fully paid up	1000.00	1000.00
HSBC Fixed Term Series 9 - Growth 50,00,000 units of Rs.10 each fully paid up - Sold during the year	-	500.00
HDFC FMP 26M August 2006 (1) Institutional Plan - Growth 1,00,00,000 units of Rs.10 each fully paid up	1000.00	1000.00
HDFC FMP 14M March 2007 (3) - Wholesale Plan - Growth 50,00,000 units of Rs.10 each fully paid up	500.00	500.00
DSP Merrill Lynch Fixed Term Plan Series 3E - Growth - Institutional 50,000 units of Rs.1,000 each fully paid up	500.00	500.00
P1691G Prudential ICICI FMP - Series - 35 - Thirteen Months Plan B - Institutional Growth 1,00,00,000 units of Rs.10 each fully paid up	1000.00	1000.00
G186 Standard Chartered Fixed Maturity Plan - Yearly Series 3 - Growth 50,00,000 units of Rs.10 each fully paid up	500.00	500.00
DWS Fixed Term Fund - Series 20 - Growth Plan 50,00,000 units of Rs.10 each fully paid up	500.00	500.00
Reliance Fixed Horizon Fund Institutional Plan C - Series I Growth Option 50,00,000 units of Rs.10 each fully paid up	500.00	500.00
Reliance Fixed Horizon Fund II - Annual Plan - Series VI - Institutional Growth Plan 1,00,00,000 units of Rs.10 each fully paid up	1000.00	1000.00
TFAIG7 Tata Fixed Horizon Fund Series 7 - Scheme A - Growth - Institutional plan 1,00,00,000 units of Rs.10 each fully paid up	1000.00	1000.00
OL PIPG HSBC Liquid Plus Fund - Institutional Plus - Growth 59,29,826 units of Rs.10 each fully paid up	615.00	615.00
Kotak Liquid (Institutional Premium) - Growth 70,49,353 units of Rs.10 each fully paid up	1000.00	1000.00
HDFC MF MIP Long Term - Growth 34,24,892 units of Rs.10 each fully paid up - Sold during the year	-	501.00
Standard Chartered Enterprise Equity Fund - Growth 10,00,000 units of Rs.10 each fully paid up	100.00	100.00
Morgan Stanley Equity Fund - Growth 4,34,882 (2007- 2,42,692) units of Rs.10 each fully paid up (1,92,190 units Purchased during the year)	199.23	94.68
UTI Fixed Term Income Fund-Series IV Plan V (13 Months) - Institutional - Growth Plan 50,00,000 units of Rs.10 each fully paid up - Purchased during the year	500.00	-



	2008	2007
<b>4. Investments (Contd.)</b>		
Templeton Fixed Horizon Fund Series II - Plan A - Institutional - Growth 1,00,00,000 units of Rs.10 each fully paid up - Purchased during the year	1000.00	-
HSBC Fixed Term Series - 44 Institutional - Growth 1,00,00,000 units of Rs.10 each fully paid up - Purchased during the year	1000.00	-
5373/HDFC FMP 13M March 2008 (VII) (2) - Wholesale Plan Growth 1,00,00,000 units of Rs.10 each fully paid up - Purchased during the year	1000.00	-
DSP Merrill Lynch FMP 12.5M Series I - Institutional Growth 50,00,000 units of Rs.10 each fully paid up - Purchased during the year	500.00	-
1175 ICICI Prudential FMP Series 43 - 13 Months Plan D Retail Growth 1,00,00,000 units of Rs.10 each fully paid up - Purchased during the year	1000.00	-
G561 Standard Chartered Fixed Maturity Plan - Yearly Series 19 - Plan B - Growth 50,00,000 units of Rs.10 each fully paid up - Purchased during the year	500.00	-
DWS Fixed Term Fund Series 46 - Institutional Growth 50,00,000 units of Rs.10 each fully paid up - Purchased during the year	500.00	-
Kotak FMP 14M Series 4 - Institutional - Growth 50,00,000 units of Rs.10 each fully paid up - Purchased during the year	500.00	-
Reliance Fixed Horizon Fund IV - Series 6 - Institutional Growth Plan 50,00,000 units of Rs.10 each fully paid up - Purchased during the year	500.00	-
Reliance Fixed Horizon Fund - VII - Series 4 - Institutional Growth Plan 50,00,000 units of Rs.10 each fully paid up - Purchased during the year	500.00	-
S328 Sundaram BNP Paribas Fixed Term Plan Series XXXII - Growth 50,00,000 units of Rs.10 each fully paid up - Purchased during the year	500.00	-
B876G Birla FTP - Institutional - Series AD - Growth 50,00,000 units of Rs.10 each fully paid up - Purchased during the year	500.00	-
B8971G Birla FTP - Institutional - Series AM - Growth 50,00,000 units of Rs.10 each fully paid up - Purchased during the year	500.00	-
Reliance Index Fund - Nifty Plan - Growth Plan 2,71,639 units of Rs.10 each fully paid up - Purchased during the year (11,11,118 units Purchased during the year and 8,39,479 units Sold during the year)	53.63	-
Sundaram BNP Paribas Energy Opportunities Fund - Growth 10,00,000 units of Rs.10 each fully paid up - Purchased during the year	100.00	-
B332G Birla Sun Life Liquid Plus Institutional - Growth 65,60,483 units of Rs.10 each fully paid up - Purchased during the year	1000.23	-
Twin Towers Premises Co-operative Society Limited 10 Shares of Rs.50 each fully paid up (Cost Rs.500, Previous Year - Rs.500)		
Tobacco Institute of India - (Limited by Guarantee, Maximum Contribution Rs.10.00 Lakhs)		
	<u>21328.78</u>	<u>18416.79</u>
<b>Current Investment - At lower of cost and fair value</b>		
<b>Other than Trade and Unquoted</b>		
Kotak Quarterly Interval plan Series 2 - Dividend 99,96,301 units of Rs.10 each fully paid up - Purchased during the year	1000.00	-
	<u>1000.00</u>	<u>-</u>
Aggregate amount of Unquoted investments	22333.78	18729.79
<b>TOTAL</b>	<u><u>22333.91</u></u>	<u><u>18729.92</u></u>



#### 4. Investments (Contd.)

**Note:**

Details of Investments purchased and sold during the year in addition to above -

- UTI Liquid Cash plan Institutional - Daily Income Option - Reinvestment 7,94,389 units of Rs.1,000 each
- UTI - Liquid Plus Fund Institutional Plan (Daily Dividend Option) - Reinvestment 3,90,416 units of Rs.1,000 each
- L138D SBI Debt Fund Series - 60 Days (April 07) - Dividend 50,00,000 units of Rs.10 each
- Templeton FR Income Fund LTP Institutional Option - Dividend Reinvestment 1,50,49,104 units of Rs.10 each
- Templeton India Treasury Management Account Institutional Plan - Daily Dividend Reinvestment 1,39,504 units of Rs.1,000 each
- Templeton Quarterly Interval Plan - Plan A - Institutional - Dividend Payout 50,00,000 units of Rs.10 each
- OCFPDD HSBC Cash Fund - Institutional Plus - Daily Dividend 4,68,84,160 units of Rs.10 each
- OLPIPD HSBC Liquid Plus - Institutional Plus - Daily Dividend 5,48,17,794 units of Rs.10 each
- HDFC Cash Management Fund - Savings Plus Plan - Wholesale - Daily Dividend Reinvestment 4,29,82,205 units of Rs.10 each
- HDFC Cash Management Fund - Savings Plus Plan - Retail - Daily Dividend 32,41,676 units of Rs.10 each
- HDFC CMF - Call Plan - Daily Dividend Reinvestment 3,90,40,565 units of Rs.10 each
- Principal Cash Management Fund - Liquid Option - Institutional Premium Plan - Dividend Reinvestment Daily 2,31,32,173 units of Rs.10 each
- Principal Floating Rate Fund FMP - Institutional Option - Dividend Reinvestment Daily 1,54,57,617 units of Rs.10 each
- DSP Merrill Lynch Technology.com Fund - Growth 3,24,950 units of Rs.10 each
- P32ISD ICICI Prudential Institutional Liquid Plan - Super Institutional Daily Dividend 6,84,90,418 units of Rs.10 each
- P28Q ICICI Prudential - Flexible Income Plan Dividend - Daily 5,89,68,879 units of Rs.10 each
- GMND GSSIF - Medium Term - Daily Dividend Option 3,07,69,347 units of Rs.10 each
- G50 Grindlays Floating Rate Fund - LT - Institutional Plan B - Daily Dividend 11,58,70,912 units of Rs.10 each
- SC FMP Quarterly Series 8 - Dividend 50,00,000 units of Rs.10 each
- G70 Standard Chartered Liquidity Manager - Plus - Daily Dividend 14,29,582 units of Rs.1,000 each
- DWS Insta Cash Plus Fund - Daily Dividend Option 6,31,121 units of Rs.10 each
- DWS Insta Cash Plus Fund - Institutional Plan - Daily Dividend Option 1,42,75,221 units of Rs.10 each
- DWS Money Plus Fund - Institutional Plan - Daily Dividend Option 2,05,79,647 units of Rs.10 each
- Kotak Liquid (Institutional Premium) - Daily Dividend 5,07,35,396 units of Rs.10 each
- Kotak Flexi Debt Scheme - Daily Dividend 6,21,84,645 units of Rs.10 each
- Reliance Interval Fund - Quarterly Plan - Series I - Institutional - Dividend Plan 80,00,000 units of Rs.10 each
- Reliance Monthly Interval Fund - Series I - Institutional Dividend Plan 49,91,066 units of Rs.10 each
- Reliance Monthly Interval Fund - Series II - Institutional Dividend Plan 49,97,751 units of Rs.10 each
- Reliance Liquid Plus Fund - Retail Option - Daily Dividend Plan 1,784 units of Rs.1,000 each
- Reliance Liquid Plus Fund - Institutional Option - Daily Dividend Plan 6,56,294 units of Rs.1,000 each
- Reliance Liquidity Fund - Daily Dividend Reinvestment Option 5,48,32,177 units of Rs.10 each
- TLSD01 Tata Liquid Super High Investment Fund - Daily Dividend 1,64,232 units of Rs.1,000 each
- TFLD Tata Floater Fund - Daily Dividend 1,82,54,645 units of Rs.10 each
- C277 DBS Chola FMP - Series 7 (Quarterly Plan - I) - Dividend 50,00,000 units of Rs.10 each
- M164QD ABN Amro FTP Series 6 Quarterly Plan D Dividend on Maturity 51,00,535 units of Rs.10 each
- M44 ABN Amro Cash Fund - Institutional Daily Dividend 2,29,02,619 units of Rs.10 each
- M17DD ABN Amro Money Plus Institutional Plan Daily Dividend 2,29,95,362 units of Rs.10 each
- M5161D ABN Amro Interval Fund - Quarterly Plan G - Institutional Dividend on Redemption 50,00,000 units of Rs.10 each
- S130 Sundaram BNP Paribas Money Fund Institutional - Daily Dividend Reinvestment 2,19,93,515 units of Rs.10 each
- S246 Sundaram BNP Paribas Liquid Plus Institutional Daily Dividend Reinvestment 66,50,870 units of Rs.10 each
- S252 Sundaram BNP Paribas Liquid Plus Super Institutional Daily Dividend Reinvestment 3,57,61,597 units of Rs.10 each
- S335 Sundaram BNP Paribas FTP 90 days Series I Institutional Dividend 50,00,000 units of Rs.10 each
- Lotus India Liquid Fund - Institutional Daily Dividend 1,90,31,344 units of Rs.10 each
- Lotus India Liquid Plus Fund Institutional Daily Dividend 2,11,30,865 units of Rs.10 each
- B332DD Birla Sun Life Liquid Plus - Institutional Daily Dividend - Reinvestment 3,26,59,864 units of Rs.10 each
- B502DD Birla Cash Plus - Institutional - Daily Dividend - Reinvestment 3,09,90,361 units of Rs.10 each
- B503DD Birla Cash Plus - Institutional Premium Daily Dividend Reinvestment 99,82,842 units of Rs.10 each
- Mirae Asset Liquid Fund - Institutional - Dividend Plan (Daily) 19,495 units of Rs.1,000 each





Rs. in Lakhs

	2008	2007
<b>5. Deferred Tax - Net</b>		
<b>Deferred tax asset</b>		
On employees' separation and retirement	235.53	386.76
On State and Central Taxes etc.	1686.71	1507.23
On other timing differences	35.43	28.41
	<u>1957.67</u>	<u>1922.40</u>
<b>Deferred tax liability</b>		
On fiscal allowances on fixed assets	1033.91	824.27
	<u>923.76</u>	<u>1098.13</u>
<b>6. Inventories</b>		
Stores and Spare Parts - At cost or below	54.42	53.40
Raw Materials - At cost or below	5955.48	4130.30
Stock-in-Trade		
Finished Goods - At cost or net realisable value whichever is lower	1479.58	1503.23
Work-in-Process - At cost or net realisable value whichever is lower	120.21	113.03
	<u>7609.69</u>	<u>5799.96</u>
<b>7. Sundry Debtors</b>		
(Unsecured, Considered Good)		
Debts outstanding for a period exceeding six months	3.54	3.30
Other Debts	428.22	521.48
	<u>431.76</u>	<u>524.78</u>
<b>8. Cash and Bank Balances</b>		
Cash including Cheques on hand	1.23	4.47
With Scheduled Banks		
- On Unclaimed Ordinary Dividend Account	149.02	122.69
- On Preference Share Redemption Account	0.18	0.18
- On Current Accounts	293.29	415.25
- On Term Deposits	14.15	2602.99
[Includes towards Margin Money Rs.13.34 Lakhs (2007 - Rs.102.24 Lakhs)]		
	<u>457.87</u>	<u>3145.58</u>
<b>9. Other Current Assets</b>		
(Unsecured, Considered Good)		
Interest accrued on Loans, Deposits and Investments	21.13	125.07
Others	-	17.13
	<u>21.13</u>	<u>142.20</u>



Rs. in Lakhs

	2008	2007
<b>10. Loans and Advances</b> (Considered Good)		
Secured - Loans	132.68	159.94
Unsecured - Loans	51.85	59.77
- Advances recoverable in cash or in kind or for value to be received	758.60	489.08
- Balances with Excise Authorities	335.57	377.60
- Deposits	24.22	24.53
	<u>1302.92</u>	<u>1110.92</u>
Advances includes Advances to Subsidiary viz. VST Distribution, Storage & Leasing Company Private Limited - Rs.Nil (2007 - Rs.8.96 Lakhs) [The maximum outstanding during the year was Rs.11.53 Lakhs (2007 - Rs.8.96 Lakhs)].		
<b>11. Liabilities</b>		
Sundry Creditors		
- Total outstanding dues of micro enterprises and small enterprises	-	-
- Total outstanding dues of other than micro enterprises and small enterprises	<u>15273.28</u>	<u>13070.88</u>
	15273.28	13070.88
Advances from Customers	3395.55	2166.30
Unpaid/Unclaimed Dividends	149.02	122.69
Unclaimed/Unencashed Matured Deposits	0.28	1.64
Interest on Matured Deposits	0.13	0.96
Preference Share Redemption Account	0.18	0.18
Security Deposits	2.00	4.30
Other Liabilities	15.63	23.46
	<u>18836.07</u>	<u>15390.41</u>
There is no amount due and outstanding to be credited to Investor Education and Protection Fund.		
<b>12. Provisions</b>		
Taxation less Advance Payments	(389.12)	232.46
Proposed Dividend including Tax thereon	3613.25	3613.25
	<u>3224.13</u>	<u>3845.71</u>
<b>13. Capital Expenditure Commitments</b> (not provided for)	<u>1545.39</u>	<u>1335.86</u>
<b>14. Notes to Balance Sheet</b>		
<b>I Contingent Liabilities</b>		
Claims against the Company not acknowledged as debts Rs.242.68 Lakhs (2007 - Rs.259.47 Lakhs). These comprise -		
a. Land disputes representing claims towards land grabbing cases pending before Hon'ble Special Court aggregating to Rs.227.59 Lakhs (2007 - Rs.227.59 Lakhs).		
b. Other matters relating to labour cases etc. aggregating to Rs.15.09 Lakhs (2007 - Rs.31.88 Lakhs).		



## 14. Notes to Balance Sheet (Contd.)

### II Future lease obligations

The Company has entered into various operating lease agreements and the amounts paid under such agreements have been charged to revenue as Rent under Schedule 17. All these agreements are cancellable in nature.

Assets acquired by way of finance lease, are stated at the amount, equal to the lower of their fair value and the present value of the minimum lease payments.

The Company had acquired computers and related assets under finance lease (Refer note V on Schedule 3). The minimum lease payments as at the Balance Sheet date, in respect of these assets are as under: Rs. in Lakhs

Due	31.03.2008			31.03.2007		
	Total Minimum Lease Payments	Interest not due	Present value of Minimum Lease Payments	Total Minimum Lease Payments	Interest not due	Present value of Minimum Lease Payments
Within one year	62.89	12.76	50.13	52.60	8.33	44.27
Later than one year and not later than five years	110.67	14.27	96.40	88.09	8.42	79.67
Total	<u>173.56</u>	<u>27.03</u>	<u>146.53*</u>	<u>140.69</u>	<u>16.75</u>	<u>123.94*</u>

\*Represents instalments due under the finance lease arrangement, included under Sundry Creditors (Schedule 11).

### III Disclosures regarding Derivative Instruments

The Company uses forward exchange contracts to hedge against its foreign currency exposures relating to the underlying transactions and firm commitments. The use of these foreign exchange forward contracts reduces the risk or cost to the Company and the Company does not use the foreign exchange forward contracts for trading or speculation purposes.

The information on such Derivative Instruments is as follows:

a. Forward exchange contracts outstanding as at the year end:

Rs. in Lakhs

		31.03.2008		31.03.2007	
Currency Pair	Currency	Buy	Sell	Buy	Sell
USD/INR	INR	-	3728.45	-	279.69

b. Foreign Exchange Currency Exposure recognised by the Company that have not been hedged by a derivative instrument or otherwise as at the year end:

Rs. in Lakhs

		31.03.2008		31.03.2007	
Currency Pair	Currency	Buy	Sell	Buy	Sell
USD/INR	INR	2127.22	427.26	1052.84	508.96

### IV Employee Benefits

- a. Pursuant to the early adoption of the Accounting Standard 15 (Revised) - Employee Benefits ("Standard") effective 1st April, 2006, the Company has revised the provision for retirement and other benefits as at 31st March, 2006. An additional liability of Rs.31.85 Lakhs (net of deferred tax asset of Rs.16.17 Lakhs on such restatement) arising out of such revision has been adjusted from the opening revenue reserves as at 1st April, 2006, in accordance with the transitional provisions of the Standard.

- b. The Employee Benefit Schemes are as under:

#### i. Provident Fund

Eligible employees of the Company receive benefits under the Provident Fund which are defined contribution/benefit plans wherein both the employee and the Company make monthly contributions equal to a specified percentage of the covered employees' salary. These contributions are made to the Funds administered and managed by the Govt. of India/Company's own Trust. The Company's monthly contributions are charged to revenue in the period they are incurred.



**14. Notes to Balance Sheet (Contd.)**

**ii. Gratuity**

In accordance with the payment of 'Gratuity Act, 1972' of India, the Company provides for gratuity, a defined retirement benefit plan (the 'Gratuity Plan') covering eligible employees. Liabilities with regard to such Gratuity Plan are determined by actuarial valuation and are charged to revenue in the period determined. The Gratuity Plan is a funded plan administered by Company's own Trust which has subscribed to "Group Gratuity Scheme" of Life Insurance Corporation of India.

**iii. Pension Fund**

The Company has a defined contribution pension scheme to provide pension to the eligible employees. The Company makes monthly contributions equal to a specified percentage of the covered employees' salary. These contributions are administered by the Company's own Trust which has subscribed to "Group Pension Scheme" of Life Insurance Corporation of India. The Company's contributions of Rs.95.56 Lakhs (2007- Rs.105.20 Lakhs) are charged to revenue in the period they are incurred.

In addition to the above, the Company has a funded defined benefit pension scheme for its employees in the workmen category. Liabilities with regard to such defined benefit plan are determined by actuarial valuation and are charged to revenue in the period determined. The plan is administered by the Company's own Trust which has subscribed to "Group Pension Scheme" of Life Insurance Corporation of India.

**iv. Leave Encashment**

The accrual for unutilised leave is determined for the entire available leave balance standing to the credit of the employees at period-end. The value of such Leave balance eligible for carry forward, is determined by actuarial valuation and charged to revenue in the period determined. The scheme is fully funded by way of subscription to the "Leave Encashment Scheme" of Life Insurance Corporation of India.

**c. The following table sets out the status of the Retirement and Other Benefit Plans as required under the Standard:**

Rs. in Lakhs

	Gratuity		Pension		Leave Encashment	
	31.03.2008	31.03.2007	31.03.2008	31.03.2007	31.03.2008	31.03.2007
<b>Projected benefit obligation at the beginning of the year</b>	1293.51	1326.10	132.33	151.56	318.14	308.74
Current Service Cost	56.58	72.93	5.81	6.28	41.31	51.05
Interest cost	102.40	99.46	10.58	12.13	25.05	23.15
Actuarial (Gain)/Loss	(10.99)	44.26	(17.69)	(6.90)	21.61	(64.80)
Less: Benefits Paid	27.05	249.24	4.03	30.74	9.89	-
<b>Projected benefit obligation at the end of the year</b>	1414.45	1293.51	127.00	132.33	396.22	318.14
<b>Amounts recognised in the Balance Sheet</b>						
Projected benefit obligation at the end of the year	1414.45	1293.51	127.00	132.33	396.22	318.14
Fair value of plan assets at end of the year	1454.22	1306.84	140.54	132.34	406.96	336.83
Asset recognised in the Balance Sheet	39.77	13.33	13.54	0.01	10.74	18.69
<b>Cost of Retirement and Other Benefits for the year</b>						
Current Service cost	56.58	72.93	5.81	6.28	41.31	51.05
Interest Cost	102.40	99.46	10.58	12.13	25.05	23.15
Expected return on plan assets	120.97	111.53	12.24	10.74	31.49	23.16
Net actuarial (Gain)/Loss recognised in the year	(10.99)	44.26	(17.69)	(6.90)	21.61	(69.74)
Net Cost recognised in the Profit and Loss Account	27.02	105.12	(13.54)	0.77	56.48	(18.70)
<b>Assumptions</b>						
Discount Rate (%)	8.00	7.50	8.00	7.50	8.00	7.50
Long term rate of compensation increase (%)						
- Management Staff	9.00	9.00	-	-	9.00	9.00
- Workmen	4.00	4.00	4.00	4.00	4.00	4.00



## SCHEDULES TO THE PROFIT AND LOSS ACCOUNT

Rs. in Lakhs

	2008		2007
<b>15. Other Income</b>			
Miscellaneous Income	166.73		102.55
Gain / (Loss) on Exchange	(65.22)		57.81
Income from Long Term Investments - Other than Trade (Gross)	63.75		56.26
Income from Current Investments - Other than Trade (Gross)	460.49		269.84
Profit / (Loss) on sale of Long Term Investments (Net)	684.07		876.21
Profit / (Loss) on sale of Current Investments (Net)	59.20		58.74
Interest on Loans and Deposits etc. (Gross)	209.20		159.31
	<u>1578.22</u>		<u>1580.72</u>
<p>Income from Long Term and Current Investments is stated at Gross, the amount of Income Tax deducted is Rs.0.35 Lakhs (2007 - Rs.0.68 Lakhs).</p> <p>Interest on Loans and Deposits etc. is stated at Gross, the amount of Income Tax deducted is Rs.60.50 Lakhs (2007 - Rs.2.26 Lakhs).</p>			
<b>16. Raw Materials, Purchases and Stock-in-Trade</b>			
(a) Raw Materials Consumed*			
Opening Stock	4130.30		3628.68
Purchases	<u>15467.26</u>		<u>12228.10</u>
	19597.56		15856.78
Less: Closing Stock	<u>5955.48</u>	13642.08	<u>4130.30</u>
			11726.48
(b) (Increase)/Decrease in Stock-in-Trade			
Opening Stock			
- Cigarettes	1503.23		1166.75
Closing Stock			
- Cigarettes	<u>1479.58</u>	23.65	<u>1503.23</u>
			(336.48)
(c) Increase/(Decrease) in Excise Duties on Stock-in-Trade		32.17	290.27
(d) (Increase)/Decrease in Work-in-Process			
Opening	113.03		86.35
Closing	<u>120.21</u>	(7.18)	<u>113.03</u>
		<u>13690.72</u>	<u>11653.59</u>
<p>* Includes 7,957 Tonnes (2007 - 6,612 Tonnes) of unmanufactured tobacco etc. sold - Value Rs.5182.64 Lakhs (2007 - Rs.3998.99 Lakhs).</p>			



Rs. in Lakhs

	2008	2007
<b>17. Manufacturing, Selling, Distribution and Administration Expenses, etc.</b>		
Salaries, Wages and Bonus [Includes Rs.Nil (2007 - Rs.924.65 Lakhs) paid under Voluntary Retirement Schemes]	3818.40	4597.13
Contributions to Provident, Gratuity and Other Retiral Funds	275.77	422.59
Workmen and Staff Welfare Expenses	<u>401.46</u>	<u>411.09</u>
	4495.63	5430.81
Insurance	89.95	87.00
Consumption of Stores and Spare Parts	294.98	282.37
Power and Fuel	236.31	214.41
Rent	167.56	137.54
Repairs - Buildings	31.37	34.18
- Machinery	38.32	45.85
- Others	12.72	15.97
Rates and Taxes	795.61	2551.38
Excise Duty on Samples/Stock Write-off etc.	74.81	46.49
Outward Freight	957.65	787.42
Advertising	1405.23	1504.97
Distribution Expenses	1386.28	1140.66
Miscellaneous	1863.24	1610.74
Manufacturing Charges	18.81	23.25
(Profit)/Loss on Fixed Assets sold and discarded (Net)	2.57	(17.71)
Interest - Others	12.58	9.24
Payment to Auditors - Audit Fee	14.00	12.50
- Reimbursement of Expenses	0.04	0.04
- Fees for Certificates etc.	5.62	7.05
Directors' Fees	5.85	4.71
	<u>11909.13</u>	<u>13928.87</u>
Less : Recovery of Costs	2.50	6.00
	<u>11906.63</u>	<u>13922.87</u>
R & D Expenses included above	279.68	274.39
<b>18. Taxation</b>		
Taxation - Current	2481.05	3270.18
- Prior Years	(9.99)	197.47
Deferred Tax	174.37	(650.56)
	<u>2645.43</u>	<u>2817.09</u>



Rs. in Lakhs

	2008	2007
<b>19. Notes to Profit and Loss Account</b>		
<b>(I) Directors' Remuneration</b>		
Remuneration	205.80	183.75
Performance Linked Bonus	108.36	96.75
Commission to Non Whole-time Directors	20.00	20.00
Other Benefits	31.07	31.09
Directors' Fees	5.85	4.71
	<u>371.08</u>	<u>336.30</u>
Computation of Net Profit in accordance with Section 198 of the Companies Act, 1956:		
Profit before Taxation	8605.74	8476.26
Add - Depreciation as per Profit and Loss Account	1371.92	1147.60
Managerial Remuneration as above	371.08	336.30
(Profit)/Loss on sale of assets (Net)	2.57	(17.71)
Wealth Tax	<u>29.12</u>	<u>24.23</u>
	1774.69	1490.42
	10380.43	9966.68
Less - Depreciation (Sec. 350)	1371.92	1147.60
(Profit)/Loss on sale of assets - Net (Sec. 350)	2.57	(17.71)
Profit for the purpose of Directors' Remuneration	<u>9005.94</u>	<u>8836.79</u>
Commission payable to Non Whole-time Directors at 1% of above under Section 309(4) of the Companies Act, 1956	90.06	88.37
Restricted to	20.00	20.00
<b>(II)</b> The Hon'ble Supreme Court vide its Order dated 19th September, 2005 upheld the constitutional validity of the retrospective amendment with respect to the withdrawal of excise duty exemption given to cigarette manufacturers in the North Eastern States in terms of excise notification 32/99 & 33/99 dated 8th July, 1999. Consequent to the above Order, excise duty refunds received by the contract manufacturers, with whom the Company had entered into manufacturing arrangements, have become payable by them along with interest. Considering the various developments including the agreements entered into by the Company with such contract manufacturers, the Company had charged to revenue Rs.4388.72 Lakhs (Rs.2911.48 Lakhs net of tax) during the year ended 31st March, 2006, out of which Rs.3321.73 Lakhs has been paid till date.		
<b>(III)</b> The Post Manufacturing Expenses dispute related to excise duty payable on clearances from the factory between 01-03-1975 to 28-02-1983 in which allowable post manufacturing expenses were denied by the excise department. The company had won the case on merits, after which the excise department had rejected the claim for refund of excess duty paid on principles of unjust enrichment. This issue has been held in favour of the Company by the Hon'ble High Court of Andhra Pradesh during the year and consequently, a refund of Rs.1260.79 Lakhs (including an interest of Rs.545.51 Lakhs) has been received from the excise department. Considering various aspects involved including the legal advice obtained on possibility of further litigation, as a matter of prudence, no effect has been given to the said refund received in the Profit and Loss Account, pending progress in the matter.		





Rs. in Lakhs

	2008	2007
<b>19. Notes to Profit and Loss Account (Contd.)</b>		
<b>(IV) Earnings Per Share</b>		
Earnings Per Share is computed based on the following -		
a) Profit after Taxation (Rs.Lakhs)	5835.31	5509.17
b) Weighted average number of equity shares	1,54,41,920	1,54,41,920
c) Basic and diluted Earnings Per Share (Nominal Value of Shares - Rs.10) Rs.	37.79	35.68
<b>(V) Related party transactions during the year</b>		
<b>1. Companies:</b>		
<b>a. Subsidiary Company</b>		
VST Distribution, Storage & Leasing Company Private Limited		
<b>Nature of transactions</b>		
Receipts - Secondment/Service Charges	2.50	6.00
- Interest	1.54	3.05
Receipt on redemption of Optionally Convertible Debentures	308.00	-
Outstandings as at the year end		
- Receivable	-	8.96
Investments in Optionally Convertible Debentures	-	308.00
<b>b. Company having significant influence</b>		
British American Tobacco Group		
<b>Nature of transactions</b>		
Other payments - Services etc.	0.89	4.84
- Dividends Paid	993.18	620.74
Outstandings as at the year end		
- Payable	-	0.10
<b>2. Remuneration to Key Managerial Personnel</b>		
Mr. Raymond S. Noronha - Managing Director	219.65	199.50
Mr. N. Sai Sankar - Finance Director & Secretary	125.58	112.09



	Unit	Quantity	2008 Rs. in Lakhs	2007 Quantity	2007 Rs. in Lakhs
<b>20. Additional Information pursuant to the Provisions of Paragraphs 3, 4C and 4D of Part II of Schedule VI of the Companies Act, 1956</b>					
<b>(a) CLASS OF GOODS, CAPACITY AND PRODUCTION</b>					
Class of goods Manufactured					
(i) Cigarettes					
Capacity as at 31st March*					
- Registered/Licenced (p.a.)	Millions	25600		25600	
- Installed (p.a.)	Millions	23872		20414	
Actual Saleable Production (includes contract manufacture and manufactured for others)	Millions	8799		8804	
* The figure of 'Registered/Licenced Capacity' is as re-endorsed on the Certificate of Registration as on 30th September, 1985 and is exclusive of an additional 25 per cent of the approved 'Registered/Licenced Capacity' available to the Company under the Central Government's Liberalised Industrial Policy.					
The figure of 'Installed' capacity is computed on the basis of machines installed as on 31st March, as certified by Management.					
(ii) Paper Conversion Products					
Capacity as at 31st March					
- Registered/Licenced (p.a.)	Tonnes	5500		5500	
- Installed (p.a.) as certified by Management	Tonnes	-		-	
Actual Production	Tonnes	-		-	
<b>(b) PARTICULARS IN RESPECT OF SALES (GROSS)</b>					
Cigarettes	Millions	8844	71032.68	8733	67669.63
Unmanufactured Tobacco	Tonnes	7957	6139.15	6612	4772.32
Cut Tobacco	Tonnes	205	170.99	90	80.60
Others			0.75		0.32
			<u>77343.57</u>		<u>72522.87</u>
<b>(c) DETAILS OF STOCK-IN-TRADE</b>					
(i) Opening Stock					
Cigarettes	Millions	221	1503.23	159	1166.75
(ii) Closing Stock					
Cigarettes	Millions	153	1479.58	221	1503.23
Stock Quantities exclude damaged stocks, samples, etc.					



	Unit	Quantity	2008 Rs. in Lakhs	Quantity	2007 Rs. in Lakhs
<b>20. Additional Information</b> (Contd.)					
<b>(d) DETAILS OF RAW MATERIALS CONSUMED</b>					
Unmanufactured Tobacco	Tonnes	15844	8401.77	14187	6962.58
Board	Tonnes	1982	671.74	1957	605.78
Hinge Lid Packs	Millions	214	938.52	235	1014.34
Cigarette Paper	M.Metres	541396	281.75	546993	314.73
Foil	M.Metres	24985	141.27	28408	174.07
Filter Rods	Millions	644	557.68	553	505.98
Others			2649.35		2149.00
			<u>13642.08</u>		<u>11726.48</u>
<b>(e) VALUE OF RAW MATERIALS, SPARE PARTS AND COMPONENTS CONSUMED</b>					
			Rs. in Lakhs	%	Rs. in Lakhs
					%
Raw Materials					
Imported		552.51	4.1	443.81	3.8
Indigenous		13089.57	95.9	11282.67	96.2
		<u>13642.08</u>	<u>100.0</u>	<u>11726.48</u>	<u>100.0</u>
Stores and Spare Parts					
Imported		55.22	18.7	39.75	14.1
Indigenous		239.76	81.3	242.62	85.9
		<u>294.98</u>	<u>100.0</u>	<u>282.37</u>	<u>100.0</u>
<b>(f) EXPORTS AND IMPORTS</b>					
Export of goods (F.O.B. Value)			<u>6074.57</u>	<u>4689.71</u>	
Imports (C.I.F. Value) (ON PAYMENT BASIS)					
Raw Materials		515.82		377.42	
Spare Parts		59.83		34.07	
Capital Goods		2571.36		1207.48	
		<u>3147.01</u>		<u>1618.97</u>	
<b>(g) EXPENDITURE IN FOREIGN CURRENCY (ON PAYMENT BASIS)</b>					
Miscellaneous - Travelling, Advertisement and Subscriptions etc.			<u>127.38</u>	<u>164.35</u>	



Rs. in Lakhs

	2008	2007
<b>20. Additional Information</b> (Contd.)		
(h) DIVIDENDS PAID TO NON-RESIDENT SHAREHOLDERS IN FOREIGN CURRENCY FINAL		
Amount of dividend	993.18	620.74
Number of Non-Resident Shareholders	3	3
Number of Shares held	49,65,902	49,65,902
The year to which the Dividends relate (year ended)	31-03-2007	31-03-2006
(i) COMPARATIVE FIGURES The Comparative figures for the previous year have been re-arranged to conform with the revised presentation of the accounts.		
<p>SRINIVAS TALLURI Partner for and on behalf of LOVELOCK &amp; LEWES Chartered Accountants</p> <p>Hyderabad, 17th April, 2008.</p>	<p>On behalf of the Board, A. BASU R. S. NORONHA N. SAI SANKAR</p>	<p>Chairman Managing Director Finance Director &amp; Secretary</p> <p>Hyderabad, 17th April, 2008.</p>



## SIGNIFICANT ACCOUNTING POLICIES

### BASIS OF PREPARATION OF ACCOUNTS

The financial statements have been prepared on the basis of going concern, under the historic cost convention, (with the exception of land and buildings, which have been revalued), to comply in all material aspects with applicable accounting principles in India, the applicable Accounting Standards notified under Section 211 (3C) of the Companies Act, 1956 ("the Act") and the relevant provisions of the Act.

### REVENUE RECOGNITION

Sales are recognised when the property in the goods is transferred and are recorded net of trade discounts, rebates and value added tax. Sales are inclusive of excise duty.

Income from Investments is accounted for when accrued.

### FIXED ASSETS

Fixed Assets are stated at historic cost except so far as they relate to the revaluation of land and buildings. Historical cost is inclusive of freight, installation cost, duties and taxes, interest on specific borrowings utilised for financing the assets and other incidental expenses.

Depreciation is provided on plant and machinery on straight line basis at the rates specified in Schedule XIV of the Companies Act, 1956 and on other assets on straight line basis at rates based on estimated useful life of assets as determined by the management and such rates adopted are higher than the Schedule XIV rates as given below.

	Rate of Depreciation %
Buildings Freehold	5
Leasehold Property	5
Furniture & Fixtures	15 - 25
Motor Vehicles etc.	25

Assets costing less than Rs.5,000 are fully depreciated in the year of purchase. Depreciation on the revalued assets is calculated on the revalued costs and the Revaluation Reserve is adjusted with the difference between the depreciation calculated on such revalued costs and historic costs. All the fixed assets are assessed for any indication of impairment, at the end of each financial year. On such indication, the impairment loss, being the excess of carrying value over the recoverable value of the assets, is charged to the Profit and Loss Account in the respective financial years. The impairment loss recognised in the prior years is reversed in cases where the recoverable value exceeds the carrying value, upon re-assessment in the subsequent years.

### INVENTORIES

Inventories are valued at cost or below. Cost is computed based on the weighted average cost per unit after taking into account receipts at actual cost net of CENVAT credit availed. Consumption and/or other stock diminution is accounted for at the aforesaid weighted average cost. In the case of finished goods, cost comprises of material, direct labour, applicable overhead expenses, applicable excise duty and taxes paid/payable thereon.

Goods in transit/with third parties are valued at cost which represents the costs incurred upto the stage at which the goods are in transit/with third parties.

### TAXES ON INCOME

Current tax is determined as the amount of tax payable in respect of taxable income for the period.

Deferred tax is recognised on timing differences between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods, subject to consideration of prudence.

### INVESTMENTS

Long term investments are valued at cost net of provision, for permanent diminution if any. Current investments are stated at lower of cost and fair value.

### RETIREMENT BENEFITS

Contribution to various recognised provident funds/approved pension and gratuity funds and contributions to secured retiral benefits are charged to revenue. Liability for gratuity and leave encashment is determined on the basis of actuarial valuation as at the end of the accounting period.

Payments under Voluntary Retirement Scheme are charged to revenue on accrual basis in the year in which they become due for payment.

### RESEARCH AND DEVELOPMENT

Revenue expenditure on Research and Development is charged to Profit and Loss Account in the year it is incurred.

Capital expenditure on research and development is included under fixed assets.

### FOREIGN EXCHANGE TRANSACTIONS

The transactions in foreign currency are accounted for at the exchange rate prevailing at the date of the transaction. Foreign currency monetary assets and liabilities are translated at the rates of exchange ruling at the balance sheet date. Gains/losses on foreign exchange rate fluctuations related to foreign currency monetary assets and liabilities are accounted for at the year end.

Gains/Losses arising out of fluctuations in exchange rates are accounted for in the Profit and Loss Account on realisation/payment.

Difference between the forward exchange contract rate and the exchange rate as at the date of transaction is recognised as income or expense over the life of the said contract.

### PROPOSED DIVIDEND

Dividend proposed by the Directors, pending approval at the Annual General Meeting, is provided for in the books of account.

### LEASES

Assets acquired by way of finance lease are capitalised at the lower of the fair value and the present value of the minimum lease payments at the inception of the lease term and disclosed as leased assets. Lease payments are apportioned between finance charge and reduction of the lease liability based on the implicit rate of return. Finance charges are charged in the Profit and Loss Account.

Lease rentals paid in respect of operating leases are charged to Profit and Loss Account.

# CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2008



VST Industries Limited

Rs. in Lakhs

	2008	2007
<b>A. Cash flow from operating activities</b>		
Net Profit Before Tax	8605.74	8476.26
Adjustments:		
Depreciation (Net)	1371.92	1147.60
(Profit)/Loss on Sale of Fixed Assets (Net)	2.57	(17.71)
Unrealised (Gain)/Loss on exchange (Net)	57.13	(16.53)
Interest Income on Loans and Deposits etc. (Gross)	(209.20)	(159.31)
Interest Paid	12.58	9.24
Income from Long Term Investments	(63.75)	(56.26)
Income from Current Investments	(460.49)	(269.84)
(Profit)/Loss on sale of Investments (Net)	(743.27)	(934.95)
Operating Profit before Working Capital changes	8573.23	8178.50
Adjustments for:		
Trade and Other Receivables	(99.21)	(79.61)
Inventories	(1809.73)	(853.37)
Trade and Other Payables	3486.04	2766.02
Cash generated from operations	10150.33	10011.54
Direct Taxes Paid	(3217.64)	(3146.11)
Cash flow before Extraordinary Item	6932.69	6865.43
Extraordinary Item (Refer note (II) on Schedule 19)	(102.97)	(99.23)
Net cash from operating activities	<u>6829.72</u>	<u>6766.20</u>
<b>B. Cash flow from investing activities</b>		
Purchase of Fixed Assets	(3820.96)	(1946.11)
Sale of fixed assets	8.48	75.09
Purchase of Investments	(151299.66)	(80973.69)
Sale/Redemption of Investments	148130.94	79612.59
Redemption of Debenture - Subsidiary Company	308.00	-
Income from Long Term Investments	63.75	56.26
Income from Current Investments	460.49	269.84
Interest Income on Loans and Deposits etc. (Gross)	313.14	51.54
Net cash used in investing activities	<u>(5835.82)</u>	<u>(2854.48)</u>
<b>C. Cash flow from financing activities</b>		
Finance lease payments	(55.78)	(43.62)
Interest - Others	(12.58)	(9.24)
Dividends paid	(3613.25)	(2200.97)
Net cash used in financing activities	<u>(3681.61)</u>	<u>(2253.83)</u>
Net Increase/(Decrease) in cash and cash equivalents	(2687.71)	1657.89
Opening cash and cash equivalents	3145.58	1487.69
Closing cash and cash equivalents	<u>457.87</u>	<u>3145.58</u>



- (a) The Comparative figures for the previous year have been re-arranged to conform with the revised presentation of the accounts.
- (b) The above cash flow statement has been prepared using the 'Indirect Method' as set out in the Accounting Standard - 3 on Cash Flow Statement as notified under Section 211 (3C) of the Companies Act, 1956.

This is the Cash Flow Statement referred to in our report of even date.

SRINIVAS TALLURI  
 Partner  
 for and on behalf of  
 LOVELOCK & LEWES  
 Chartered Accountants

Hyderabad, 17th April, 2008.

On behalf of the Board,

A. BASU                      Chairman  
 R. S. NORONHA          Managing Director  
 N. SAI SANKAR          Finance Director  
    & Secretary

Hyderabad, 17th April, 2008.





## REPORT OF THE AUDITORS TO THE MEMBERS

We have audited the attached Balance Sheet of VST Distribution, Storage & Leasing Company Private Limited, as at 31st March, 2008, the related Profit and Loss Account for the year ended on that date annexed thereto, and the Cash Flow Statement for the year ended on that date, which we have signed under reference to this report. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

1. As required by the Companies (Auditor's Report) Order, 2003, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956 (the 'Act'), and on the basis of such checks as we considered appropriate and according to the information and explanation given to us, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
2. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:
  - (a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
  - (b) In our opinion, proper books of account as required by law have been kept by the Company, so far as appears from our examination of those books;

- (c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
- (d) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Act;
- (e) On the basis of written representations received from the Directors, as on 31st March, 2008, and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31st March, 2008 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act;
- (f) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with notes thereon attached thereto give in the prescribed manner the information required by the Act and give a true and fair view in conformity with the accounting principles generally accepted in India:
  - i. in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2008;
  - ii. in the case of the Profit and Loss Account, of the profit for the year ended on that date; and
  - iii. in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For and on behalf of  
M. BHASKARA RAO & CO.  
Chartered Accountants

V. RAGHUNANDAN  
Membership No. 26255  
Partner

Hyderabad, 16th April, 2008.

**ANNEXURE TO THE REPORT OF THE AUDITORS**

(Statement referred to in Paragraph (1) of our Report of even date)

1(a) The Company does not have any tangible fixed assets, hence reporting regarding proper records, physical verification and discrepancies thereof does not arise.

2(a) The Company does not have any inventory, hence reporting regarding proper records, physical verification and discrepancies thereof does not arise.

3(a) According to the information and explanations given to us, the Company has not granted any secured or unsecured loans to any Company, Firm or other party covered in the Register maintained under Section 301 of the Companies Act, 1956. Therefore, the provisions of Clause 4(iii) (b), (c) and (d) of the Companies (Auditor's Report) Order, 2003 as amended are not applicable to the Company.

4 In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to purchase of inventory, fixed assets and for the sale of goods and services. During the course of our audit, we have not observed any continuing failure to correct any major weaknesses in internal controls.

5(a) In our opinion and according to the information and explanations given to us, there is no transaction that needs to be entered into the register in pursuance of Section 301 of the Companies Act, 1956.

5(b) In the view of the above, clause (v) (b) of Paragraph 4 of the Companies (Auditor's Report) Order, 2003 is not applicable to the Company for the current year.

6 In our opinion and according to the information and explanations given to us, the Company has not accepted any deposits from the public and the provisions of Section 58A and 58AA of the Companies Act, 1956 of the Companies (Acceptance of Deposits) Rules, 1975 are not applicable to the Company.

7 In our opinion, the Company has an internal audit system commensurate with the size of the Company and the nature of its business.

8 The Central Government of India has not prescribed the maintenance of cost records under clause (d) of sub-section (1) of Section 209 of the Companies Act, 1956 for any product of the Company.

9(a) In our opinion and according to the information and explanations given to us, Company is generally regular in depositing undisputed statutory dues including Income Tax, Wealth Tax, Service Tax, Cess and other statutory dues with the appropriate authorities in India. There are no arrears of statutory dues as at 31st March, 2008 which are outstanding for a period of more than six months from the date they become payable.

9(b) According to the information and explanations given to us and the records of the Company examined by us, there are no dues on account of Income Tax, Wealth Tax, Service Tax, Cess and other statutory dues as at 31st March, 2008 which has not been deposited on account of dispute.

10 The Company has neither accumulated losses as on 31st March, 2008 nor has it incurred cash losses during the financial year ended on that date or in the immediately preceding financial year.

11 The Company has not defaulted in repayment of dues to financial institutions and banks or debenture holders as at the balance sheet date.

12 In our opinion and according to the information and explanations given to us, the Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

13 In our opinion, the Company is not a Chit Fund or a Nidhi or Mutual Benefit Fund / Society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 as amended are not applicable to the Company.

14 In our opinion and according to the information and explanations given to us, the Company does not deal or trade in shares, securities, debentures and other investments. Therefore, the provisions of clause 4(xiv) of the Companies (Auditor's Report) Order, 2003 as amended are not applicable to the Company.

## VST DISTRIBUTION, STORAGE & LEASING COMPANY PRIVATE LIMITED

- 15 According to the information and explanations given to us, during the year the Company has not given any guarantee for loans taken by others from banks and financial institutions.
- 16 To the best of our knowledge and belief and according to the information and explanations given to us, the Company has not availed any term loans during the year.
- 17 According to the information and explanations given to us and on an overall examination of the Balance Sheet of the Company, we report that no funds raised on short-term basis have been used for long-term investments.
- 18 According to the information and explanations given to us, the Company has not made any preferential allotment of shares to parties and companies covered in the Register maintained under Section 301 of the Companies Act, 1956. Therefore, the provisions of clause 4(xviii) of the Companies (Auditor's Report) Order, 2003 as amended, are not applicable to the Company.
- 19 According to the information and explanations given to us, the Company has not issued any debentures. Therefore, the provisions of Clause 4(xix) of the Companies (Auditor's Report) Order, 2003, are not applicable to the Company.
- 20 The Company has not raised any money by public issue during the year. Therefore, the provisions of clause 4(xx) of the Companies (Auditor's Report) Order, 2003 as amended are not applicable to the Company.
- 21 To the best of our knowledge and belief and according to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the year.

For and on behalf of  
M. BHASKARA RAO & CO.  
Chartered Accountants

V. RAGHUNANDAN  
Membership No. 26255  
Hyderabad, 16th April, 2008. Partner

**BALANCE SHEET AS AT 31ST MARCH, 2008**

Rupees

	Schedule	2008	2007
<b>I. SOURCES OF FUNDS</b>			
<b>1. Shareholders' Funds</b>			
(a) Capital	1	5,00,000	5,00,000
(b) Reserves and Surplus	2	2,85,81,368	2,73,38,570
		<u>2,90,81,368</u>	<u>2,78,38,570</u>
<b>2. Loan Funds</b>			
(a) Unsecured Loans	3	-	3,08,00,000
<b>3. Deferred Tax Liability</b>		27,32,777	22,20,621
TOTAL		<u>3,18,14,145</u>	<u>6,08,59,191</u>
<b>II. APPLICATION OF FUNDS</b>			
<b>1. Fixed Assets</b>	4		
(a) Gross Block		1,72,00,000	1,72,00,000
(b) Less : Depreciation		27,63,975	19,03,975
(c) Net Block		<u>1,44,36,025</u>	<u>1,52,96,025</u>
<b>2. Investments</b>	5	6,220	6,220
<b>3. Current Assets, Loans and Advances</b>			
(a) Sundry Debtors	6	-	1,51,000
(b) Cash and Bank Balances	7	6,12,972	3,01,25,410
(c) Loans and Advances	8	20,000	20,000
		<u>6,32,972</u>	<u>3,02,96,410</u>
Less : Current Liabilities and Provisions	9		
(a) Current Liabilities		30,000	12,31,212
(b) Provisions		(1,67,68,928)	(1,64,91,748)
		<u>(1,67,38,928)</u>	<u>(1,52,60,536)</u>
<b>Net Current Assets</b>		1,73,71,900	4,55,56,946
TOTAL		<u>3,18,14,145</u>	<u>6,08,59,191</u>

Notes on Accounts

10

NOTE: The Schedules referred to above and Notes on Accounts annexed form an integral part of the Balance Sheet.

This is the Balance Sheet referred to in our report of even date.

For M. BHASKARA RAO & CO.  
Chartered Accountants

V. RAGHUNANDAN  
Partner

Hyderabad, 16th April, 2008.

On behalf of the Board,

SANJAY KHANNA

Director

ANISH GUPTA

Director

Hyderabad, 16th April, 2008.

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2008

Rupees

	Schedule	2008	2007
<b>I. Income</b>			
Brokerage Income		19,77,849	32,90,577
Other Income		2,03,324	70,53,861
[Including liabilities no longer required written back Rs.Nil (2007 - Rs.70,44,961)]			
Interest Received on Deposits (Gross)		16,79,124	-
[Income Tax Deducted thereon Rs.3,40,924 (2007 - Rs.Nil)]			
		<u>38,60,297</u>	<u>1,03,44,438</u>
<b>II. Expenditure</b>			
Rates & Taxes		94,969	86,182
Bad Debts written off		-	93,508
Interest		1,80,812	3,04,918
Depreciation/Amortisation		8,60,000	8,60,000
Directors' Sitting Fees		5,000	20,000
Miscellaneous Expenses		7,09,015	13,38,418
Payment to Auditors - Audit Fee		30,000	30,000
- Fees for Certificates etc.		8,247	4,490
		<u>18,88,043</u>	<u>27,37,516</u>
<b>III. Profit before Taxation</b>		19,72,254	76,06,922
Income Tax Expense [Including prior year tax - Rs.1,800 (2007 - Rs.57,575), Deferred Tax Rs.5,12,156 (2007 - Rs.5,12,452)]		7,29,456	25,85,027
		<u>12,42,798</u>	<u>50,21,895</u>
<b>IV. Profit after Taxation</b>		12,42,798	50,21,895
<b>V. Profit Brought Forward</b>		98,83,232	1,10,46,337
<b>VI. Appropriations</b>			
Transfer to Debenture Redemption Reserve		-	61,85,000
Transfer from Debenture Redemption Reserve		1,25,10,644	-
		<u>1,25,10,644</u>	<u>61,85,000</u>
<b>VII. Balance Carried to Balance Sheet</b>		<u>2,36,36,674</u>	<u>98,83,232</u>
Basic Earnings Per Share		24.86	100.44
Diluted Earnings Per Share		0.85	1.67

Notes on Accounts

10

NOTE : The Schedules referred to above and Notes on Accounts annexed form an integral part of the Profit and Loss Account.

This is the Profit and Loss Account referred to in our report of even date.

For M. BHASKARA RAO & CO.  
Chartered Accountants

V. RAGHUNANDAN  
Partner

Hyderabad, 16th April, 2008.

On behalf of the Board,

SANJAY KHANNA

Director

ANISH GUPTA

Director

Hyderabad, 16th April, 2008.

**SCHEDULES**

Rupees

	2008	2007
<b>1. Share Capital</b>		
AUTHORISED		
50,000 Equity Shares of Rs.10 each	5,00,000	5,00,000
2,500 11% Cumulative Redeemable Preference Shares of Rs.10 each	25,000	25,000
	<u>5,25,000</u>	<u>5,25,000</u>
ISSUED AND SUBSCRIBED		
50,000 Equity Shares of Rs.10 each fully paid up	5,00,000	5,00,000
The entire Equity Share Capital is held by the holding company, VST INDUSTRIES LIMITED, and its nominees.	<u>5,00,000</u>	<u>5,00,000</u>
<b>2. Reserves and Surplus</b>		
Capital Redemption Reserve	25,000	25,000
General Reserve	49,19,694	49,19,694
Debenture Redemption Reserve		
As at the commencement of the year	1,25,10,644	63,25,644
Add : Transfer from Profit and Loss Account	-	61,85,000
	<u>1,25,10,644</u>	<u>1,25,10,644</u>
Less : Transfer to Profit and Loss Account	<u>(1,25,10,644)</u>	-
	-	1,25,10,644
Profit and Loss Account - Balance	2,36,36,674	98,83,232
	<u>2,85,81,368</u>	<u>2,73,38,570</u>
<b>3. Unsecured Loans</b>		
30,30,000 1% Redeemable Optionally Convertible Debentures of Rs.10 each Redeemable at par at the end of 5 years		
As at the commencement of the year	3,03,00,000	3,03,00,000
Redeemed during the year	<u>3,03,00,000</u>	-
	-	<u>3,03,00,000</u>
50,000 1% Redeemable Optionally Convertible Debentures of Rs.10 each Redeemable at par at the end of 4 years		
As at the commencement of the year	5,00,000	5,00,000
Redeemed during the year	<u>5,00,000</u>	-
	-	<u>5,00,000</u>
	-	<u>3,08,00,000</u>
<b>4. Fixed Assets</b>		
Time Share Rights		
COST		
As at 1st April, 2007	1,72,00,000	1,72,00,000
GROSS BLOCK		
As at 31st March, 2008	<u>1,72,00,000</u>	<u>1,72,00,000</u>
DEPRECIATION/AMORTISATION		
As at 1st April, 2007	19,03,975	10,43,975
For the year	8,60,000	8,60,000
DEPRECIATION/AMORTISATION		
As at 31st March, 2008	<u>27,63,975</u>	<u>19,03,975</u>
NET BLOCK		
As at 31st March, 2008	<u>1,44,36,025</u>	<u>1,52,96,025</u>



**SCHEDULES**

Rupees

	2008	2007
<b>5. Investments at Cost</b>		
LONG TERM NON-TRADE		
QUOTED		
Duncan Industries Limited		
462 Equity Shares of Rs.10 each fully paid up	4,803	4,803
Godfrey Phillips India Limited		
200 Equity Shares of Rs.10 each fully paid up	641	641
GTC Industries Limited		
50 Equity Shares of Rs.10 each fully paid up	776	776
UNQUOTED		
ITC Classic Real Estate Finance Limited		
50,00,000 Equity Shares of Rs.10 each fully paid up	-	-
ITC Agrotech Finance and Investments Limited		
23,82,500 Equity Shares of Rs.10 each fully paid up	-	-
25,00,000 Floating Rate Unsecured Optionally Fully Convertible Debentures of Rs.100 each fully paid up	-	-
	<u>6,220</u>	<u>6,220</u>
[Market Value of Quoted Investments Rs.2,73,866 (2007 - Rs.2,41,123)]		
<b>6. Sundry Debtors (Considered Good)</b>		
Unsecured		
Other Debts	-	1,51,000
	<u>-</u>	<u>1,51,000</u>
<b>7. Cash and Bank Balances</b>		
With Scheduled Banks - On Current Account	6,12,972	1,00,410
- On Term Deposits	-	3,00,25,000
	<u>6,12,972</u>	<u>3,01,25,410</u>
<b>8. Loans and Advances (Unsecured, Considered Good)</b>		
Advances recoverable in cash or in kind or for value to be received	20,000	20,000
	<u>20,000</u>	<u>20,000</u>
<b>9. Current Liabilities and Provisions</b>		
(a) Liabilities		
Sundry Creditors (Other than Small Scale Industrial Undertakings)	30,000	11,24,499
Other Liabilities	-	1,06,713
	<u>30,000</u>	<u>12,31,212</u>
(b) Provisions		
Taxation less payments	(1,67,68,928)	(1,64,91,748)
	<u>(1,67,68,928)</u>	<u>(1,64,91,748)</u>

## 10. Notes on Accounts

### I Significant Accounting Policies:

- A. Basis of preparation of accounts: The financial statements have been prepared on the basis of going concern, under the historical cost convention, to comply in all material aspects with the generally accepted accounting principles in India, the applicable accounting standards notified under Section 211(3C) of the Companies Act, 1956 ("the Act") and the relevant provisions of the Act.
- B. Fixed Assets: Fixed Assets are stated at historical cost which is inclusive of freight, installation cost, duties and taxes and other incidental expenses.

Depreciation is provided on straight line basis at rates based on estimated useful life of the assets determined by the management and the rates adopted are higher than Schedule XIV of the Companies Act, 1956 as amended as given below:

	Rate of Depreciation (%)
Furniture & Fixtures	15
Office Equipment	20

Rights on Time share are amortised over a period of 20 years, being the tenure of time share rights.

All the fixed assets are assessed for any indication of impairment at the end of each financial year. On such indication, the impairment loss, being the excess of carrying value over the recoverable value of the assets, are charged to the Profit and Loss Account in the respective financial years. The impairment loss recognised in the prior years is reversed in cases where the recoverable value exceeds the carrying value, upon re-assessment in the subsequent years.

- C. Investments: Long term investments are stated at costs. The current investments are stated at lower of costs and market value. The income on investments is accounted for when accrued, at gross value.
- D. Inventories: Inventories are valued at Cost or Market value whichever is lower. Cost includes purchase price and taxes, if any.
- E. Revenue Recognition: Sale of goods is recognised at the point of despatch of goods to the customers. Income from Services are accounted for when accrued.

### II Notes on Accounts:

- A. **Contingent Liability :** Claims against the Company not acknowledged as debts Rs.63,41,985 (2007 - Rs.1,69,01,883).  
These comprise -
- Income Tax Demands disputed by the Company relating to disallowances made in various assessment proceedings, under appeal, aggregating to Rs.63,41,985 (2007 - Rs.1,46,51,652)
  - Other matters relating to dealers etc. Rs.Nil (2007 - Rs.22,50,231)
- B. There are no amounts due by/or due to Directors.
- C. **Deferred tax net:** As shown in the Balance Sheet  
**Deferred tax asset:** On timing differences Rs.55,362 (2007 - Rs.1,30,559)  
**Deferred tax liability:** On fiscal allowances on fixed assets Rs.27,88,139 (2007 - Rs.23,51,180)
- D. Additional information pursuant to the Provisions of Paragraphs 3, 4C, 4D of Part II of Schedule VI of the Companies Act, 1956:  
Not Applicable

VST DISTRIBUTION, STORAGE & LEASING COMPANY PRIVATE LIMITED

Rupees

	2008	2007
<b>E. Earnings Per Share</b>		
Earnings Per Share is computed based on the following:		
(a) Profit After Taxation as per Profit and Loss Account considered for Basic EPS	12,42,798	50,21,895
(b) Add: Debenture Interest (Net of Income Tax)	1,01,655	2,02,283
(c) Profit considered for diluted EPS	13,44,453	52,24,178
(d) Weighted average number of Equity Shares for basic EPS	50,000	50,000
(e) Add: Weighted average number of Equity Shares on conversion of debentures	15,40,000	30,80,000
(f) Weighted average number of Equity Shares considered for diluted EPS	15,90,000	31,30,000
(g) Basic Earnings Per Share	24.86	100.44
(h) Diluted Earnings Per Share (Nominal Value of Shares - Rs.10)	0.85	1.67
<b>F. Related Party Transactions</b>		
Holding Company: VST Industries Limited		
Nature of Transactions		
(a) Other Payments - Service/Secondment Charges	2,50,000	6,00,000
- Interest	1,54,000	3,04,918
(b) Outstandings - Payables	-	8,96,094
G. The comparative figures for the previous year have been regrouped wherever considered necessary.		
<p>For M. BHASKARA RAO &amp; CO. Chartered Accountants</p> <p>V. RAGHUNANDAN Partner Hyderabad, 16th April, 2008.</p>		<p>On behalf of the Board, SANJAY KHANNA Director ANISH GUPTA Director Hyderabad, 16th April, 2008.</p>

**BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE**

**I. Registration Details**

Registration No.        State Code

Corporate Identification No.

Balance Sheet Date          
Date Month Year

**II. Capital raised during the year** (Amount in Rs. Thousands)

Public Issue        Rights Issue        Bonus Issue        Private Placement

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

Total Liabilities         Total Assets

**Sources of Funds**

Paid-up Capital       Reserves & Surplus        Secured Loans        Unsecured Loans        Deferred Tax Liability

**Application of Funds**

Net Fixed Assets        Investments        Net Current Assets

Miscellaneous Expenditure        Accumulated Losses

**IV. Performance of Company** (Amount in Rs. Thousands)

Turnover       Total Expenditure       + - Profit/Loss before Tax       + - Profit/Loss after Tax

Basic Earnings Per Share in Rs.        Diluted Earnings Per Share in Rs.       Dividend rate %         
On year end of Capital Recommended

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

Item Code No. (ITC CODE)               
Service Description

On behalf of the Board,

SANJAY KHANNA Director

ANISH GUPTA Director

Hyderabad, 16th April, 2008.

**CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2008**

Rupees

	2008	2007
<b>A. Cash flow from operating activities</b>		
Net Profit before Tax and extraordinary items	19,72,254	76,06,922
Adjustments:		
Depreciation/Amortisation	8,60,000	8,60,000
Income from Investments	(5,000)	(8,900)
Interest (Net)	(14,98,313)	3,04,918
Operating Profit before Working Capital changes	13,28,941	87,62,940
Adjustments for:		
Trade and Other Receivables	1,51,000	11,37,83,245
Trade and Other Payables	(12,01,212)	(8,79,72,137)
Cash generated from operations	<u>2,78,729</u>	<u>3,45,74,048</u>
Direct Taxes Paid	(4,94,480)	(48,35,000)
Net Cash from Operating Activities	<u>(2,15,751)</u>	<u>2,97,39,048</u>
<b>B. Cash flow from investing activities</b>		
Income from Investments	5,000	8,900
Net Cash used for investing activities	5,000	8,900
<b>C. Cash flow from financing activities</b>		
Debenture Redemption	(3,08,00,000)	-
Interest (Net)	14,98,313	(3,04,918)
Net cash from financing activities	(2,93,01,687)	(3,04,918)
Net Increase/(Decrease) in cash and cash equivalents	(2,95,12,438)	2,94,43,030
Opening cash and cash equivalents	3,01,25,410	4,75,435
Cash and cash equivalents taken over on amalgamation	-	2,06,945
Closing cash and cash equivalents	<u>6,12,972</u>	<u>3,01,25,410</u>

(a) The comparative figures for the previous year have been re-arranged to conform with the revised presentation of accounts.

(b) The above cash flow statement has been prepared using the 'Indirect Method' as set out in the Accounting Standard - 3 on Cash Flow Statement notified under Section 211 (3C) of the Companies Act, 1956.

This is the Cash Flow Statement referred to in our report of even date.

For M. BHASKARA RAO & CO.  
Chartered Accountants

V. RAGHUNANDAN  
Partner  
Hyderabad, 16th April, 2008.

On behalf of the Board,

SANJAY KHANNA Director

ANISH GUPTA Director

Hyderabad, 16th April, 2008.

**Report of the Directors for the year ended 31st March, 2008**

The Directors of your Company have pleasure in presenting their Annual Report and Accounts for the year ended 31st March, 2008.

**Financial Results**

Rs.

The Net Profit for the year, after deducting all charges and expenses and taxation amounts to ... 12,42,798

Adding thereto profit brought forward from the previous year ... 98,83,232

Out of which the following appropriation has been made

Release from Debenture Redemption Reserve ... (1,25,10,644)

Leaving an undistributed amount of in the Profit and Loss Account to be carried forward to the following year. ... 2,36,36,674

**OPERATIONS**

During the year under review, profits of the Company registered a commendable performance.

Consequent to discontinuance of cigarette trading operations with effect from 1st April, 2006, the Company is now engaged in distribution of mutual funds and other businesses.

The Company has earned Brokerage income of Rs.19.78 lakhs during the year.

Net profit has accordingly was at Rs.12.43 lakhs as compared to Rs.50.22 lakhs for the year 2006-07.

**CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, EXPORTS & FOREIGN EXCHANGE EARNINGS AND OUTGO**

There are no particulars to be furnished under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988.

**DIRECTORS' RESPONSIBILITY STATEMENT**

Pursuant to Section 217(2AA) of the Companies (Amendment) Act, 2000, the Directors confirm that:

1. In the preparation of the Annual Accounts, the applicable accounting standards have been followed;
2. Appropriate accounting policies have been applied consistently. Judgement and estimates which are reasonable and prudent have been made so as to give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit of the Company for the period;
3. Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. The Annual Accounts have been prepared on a going concern basis.

**DIRECTORS**

Mr. A.K.V. Epur resigned from the Board with effect from 21st May, 2007. VST Industries Limited has withdrawn the nomination of Mr. A. Basu as a Director on the Board of the Company with effect from 18th July, 2007. The Board records its deep appreciation of the contribution made to your Company by Mr. A.K.V. Epur and Mr. A. Basu.

In accordance with the Articles of Association of the Company, Mr. Anish Gupta retires from the Board, and being eligible, will be proposed for re-election.

**COMPANY EMPLOYEES**

The Company has no employee whose remuneration exceeds Rs.24,00,000 per annum. Therefore, there are no particulars to be furnished under Section 217(2A) of the Companies Act, 1956.

**AUDITORS**

The Auditors, M/s. M. Bhaskara Rao & Co., Chartered Accountants, retire and being eligible, offer themselves for re-appointment.

On behalf of the Board,

SANJAY KHANNA Director

ANISH GUPTA Director

Hyderabad, 16th April, 2008.



## REPORT OF THE AUDITORS

To the Board of Directors  
of VST Industries Limited

1. We have audited the attached Consolidated Balance Sheet of VST Industries Limited ("the Company" or "VST") and its subsidiary (the Group) as at 31st March, 2008, the related Consolidated Profit and Loss Account and the Consolidated Cash Flow Statement for the year ended on that date annexed thereto, which we have signed under reference to this report. These Consolidated Financial Statements are the responsibility of the Company's management and have been prepared by the management on the basis of separate financial statements and other financial information regarding components. Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. We did not audit the financial statements of the subsidiary, whose financial statements reflect the Group's share of total assets of Rs.318.14 Lakhs as at 31st March, 2008 and the Group's share of total revenues of Rs.38.60 Lakhs and net cash outflows amounting to Rs.295.12 Lakhs for the year ended on that date as considered in the Consolidated Financial Statements. The financial statements and other information of the subsidiary has been audited by other auditors whose report has been furnished to us, and our opinion, in so far as it relates to the amounts included in respect of this subsidiary, is based solely on the report of the other auditor.
4. We report that the Consolidated Financial Statements have been prepared by the Company's management in accordance with the requirements of Accounting Standard - 21, Consolidated Financial Statements as notified under the Companies (Accounting Standard) Rule 2006.
5. Based on our audit and on consideration of the report of the other auditor on the financial statements and other information of the subsidiary, in our opinion and to the best of our information and according to the explanations given to us, the attached Consolidated Financial Statements give a true and fair view in conformity with the accounting principles generally accepted in India:
  - (a) in the case of the Consolidated Balance Sheet, of the state of affairs of the Group as at 31st March, 2008;
  - (b) in the case of the Consolidated Profit and Loss Account, of the profit for the year ended on that date; and
  - (c) in the case of the Consolidated Cash Flow Statement, of the cash flows for the year ended on that date.

SRINIVAS TALLURI

Partner

Membership No. 29864

For and on behalf of

LOVELOCK & LEWES

Chartered Accountants

Hyderabad, 17th April, 2008.





# CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH, 2008

VST Industries Limited

Rs. in Lakhs

	Schedule	2008	2007
<b>I. SOURCES OF FUNDS</b>			
<b>1. Shareholders' Funds</b>			
(a) Capital	1	1544.19	1544.19
(b) Reserves and Surplus	2	<u>21934.82</u>	<u>19752.55</u>
TOTAL		<u>23479.01</u>	<u>21296.74</u>
<b>II. APPLICATION OF FUNDS</b>			
<b>1. Fixed Assets</b>			
(a) Gross Block	3	23230.25	19497.99
(b) Less : Depreciation		<u>11200.36</u>	<u>9862.42</u>
(c) Net Block		12029.89	9635.57
(d) Capital Work-in-Progress		<u>286.83</u>	<u>225.37</u>
		12316.72	9860.94
<b>2. Investments</b>	4	22328.97	18416.98
<b>3. Deferred Tax - Net</b>	5	896.43	1075.92
<b>4. Current Assets, Loans and Advances</b>			
(a) Inventories	6	7609.69	5799.96
(b) Sundry Debtors	7	431.76	526.29
(c) Cash and Bank Balances	8	464.00	3446.84
(d) Other Current Assets	9	21.13	142.20
(e) Loans and Advances	10	<u>1303.12</u>	<u>1102.16</u>
		<u>9829.70</u>	<u>11017.45</u>
Less : Current Liabilities and Provisions			
(a) Liabilities	11	18836.37	15393.76
(b) Provisions	12	<u>3056.44</u>	<u>3680.79</u>
		<u>21892.81</u>	<u>19074.55</u>
<b>Net Current Assets</b>		(12063.11)	(8057.10)
TOTAL		<u>23479.01</u>	<u>21296.74</u>
Capital Expenditure Commitments	13		
Notes to Consolidated Balance Sheet	14		

The schedules referred to above and the Statement on Significant Accounting policies form an integral part of the Consolidated Balance Sheet.

This is the Consolidated Balance Sheet referred to in our report of even date.

SRINIVAS TALLURI  
Partner  
for and on behalf of  
LOVELOCK & LEWES  
Chartered Accountants

Hyderabad, 17th April, 2008.

On behalf of the Board,

A. BASU

R. S. NORONHA

N. SAI SANKAR

Chairman

Managing Director

Finance Director  
& Secretary

Hyderabad, 17th April, 2008.



# CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2008

VST Industries Limited

Rs. in Lakhs

	Schedule	2008	2007
<b>I. Income</b>			
Sales (Gross)		77343.57	72522.87
Less : Excise Duty		43346.78	38903.27
Sales (Net)		33996.79	33619.60
Brokerage Income		19.78	32.91
Other Income	15	1595.50	1648.21
		<u>35612.07</u>	<u>35300.72</u>
<b>II. Expenditure</b>			
Raw Materials, Purchases and Stock-in-Trade	16	13690.72	11653.59
Manufacturing, Selling, Distribution and Administration Expenses, etc.	17	11915.37	13938.60
Depreciation		1380.52	1156.20
		<u>26986.61</u>	<u>26748.39</u>
<b>III. Profit before Taxation</b>		8625.46	8552.33
Fringe Benefit Tax		125.00	150.00
Taxation	18	2652.73	2842.94
<b>IV. Profit after Taxation</b>		5847.73	5559.39
Balance Brought Forward		6467.94	5183.65
<b>V. Profit available for Appropriation</b>		<u>12315.67</u>	<u>10743.04</u>
<b>VI. Appropriations</b>			
Transfer to General Reserve		600.00	600.00
Transfer to Debenture Redemption Reserve		–	61.85
Transfer from Debenture Redemption Reserve		(125.11)	–
Dividends on			
Ordinary Shares - Final (Proposed)		3088.38	3088.38
Dividend Tax thereon		524.87	524.87
		<u>4088.14</u>	<u>4275.10</u>
<b>VII. Balance Carried Forward</b>		<u>8227.53</u>	<u>6467.94</u>
Basic and diluted Earnings Per Share (Rs.)		37.87	36.00
Notes to Consolidated Profit and Loss Account	19 & 20		

The schedules referred to above and the Statement on Significant Accounting policies form an integral part of the Consolidated Profit and Loss Account.

This is the Consolidated Profit and Loss Account referred to in our report of even date.

SRINIVAS TALLURI  
Partner  
for and on behalf of  
LOVELOCK & LEWES  
Chartered Accountants

Hyderabad, 17th April, 2008.

On behalf of the Board,

A. BASU Chairman  
R. S. NORONHA Managing Director  
N. SAI SANKAR Finance Director & Secretary

Hyderabad, 17th April, 2008.



# SCHEDULES TO THE CONSOLIDATED BALANCE SHEET

VST Industries Limited

Rs. in Lakhs

	2008	2007
<b>1. Capital</b>		
<b>AUTHORISED</b>		
5,00,00,000 Ordinary Shares of Rs.10 each	5000.00	5000.00
50,00,000 Cumulative Redeemable Preference Shares of Rs.100 each	5000.00	5000.00
	<u>10000.00</u>	<u>10000.00</u>
<b>ISSUED AND SUBSCRIBED</b>		
1,54,41,920 Ordinary Shares of Rs.10 each fully paid up	<u>1544.19</u>	<u>1544.19</u>
<b>OF THE ABOVE ORDINARY SHARES:</b>		
81,065 Ordinary Shares of Rs.10 each were partly paid for in cash to the extent of Rs.6,94,843 and partly paid to the extent of Rs.1,15,807 for a consideration other than cash as Bonus Shares by Capitalisation of Reserves	8.11	8.11
9,18,935 Ordinary Shares of Rs.10 each were partly paid to the extent of Rs.1,54,286 pursuant to an agreement without payment being received in cash and partly paid to the extent of Rs.90,35,064 for a consideration other than cash as Bonus Shares by Capitalisation of Reserves	91.89	91.89
1,26,71,920 Ordinary Shares of Rs.10 each were allotted for a consideration other than cash as Bonus Shares by Capitalisation of Reserves	<u>1267.19</u>	<u>1267.19</u>
	<u>1367.19</u>	<u>1367.19</u>
<b>2. Reserves and Surplus</b>		
<b>CAPITAL REDEMPTION RESERVE</b>	1000.25	1000.25
<b>GENERAL RESERVE</b>		
As at the commencement of the year	11687.14	11118.99
Add - Transfer from Profit and Loss Account	600.00	600.00
Less - Provision towards Employee Retirement and Other benefits (Refer note V on Schedule 14)	<u>- 12287.14</u>	<u>31.85</u>
		11687.14
<b>REVALUATION RESERVE</b>		
As at the commencement of the year	472.11	490.03
Transfer to Profit and Loss Account		
- Depreciation (Refer note VI on Schedule 3)	<u>52.21</u>	<u>17.92</u>
	419.90	472.11
<b>DEBENTURE REDEMPTION RESERVE*</b>		
As at the commencement of the year	125.11	63.26
Add - Transfer from Profit and Loss Account	-	61.85
Less - Transfer to Profit and Loss Account	<u>125.11</u>	<u>-</u>
		125.11
<b>PROFIT AND LOSS ACCOUNT - BALANCE</b>	<u>8227.53</u>	<u>6467.94</u>
	<u>21934.82</u>	<u>19752.55</u>
*Represents Debenture Redemption Reserve created in VST Distribution, Storage & Leasing Company Private Limited, Subsidiary, towards the Debenture liability to the Holding Company. Redeemed during the year.		



Rs. in Lakhs

	Goodwill & Trade Marks	Time Share Rights	Land Freehold	Buildings Freehold	Leasehold Property	Plant & Machinery	Furniture & Fixtures	Leasehold Equipment	Motor Vehicles	Total 2008	Total 2007
<b>3. Fixed Assets</b>											
<b>COST/REVALUATION</b>											
As at 1st April, 2007	5.81	172.00	328.12	464.09	1223.07	16446.76	525.13	205.76	127.25	19497.99	17844.01
Additions	–	–	–	–	5.63	3498.10	75.91	78.91	179.86	3838.41	1893.91
	5.81	172.00	328.12	464.09	1228.70	19944.86	601.04	284.67	307.11	23336.40	19737.92
Disposals	–	–	–	–	–	22.87	25.56	9.79	47.93	106.15	239.93
	5.81	172.00	328.12	464.09	1228.70	19921.99	575.48	274.88	259.18	23230.25	19497.99
<b>GROSS BLOCK</b>											
As at 31st March, 2008	5.81	172.00	328.12	464.09	1228.70	19921.99	575.48	274.88	259.18	23230.25	19497.99
<b>DEPRECIATION/ADJUSTMENTS</b>											
As at 1st April, 2007	5.81	19.04	–	191.60	1025.71	8052.43	387.36	88.97	91.50	9862.42	8875.19
For the year	–	8.60	–	83.92	(2.79)	1194.16	49.07	61.70	38.07	1432.73	1174.12
	5.81	27.64	–	275.52	1022.92	9246.59	436.43	150.67	129.57	11295.15	10049.31
Adjustment on Disposals	–	–	–	–	–	19.47	22.47	9.25	43.60	94.79	186.89
	5.81	27.64	–	275.52	1022.92	9227.12	413.96	141.42	85.97	11200.36	9862.42
<b>NET BLOCK</b>											
As at 31st March, 2008	–	144.36	328.12	188.57	205.78	10694.87	161.52	133.46	173.21	12029.89	9635.57
Capital Work-in-Progress	–	–	–	–	–	–	–	–	–	286.83	225.37
	–	144.36	328.12	188.57	205.78	10694.87	161.52	133.46	173.21	12316.72	9860.94
Per Balance Sheet 31st March, 2008	–	144.36	328.12	188.57	205.78	10694.87	161.52	133.46	173.21	12316.72	9860.94
Per Balance Sheet 31st March, 2007	–	152.96	328.12	272.49	197.36	8394.33	137.77	116.79	35.75	9860.94	

NOTES:

- (I) Exemption in respect of Land under the Urban Land (Ceiling and Regulation) Act, 1976 has been obtained in respect of certain properties, while in the case of others, it is still pending.
- (II) Leasehold property include Buildings on Leasehold Land cost Rs.570.16 Lakhs (2007 - Rs.564.53 Lakhs), Depreciation Rs.428.63 Lakhs (2007 - Rs.405.55 Lakhs).
- (III) Deeds of conveyance are to be executed for Land Freehold Rs.0.83 Lakhs (2007 - Rs.0.83 Lakhs ), Building Freehold Rs.11.28 Lakhs (2007 - Rs.11.28 Lakhs).
- (IV) Furniture and Fixtures as at the year end include, Computer software cost Rs.169.72 Lakhs (2007 - Rs.119.17 Lakhs), Depreciation Rs.120.75 Lakhs (2007 - Rs.108.38 Lakhs).
- (V) Leasehold Equipment represents Computers and related assets acquired under finance lease.
- (VI) Depreciation for the year ended 31st March, 2008 of Rs.1432.73 Lakhs (2007 - Rs.1174.12 Lakhs) includes Rs.52.21 Lakhs (2007 - Rs.17.92 Lakhs) transferred from Revaluation Reserve.
- (VII) Additions during the year includes Rs.Nil (2007 - Rs.1.26 Lakhs) towards fluctuation in foreign exchange.
- (VIII) Capital Work-in-Progress includes Capital Advances of Rs.272.95 Lakhs (2007 - Rs.159.67 Lakhs) which are Unsecured and Considered Good.
- (IX) The unexpired amortisation period for Time Share Rights is 17 years.



Rs. in Lakhs

	2008	2007
<b>4. Investments</b>		
<b>Long Term Other than Trade - at Cost</b>		
QUOTED		
Housing Development Finance Corporation Limited 1,200 Equity Shares of Rs.10 each fully paid up	0.08	0.08
HDFC Bank Limited 500 Equity Shares of Rs.10 each fully paid up	0.05	0.05
Duncan Industries Limited 462 Equity Shares of Rs.10 each fully paid up	0.04	0.04
Godfrey Phillips India Limited 200 Equity Shares of Rs.10 each fully paid up	0.01	0.01
GTC Industries Limited 50 Equity Shares of Rs.10 each fully paid up	0.01	0.01
[Aggregate Market Value of Quoted Investments Rs.36.51 Lakhs, (Previous Year - Rs.25.49 Lakhs)].	0.19	0.19
UNQUOTED		
Government/Trust Securities		
National Savings Certificate cost Rs.500 (Previous Year - Rs.500) Lodged with Government Authority		
<b>Other Investments</b>		
Unit Trust of India		
8,31,209 6.75% Tax free US64 Bonds of Rs.100 each fully paid up	831.76	831.76
50,025 6.60 % Tax free ARS Bonds of Rs.100 each fully paid up	51.32	51.32
HDFC - Top 200 Fund		
50,000 Units of Rs.10 each fully paid up	5.00	5.00
Andhra Pradesh Gas Power Corporation Limited 1,39,360 shares of Rs.10 each fully paid up	220.38	220.38
Principal Deposit Fund (FMP-4-20) 460 Days Plan - Growth Plan - February 2006 50,00,000 units of Rs.10 each fully paid up - Sold during the year	-	500.00
Principal PNB FMP 385 Days Series I - Institutional Growth Plan 50,00,000 units of Rs.10 each fully paid up - Sold during the year	-	500.00
Prudential ICICI FMP - Growth Yearly XII Institutional 50,00,000 units of Rs.10 each fully paid up - Sold during the year	-	500.00
Grindlays Fixed Maturity 20th Plan - Growth 50,00,000 units of Rs.10 each fully paid up - Sold during the year	-	500.00
Grindlays Fixed Maturity 22nd Plan - Growth 50,00,000 units of Rs.10 each fully paid up - Sold during the year	-	500.00
HDFC FMP 13 Months March 2006 (1) Institutional Plan Growth 25,00,000 units of Rs.10 each fully paid up - Sold during the year	-	250.00
P140 RG Prudential ICICI Institutional FMP - 15 Month Plan Regular Series XXV 46,65,620 units of Rs.10 each fully paid up - Sold during the year	-	500.12
Prudential ICICI FMP Plan Institutional Series 28 (370 days) Growth 50,00,000 units of Rs.10 each fully paid up - Sold during the year	-	500.00
HSBC Fixed Series IV Growth 53,66,020 units of Rs.10 each fully paid up - Sold during the year	-	536.60
HSBC Fixed Time Series 13 Institutional - Growth 50,00,000 units of Rs.10 each fully paid up - Sold during the year	-	500.00



Rs. in Lakhs

	2008	2007
<b>4. Investments (Contd.)</b>		
Franklin Infotech Fund - Growth 1,17,084 (2007 - 2,51, 239) units of Rs.10 each fully paid up (1,34,155 Units - Sold during the year)	52.23	110.93
Franklin Templeton Fixed Tenure Fund Series V13 Months Plan - Growth 50,00,000 units of Rs.10 each fully paid up - Sold during the year	-	500.00
DSP Merrill Lynch Fixed Term Plan - Series 3A Growth 50,000 units of Rs.1,000 each fully paid up - Sold during the year	-	500.00
Reliance Equity Fund - Growth 6,44,745 (2007 - 10,00,000) units of Rs.10 each fully paid up (10,00,000 Units Sold during the year and 6,44,745 Units Purchased during the year)	100.00	100.00
Deutsche Fixed Term Fund - Series 9 - Growth 50,00,000 units of Rs.10 each fully paid up - Sold during the year	-	500.00
L135G SBI Debt Fund Series - 13 Months (March 07) - Growth 50,00,000 units of Rs.10 each fully paid up	500.00	500.00
OF211G HSBC Fixed Term Series - 21 Institutional - Growth 1,00,00,000 units of Rs.10 each fully paid up	1000.00	1000.00
HSBC Fixed Term Series 9 - Growth 50,00,000 units of Rs.10 each fully paid up - Sold during the year	-	500.00
HDFC FMP 26M August 2006 (1) Institutional Plan - Growth 1,00,00,000 units of Rs.10 each fully paid up	1000.00	1000.00
HDFC FMP 14M March 2007 (3) - Wholesale Plan - Growth 50,00,000 units of Rs.10 each fully paid up	500.00	500.00
DSP Merrill Lynch Fixed Term Plan Series 3E - Growth - Institutional 50,000 units of Rs.1,000 each fully paid up	500.00	500.00
P1691G Prudential ICICI FMP - Series - 35 - Thirteen Months Plan B - Institutional Growth 1,00,00,000 units of Rs.10 each fully paid up	1000.00	1000.00
G186 Standard Chartered Fixed Maturity Plan - Yearly Series 3 - Growth 50,00,000 units of Rs.10 each fully paid up	500.00	500.00
DWS Fixed Term Fund - Series 20 - Growth Plan 50,00,000 units of Rs.10 each fully paid up	500.00	500.00
Reliance Fixed Horizon Fund Institutional Plan C - Series I Growth Option 50,00,000 units of Rs.10 each fully paid up	500.00	500.00
Reliance Fixed Horizon Fund II - Annual Plan - Series VI - Institutional Growth Plan 1,00,00,000 units of Rs.10 each fully paid up	1000.00	1000.00
TFAIG7 Tata Fixed Horizon Fund Series 7 - Scheme A - Growth-Institutional plan 1,00,00,000 units of Rs.10 each fully paid up	1000.00	1000.00
OL PIPG HSBC Liquid Plus Fund - Institutional Plus - Growth 59,29,826 units of Rs.10 each fully paid up	615.00	615.00
Kotak Liquid (Institutional Premium) - Growth 70,49,353 units of Rs.10 each fully paid up	1000.00	1000.00
HDFC MF MIP Long Term - Growth 34,24,892 units of Rs.10 each fully paid up - Sold during the year	-	501.00
Standard Chartered Enterprise Equity Fund - Growth 10,00,000 units of Rs.10 each fully paid up	100.00	100.00
Morgan Stanley Equity Fund - Growth 4,34,882 (2007- 2,42,692) units of Rs.10 each fully paid up (1,92,190 units Purchased during the year)	199.23	94.68
UTI Fixed Term Income Fund-Series IV Plan V (13 Months) - Institutional-Growth Plan 50,00,000 units of Rs.10 each fully paid up - Purchased during the year	500.00	-



Rs. in Lakhs

	2008	2007
<b>4. Investments (Contd.)</b>		
Templeton Fixed Horizon Fund Series II - Plan A - Institutional - Growth 1,00,00,000 units of Rs.10 each fully paid up - Purchased during the year	1000.00	-
HSBC Fixed Term Series - 44 Institutional - Growth 1,00,00,000 units of Rs.10 each fully paid up - Purchased during the year	1000.00	-
5373 / HDFC FMP 13M March 2008 (VII) (2) - Wholesale Plan Growth 1,00,00,000 units of Rs.10 each fully paid up - Purchased during the year	1000.00	-
DSP Merrill Lynch FMP 12.5M Series I - Institutional Growth 50,00,000 units of Rs.10 each fully paid up - Purchased during the year	500.00	-
1175 ICICI Prudential FMP Series 43 - 13 Months Plan D Retail Growth 1,00,00,000 units of Rs.10 each fully paid up - Purchased during the year	1000.00	-
G561 Standard Chartered Fixed Maturity Plan - Yearly Series 19 - Plan B - Growth 50,00,000 units of Rs.10 each fully paid up - Purchased during the year	500.00	-
DWS Fixed Term Fund Series 46 - Institutional Growth 50,00,000 units of Rs.10 each fully paid up - Purchased during the year	500.00	-
Kotak FMP 14M Series 4 - Institutional - Growth 50,00,000 units of Rs.10 each fully paid up - Purchased during the year	500.00	-
Reliance Fixed Horizon Fund IV - Series 6 - Institutional Growth Plan 50,00,000 units of Rs.10 each fully paid up - Purchased during the year	500.00	-
Reliance Fixed Horizon Fund - VII - Series 4 - Institutional Growth Plan 50,00,000 units of Rs.10 each fully paid up - Purchased during the year	500.00	-
S328 Sundaram BNP Paribas Fixed Term Plan Series XXXII - Growth 50,00,000 units of Rs.10 each fully paid up - Purchased during the year	500.00	-
B876G Birla FTP - Institutional - Series AD - Growth 50,00,000 units of Rs.10 each fully paid up - Purchased during the year	500.00	-
B897IG Birla FTP - Institutional - Series AM - Growth 50,00,000 units of Rs.10 each fully paid up - Purchased during the year	500.00	-
Reliance Index Fund - Nifty Plan - Growth Plan 2,71,639 units of Rs.10 each fully paid up - Purchased during the year (11,11,118 units Purchased during the year and 8,39,479 units Sold during the year)	53.63	-
Sundaram BNP Paribas Energy Opportunities Fund - Growth 10,00,000 units of Rs.10 each fully paid up - Purchased during the year	100.00	-
B332G Birla Sun Life Liquid Plus Institutional - Growth 65,60,483 units of Rs.10 each fully paid up - Purchased during the year	1000.23	-
ITC Classic Real Estate Finance Limited 50,00,000 Equity Shares of Rs.10 each fully paid up		
ITC Agrotech Finance and Investments Limited 23,82,500 Equity Shares of Rs.10 each fully paid up 25,00,000 Floating Rate Unsecured Optionally Fully Convertible Debentures of Rs.100 each fully paid up		
Twin Towers Premises Co-operative Society Limited 10 Shares of Rs.50 each fully paid up (Cost Rs.500, Previous Year - Rs.500)		
Tobacco Institute of India - (Limited by Guarantee, Maximum Contribution Rs.10.00 Lakhs)		
	<u>21328.78</u>	<u>18416.79</u>
<b>Current Investment - At lower of cost and fair value Other than Trade and Unquoted</b>		
Kotak Quarterly Interval plan Series 2 - Dividend 99,96,301 units of Rs.10 each fully paid up - Purchased during the year	1000.00	-
	<u>1000.00</u>	-
Aggregate amount of Unquoted Investments	<u>22328.78</u>	<u>18416.79</u>
<b>TOTAL</b>	<u><u>22328.97</u></u>	<u><u>18416.98</u></u>





#### 4. Investments (Contd.)

**Note:**

Details of Investments purchased and sold during the year in addition to above -

UTI Liquid Cash plan Institutional - Daily Income Option - Reinvestment 7,94,389 units of Rs.1,000 each  
UTI - Liquid Plus Fund Institutional Plan (Daily Dividend Option) - Reinvestment 3,90,416 units of Rs.1,000 each  
L138D SBI Debt Fund Series - 60 Days (April 07) - Dividend 50,00,000 units of Rs.10 each  
Templeton FR Income Fund LTP Institutional Option - Dividend Reinvestment 1,50,49,104 units of Rs.10 each  
Templeton India Treasury Management Account Institutional Plan-Daily Dividend Reinvestment 1,39,504 units of Rs.1,000 each  
Templeton Quarterly Interval Plan - Plan A - Institutional - Dividend Payout 50,00,000 units of Rs.10 each  
OCFPDD HSBC Cash Fund - Institutional Plus - Daily Dividend 4,68,84,160 units of Rs.10 each  
OLPIPD HSBC Liquid Plus-Institutional Plus-Daily Dividend 5,48,17,794 units of Rs.10 each  
HDFC Cash Management Fund - Savings Plus Plan - Wholesale - Daily Dividend Reinvestment 4,29,82,205 units of Rs.10 each  
HDFC Cash Management Fund - Savings Plus Plan - Retail - Daily Dividend 32,41,676 units of Rs.10 each  
HDFC CMF- Call Plan - Daily Dividend Reinvestment 3,90,40,565 units of Rs.10 each  
Principal Cash Management Fund - Liquid Option - Institutional Premium Plan - Dividend Reinvestment Daily 2,31,32,173 units of Rs.10 each  
Principal Floating Rate Fund FMP - Institutional Option - Dividend Reinvestment Daily 1,54,57,617 units of Rs.10 each  
DSP Merrill Lynch Technology.com fund - Growth 3,24,950 units of Rs.10 each  
P32ISD ICICI Prudential Institutional Liquid Plan - Super Institutional Daily Dividend 6,84,90,418 units of Rs.10 each  
P28Q ICICI Prudential-Flexible Income Plan Dividend-Daily 5,89,68,879 units of Rs.10 each  
GMND GSSIF - Medium Term - Daily Dividend Option 3,07,69,347 units of Rs.10 each  
G50 Grindlays Floating Rate Fund - LT - Institutional Plan B - Daily Dividend 11,58,70,912 units of Rs.10 each  
SC FMP Quarterly Series 8 - Dividend 50,00,000 units of Rs.10 each  
G70 Standard Chartered Liquidity Manager - Plus - Daily Dividend 14,29,582 units of Rs.1,000 each  
DWS Insta Cash Plus Fund - Daily Dividend Option 6,31,121 units of Rs.10 each  
DWS Insta Cash Plus Fund - Institutional Plan - Daily Dividend Option 1,42,75,221 units of Rs.10 each  
DWS Money Plus Fund - Institutional Plan - Daily Dividend Option 2,05,79,647 units of Rs.10 each  
Kotak Liquid (Institutional Premium) - Daily Dividend 5,07,35,396 units of Rs.10 each  
Kotak Flexi Debt Scheme - Daily Dividend 6,21,84,645 units of Rs.10 each  
Reliance Interval Fund - Quarterly Plan - Series I - Institutional - Dividend Plan 80,00,000 units of Rs.10 each  
Reliance Monthly Interval Fund - Series I - Institutional Dividend Plan 49,91,066 units of Rs.10 each  
Reliance Monthly Interval Fund-Series II - Institutional Dividend Plan 49,97,751 units of Rs.10 each  
Reliance Liquid Plus Fund - Retail Option - Daily Dividend Plan 1,784 units of Rs.1,000 each  
Reliance Liquid Plus Fund-Institutional Option - Daily Dividend Plan 6,56,294 units of Rs.1,000 each  
Reliance Liquidity Fund - Daily Dividend Reinvestment Option 5,48,32,177 units of Rs.10 each  
TLSD01 Tata Liquid Super High Investment Fund - Daily Dividend 1,64,232 units of Rs.1,000 each  
TFLD Tata Floater Fund - Daily Dividend 1,82,54,645 units of Rs.10 each  
C277 DBS Chola FMP - Series 7 (Quarterly Plan-I) - Dividend 50,00,000 units of Rs.10 each  
M164QD ABN Amro FTP Series 6 Quarterly Plan D Dividend on Maturity 51,00,535 units of Rs.10 each  
M44 ABN Amro Cash Fund - Institutional Daily Dividend 2,29,02,619 units of Rs.10 each  
M17DD ABN Amro Money Plus Institutional Plan Daily Dividend 2,29,95,362 units of Rs.10 each  
M5161D ABN Amro Interval Fund - Quarterly Plan G - Institutional Dividend on Redemption 50,00,000 units of Rs.10 each  
S130 Sundaram BNP Paribas Money Fund Institutional - Daily Dividend Reinvestment 2,19,93,515 units of Rs.10 each  
S246 Sundaram BNP Paribas Liquid Plus Institutional Daily Dividend Reinvestment 66,50,870 units of Rs.10 each  
S252 Sundaram BNP Paribas Liquid Plus Super Institutional Daily Dividend Reinvestment 3,57,61,597 units of Rs.10 each  
S335 Sundaram BNP Paribas FTP 90 days Series I Institutional Dividend 50,00,000 units of Rs.10 each  
Lotus India Liquid Fund - Institutional Daily Dividend 1,90,31,344 units of Rs.10 each  
Lotus India Liquid Plus Fund Institutional Daily Dividend 2,11,30,865 units of Rs.10 each  
B332DD Birla Sun Life Liquid Plus - Institutional Daily Dividend - Reinvestment 3,26,59,864 units of Rs.10 each  
B502DD Birla Cash Plus - Institutional - Daily Dividend - Reinvestment 3,09,90,361 units of Rs.10 each  
B503DD Birla Cash Plus - Institutional Premium Daily Dividend Reinvestment 99,82,842 units of Rs.10 each  
Mirae Asset Liquid Fund - Institutional - Dividend Plan (Daily) 19,495 units of Rs.1,000 each



Rs. in Lakhs

	2008	2007
<b>5. Deferred Tax - Net</b>		
<b>Deferred tax asset</b>		
On employees' separation and retirement	235.53	386.76
On State and Central Taxes etc.	1686.71	1507.23
On other timing differences	35.98	28.41
	<u>1958.22</u>	<u>1922.40</u>
<b>Deferred tax liability</b>		
On fiscal allowances on fixed assets	1061.79	846.48
	<u>896.43</u>	<u>1075.92</u>
<b>6. Inventories</b>		
Stores and Spare Parts - At cost or below	54.42	53.40
Raw Materials - At cost or below	5955.48	4130.30
Stock-in-Trade		
Finished Goods - At cost or Net realisable value whichever is lower	1479.58	1503.23
Work-in-Process - At cost or Net realisable value whichever is lower	120.21	113.03
	<u>7609.69</u>	<u>5799.96</u>
<b>7. Sundry Debtors</b> (Unsecured, Considered Good)		
Debts outstanding for a period exceeding six months	3.54	3.30
Other Debts	428.22	522.99
	<u>431.76</u>	<u>526.29</u>
<b>8. Cash and Bank Balances</b>		
Cash including Cheques on hand	1.23	4.47
With Scheduled Banks		
- On Unclaimed Ordinary Dividend Account	149.02	122.69
- On Preference Share Redemption Account	0.18	0.18
- On Current Accounts	299.42	416.26
- On Term Deposits	14.15	2903.24
[Includes towards Margin Money Rs.13.34 Lakhs (2007 - Rs.102.49 Lakhs)]	<u>464.00</u>	<u>3446.84</u>



Rs. in Lakhs

	2008	2007
<b>9. Other Current Assets</b> (Unsecured, Considered Good)		
Interest accrued on Loans, Deposits and Investments	21.13	125.07
Others	—	17.13
	<u>21.13</u>	<u>142.20</u>
<b>10. Loans and Advances</b> (Considered Good)		
Secured - Loans	132.68	159.94
Unsecured- Loans	51.85	59.77
- Advances recoverable in cash or in kind or for value to be received	758.80	480.32
- Balances with Excise Authorities	335.57	377.60
- Deposits	24.22	24.53
	<u>1303.12</u>	<u>1102.16</u>
<b>11. Liabilities</b>		
Sundry Creditors		
- Total outstanding dues of micro enterprises and small enterprises	—	—
- Total outstanding dues of other than micro enterprises and small enterprises	<u>15273.58</u>	<u>13073.16</u>
	15273.58	13073.16
Advances from Customers	3395.55	2166.30
Unpaid/Unclaimed Dividends	149.02	122.69
Unclaimed/Unencashed Matured Deposits	0.28	1.64
Interest on Matured Deposits	0.13	0.96
Preference Share Redemption Account	0.18	0.18
Security Deposits	2.00	4.30
Other Liabilities	15.63	24.53
	<u>18836.37</u>	<u>15393.76</u>
There is no amount due and outstanding to be credited to Investor Education and Protection Fund.		
<b>12. Provisions</b>		
Taxation less Advance Payments	(556.81)	67.54
Proposed Dividend including Tax thereon	<u>3613.25</u>	<u>3613.25</u>
	<u>3056.44</u>	<u>3680.79</u>
<b>13. Capital Expenditure Commitments</b> (not provided for)	<u>1545.39</u>	<u>1335.86</u>
<b>14. Notes to Consolidated Balance Sheet</b>		
<p><b>I</b> The Consolidated Financial Statements relate to "VST Industries Limited" (the parent company) and "VST Distribution, Storage &amp; Leasing Company Private Limited" which is wholly owned subsidiary of VST Industries Limited, all of which are hereinafter referred to as "The Company".</p> <p><b>II. Contingent Liabilities</b>  Claims against the Company not acknowledged as debts Rs.306.10 Lakhs (2007 - Rs.428.48 Lakhs). These comprise -</p> <p>a. Income Tax demands disputed by the Company relating to disallowances made in various assessment proceedings, under appeal, aggregating to Rs.63.42 Lakhs (2007 - Rs.146.51 Lakhs).</p>		



#### 14. Notes to Consolidated Balance Sheet (Contd.)

- b. Land disputes representing claims towards land grabbing cases pending before Hon'ble Special Court aggregating to Rs.227.59 Lakhs (2007 - Rs.227.59 Lakhs).
- c. Other matters relating to labour cases etc. aggregating to Rs.15.09 Lakhs (2007 - Rs.54.38 Lakhs).

#### III. Future lease obligations

VST Industries Limited (the parent company) has entered into various operating lease agreements and the amounts paid under such agreements have been charged to revenue as Rent under Schedule 17. All these agreements are cancellable in nature. Assets acquired by way of finance lease, are stated at the amount, equal to the lower of their fair value and the present value of the minimum lease payments.

The Company had acquired computers and related assets under finance lease (Refer note V on Schedule 3). The minimum lease payments as at the balance sheet date, in respect of these assets are as under:

Rs. in Lakhs

Due	31.03.2008			31.03.2007		
	Total Minimum Lease Payments	Interest not due	Present value of Minimum Lease Payments	Total Minimum Lease Payments	Interest not due	Present value of Minimum Lease Payments
Within one year	62.89	12.76	50.13	52.60	8.33	44.27
Later than one year and not later than five years	110.67	14.27	96.40	88.09	8.42	79.67
Total	<u>173.56</u>	<u>27.03</u>	<u>146.53*</u>	<u>140.69</u>	<u>16.75</u>	<u>123.94*</u>

\*Represents instalments due under the finance lease arrangement, included under Sundry Creditors (Schedule 11).

#### IV. Disclosures regarding Derivative Instruments

The Company uses forward exchange contracts to hedge against its foreign currency exposures relating to the underlying transactions and firm commitments. The use of these foreign exchange forward contracts reduces the risk or cost to the Company and the Company does not use the foreign exchange forward contracts for trading or speculation purposes.

The information on such Derivative Instruments is as follows:

- a. Forward exchange contracts outstanding as at the year end:

Rs. in Lakhs

Currency Pair	Currency	31.03.2008		31.03.2007	
		Buy	Sell	Buy	Sell
USD/INR	INR	-	3728.45	-	279.69

- b. Foreign Exchange Currency Exposure recognised by the Company that have not been hedged by a derivative instrument or otherwise as at the year end:

Rs. in Lakhs

Currency Pair	Currency	31.03.2008		31.03.2007	
		Buy	Sell	Buy	Sell
USD/INR	INR	2127.22	427.26	1052.84	508.96

#### V. Employee Benefits

- a. Pursuant to the early adoption of the Accounting Standard 15 (Revised) - Employee Benefits ("Standard") effective 1st April, 2006, the Company has revised the provision for retirement and other benefits as at 31st March, 2006. An additional liability of Rs.31.85 Lakhs (net of deferred tax asset of Rs.16.17 Lakhs on such restatement) arising out of such revision has been adjusted from the opening revenue reserves as at 1st April, 2006, in accordance with the transitional provisions of the Standard.
- b. The Employee Benefit Schemes are as under:

##### i. Provident Fund

Eligible employees of the Company receive benefits under the Provident Fund which are defined contribution/benefit plans wherein both the employee and the Company make monthly contributions equal to a specified percentage of the covered employees' salary. These contributions are made to the Funds administered and managed by the Govt. of India/ Company's own Trust. The Company's monthly contributions are charged to revenue in the period they are incurred.



**14. Notes to Consolidated Balance Sheet (Contd.)**

**ii. Gratuity**

In accordance with the payment of 'Gratuity Act, 1972' of India, the Company provides for gratuity, a defined retirement benefit plan (the 'Gratuity Plan') covering eligible employees. Liabilities with regard to such Gratuity Plan are determined by actuarial valuation and are charged to revenue in the period determined. The Gratuity Plan is a funded plan administered by Company's own Trust which has subscribed to "Group Gratuity Scheme" of Life Insurance Corporation of India.

**iii. Pension Fund**

The Company has a defined contribution pension scheme to provide pension to the eligible employees. The Company makes monthly contributions equal to a specified percentage of the covered employees' salary. These contributions are administered by the Company's own Trust which has subscribed to "Group Pension Scheme" of Life Insurance Corporation of India. The Company's contributions of Rs.95.56 Lakhs (2007 - Rs.105.20 Lakhs) are charged to revenue in the period they are incurred.

In addition to the above, the Company has a funded defined benefit pension scheme for its employees in the workmen category. Liabilities with regard to such defined benefit plan are determined by actuarial valuation and are charged to revenue in the period determined. The plan is administered by the Company's own Trust which has subscribed to "Group Pension Scheme" of Life Insurance Corporation of India.

**iv. Leave Encashment**

The accrual for unutilised leave is determined for the entire available leave balance standing to the credit of the employees at period-end. The value of such Leave balance eligible for carry forward, is determined by actuarial valuation and charged to revenue in the period determined. The scheme is fully funded by way of subscription to the "Leave Encashment Scheme" of Life Insurance Corporation of India.

**c. The following table sets out the status of the Retirement and Other Benefit Plans as required under the Standard :**

Rs. in Lakhs

	Gratuity		Pension		Leave Encashment	
	31.03.2008	31.03.2007	31.03.2008	31.03.2007	31.03.2008	31.03.2007
<b>Projected benefit obligation at the beginning of the year</b>	1293.51	1326.10	132.33	151.56	318.14	308.74
Current Service Cost	56.58	72.93	5.81	6.28	41.31	51.05
Interest cost	102.40	99.46	10.58	12.13	25.05	23.15
Actuarial (Gain)/Loss	(10.99)	44.26	(17.69)	(6.90)	21.61	(64.80)
Less: Benefits Paid	27.05	249.24	4.03	30.74	9.89	-
<b>Projected benefit obligation at the end of the year</b>	<b>1414.45</b>	<b>1293.51</b>	<b>127.00</b>	<b>132.33</b>	<b>396.22</b>	<b>318.14</b>
<b>Amounts recognised in the Balance Sheet</b>						
Projected benefit obligation at the end of the year	1414.45	1293.51	127.00	132.33	396.22	318.14
Fair value of plan assets at end of the year	1454.22	1306.84	140.54	132.34	406.96	336.83
Asset recognised in the Balance Sheet	39.77	13.33	13.54	0.01	10.74	18.69
<b>Cost of Retirement and Other Benefits for the year</b>						
Current Service cost	56.58	72.93	5.81	6.28	41.31	51.05
Interest Cost	102.40	99.46	10.58	12.13	25.05	23.15
Expected return on plan assets	120.97	111.53	12.24	10.74	31.49	23.16
Net actuarial (Gain)/Loss recognised in the year	(10.99)	44.26	(17.69)	(6.90)	21.61	(69.74)
Net Cost recognised in the Profit and Loss Account	27.02	105.12	(13.54)	0.77	56.48	(18.70)
<b>Assumptions</b>						
Discount Rate (%)	8.00	7.50	8.00	7.50	8.00	7.50
Long term rate of compensation increase (%)						
- Management Staff	9.00	9.00	-	-	9.00	9.00
- Workmen	4.00	4.00	4.00	4.00	4.00	4.00



# SCHEDULES TO THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

VST Industries Limited

Rs. in Lakhs

	2008	2007
<b>15. Other Income</b>		
Miscellaneous Income	168.71	102.55
Liabilities no longer required written back	-	70.54
Gain/(Loss) on Exchange	(65.22)	57.81
Income from Long Term Investments - Other than Trade (Gross)	62.26	53.21
Income from Current Investments - Other than Trade (Gross)	460.49	269.84
Profit/(Loss) on sale of Long Term Investments (Net)	684.07	876.21
Profit/(Loss) on sale of Current Investments (Net)	59.20	58.74
Interest on Loans and Deposits etc. (Gross)	225.99	159.31
	<u>1595.50</u>	<u>1648.21</u>
<p>Income from Long Term and Current Investments is stated at Gross, the amount of Income Tax deducted is Rs.0.35 Lakhs (2007 - Rs.0.68 Lakhs).</p> <p>Interest on Loans and Deposits etc. is stated at Gross. The amount of Income Tax deducted is Rs.63.91 Lakhs (2007 - Rs.2.26 Lakhs).</p>		
<b>16. Raw Materials, Purchases and Stock-in-Trade</b>		
(a) Raw Materials Consumed*		
Opening Stock	4130.30	3628.68
Purchases	15467.26	12228.10
	<u>19597.56</u>	<u>15856.78</u>
Less : Closing Stock	<u>5955.48</u>	<u>4130.30</u>
	13642.08	11726.48
(b) (Increase)/Decrease in Stock-in-Trade		
Opening Stock		
- Cigarettes	1503.23	1166.75
Closing Stock		
- Cigarettes	<u>1479.58</u>	<u>1503.23</u>
	23.65	(336.48)
(c) Increase/(Decrease) in Excise Duties on Stock-in-Trade	32.17	290.27
(d) (Increase)/Decrease in Work-in-Process		
Opening	113.03	86.35
Closing	<u>120.21</u>	<u>113.03</u>
	(7.18)	(26.68)
	<u>13690.72</u>	<u>11653.59</u>
<p>* Includes 7,957 Tonnes (2007 - 6,612 Tonnes) of unmanufactured tobacco etc. sold - Value Rs.5182.64 Lakhs (2007 - Rs.3998.99 Lakhs).</p>		



Rs. in Lakhs

	2008	2007
<b>17. Manufacturing, Selling, Distribution and Administration Expenses etc.</b>		
Salaries, Wages and Bonus [Includes Rs.Nil (2007 - Rs.924.65 Lakhs) paid under Voluntary Retirement Schemes]	3818.40	4597.13
Contributions to Provident, Gratuity and Other Retiral Funds	275.77	422.59
Workmen and Staff Welfare Expenses	<u>401.46</u>	<u>411.09</u>
Insurance	89.95	87.00
Consumption of Stores and Spare Parts	294.98	282.37
Power and Fuel	236.31	214.41
Rent	167.56	137.54
Repairs - Buildings	31.37	34.18
- Machinery	38.32	45.85
- Others	12.72	15.97
Rates and Taxes	796.56	2552.24
Excise Duty on Samples/Stock Write-off etc.	74.81	46.49
Outward Freight	957.65	787.42
Advertising	1405.23	1504.97
Distribution Expenses	1386.28	1140.66
Miscellaneous	1867.83	1619.06
Manufacturing Charges	18.81	23.25
(Profit)/Loss on Fixed Assets sold and discarded (Net)	2.57	(17.71)
Interest - Others	12.85	9.24
Payment to Auditors - Audit Fee	14.30	12.80
- Reimbursement of Expenses	0.04	0.09
- Fees for certificates etc.	5.70	7.05
Directors' Fees	5.90	4.91
	<u>11915.37</u>	<u>13938.60</u>
R&D Expenses included above	279.68	274.39
<b>18. Taxation</b>		
Taxation - Current	2483.21	3290.33
- Prior Years	(9.97)	198.05
Deferred Tax	179.49	(645.44)
	<u>2652.73</u>	<u>2842.94</u>





Rs. in Lakhs

	2008	2007
<b>19. Notes to Consolidated Profit and Loss Account</b>		
<b>(I) Directors' Remuneration</b>		
Remuneration	205.80	183.75
Performance Linked Bonus	108.36	96.75
Commission to Non Whole-time Directors	20.00	20.00
Other Benefits	31.07	31.09
Directors' Fees	5.90	4.91
	<u>371.13</u>	<u>336.50</u>
<b>(II)</b> The Hon'ble Supreme Court vide its Order dated 19th September, 2005 upheld the constitutional validity of the retrospective amendment with respect to the withdrawal of excise duty exemption given to cigarette manufacturers in the North Eastern States in terms of excise notification 32/99 & 33/99 dated 8th July, 1999. Consequent to the above Order, excise duty refunds received by the contract manufacturers, with whom the Company had entered into manufacturing arrangements, have become payable by them along with interest. Considering the various developments including the agreements entered into by the Company with such contract manufacturers, the Company had charged to revenue Rs.4388.72 Lakhs (Rs.2911.48 Lakhs net of tax) during the year ended 31st March,2006, out of which Rs.3321.73 Lakhs has been paid till date.		
<b>(III)</b> The Post Manufacturing Expenses dispute related to excise duty payable on clearances from the factory between 01-03-1975 to 28-02-1983 in which allowable post manufacturing expenses were denied by the excise department. The company had won the case on merits, after which the excise department had rejected the claim for refund of excess duty paid on principles of unjust enrichment. This issue has been held in favour of the Company by the Hon'ble High Court of Andhra Pradesh during the year and consequently, a refund of Rs.1260.79 Lakhs (including an interest of Rs.545.51 Lakhs) has been received from the excise department. Considering various aspects involved including the legal advice obtained on possibility of further litigation, as a matter of prudence, no effect has been given to the said refund received in the Profit and Loss Account, pending progress in the matter.		
<b>(IV) Earnings Per Share</b>		
Earnings Per Share is computed based on the following -		
a) Profit after Taxation (Rs. Lakhs)	5847.73	5559.39
b) Weighted average number of equity shares	1,54,41,920	1,54,41,920
c) Basic and diluted Earnings Per Share (Nominal Value of Shares - Rs.10) Rs.	37.87	36.00
<b>(V) Related party transactions during the year</b>		
<b>1. Companies:</b>		
<b>Company having significant influence</b>		
British American Tobacco Group		
<b>Nature of transactions</b>		
Other payments - Services etc.	0.89	4.84
- Dividends Paid	993.18	620.74
Outstandings as at the year end		
- Payable	-	0.10
<b>2. Remuneration to Key managerial personnel</b>		
Mr. Raymond S. Noronha - Managing Director	219.65	199.50
Mr. N. Sai Sankar - Finance Director & Secretary	125.58	112.09
<b>(VI) Segment Reporting</b>		
The Company's business activity primarily falls within a single primary business segment viz. Tobacco and related products and hence no business segment information is provided. Geographical segments considered for disclosure mainly consists of Sales within India and Sales outside India, information in respect thereof is as under:		
a) Sales within India	71186.24	67788.09
b) Sales outside India	6157.33	4734.78
	<u>77343.57</u>	<u>72522.87</u>
The entire activity pertaining to sales outside India is carried out from India, hence all segment assets are considered entirely to be in India.		



	Unit	Quantity	2008 Rs. in Lakhs	Quantity	2007 Rs. in Lakhs
<b>20. Additional Information pursuant to the Provisions of Paragraphs 3, 4C and 4D of Part II of Schedule VI of the Companies Act, 1956</b>					
(a) CLASS OF GOODS, CAPACITY AND PRODUCTION					
Class of goods Manufactured					
(i) Cigarettes					
Capacity as at 31st March*					
- Registered/Licenced (p.a.)	Millions	25600		25600	
- Installed (p.a.)	Millions	23872		20414	
Actual Saleable Production (includes contract manufacture and manufactured for others)	Millions	8799		8804	
* The figure of 'Registered/Licenced Capacity' is as re-endorsed on the Certificate of Registration as on 30th September, 1985 and is exclusive of an additional 25 per cent of the approved 'Registered/Licenced Capacity' available to the Company under the Central Government's Liberalised Industrial Policy.					
The figure of 'Installed' capacity is computed on the basis of machines installed as on 31st March, as certified by Management.					
(ii) Paper Conversion Products					
Capacity as at 31st March					
- Registered/Licenced (p.a.)	Tonnes	5500		5500	
- Installed (p.a.) as certified by Management	Tonnes	-		-	
Actual Production	Tonnes	-		-	
(b) PARTICULARS IN RESPECT OF SALES (GROSS)					
Cigarettes	Millions	8844	71032.68	8733	67669.63
Unmanufactured Tobacco	Tonnes	7957	6139.15	6612	4772.32
Cut Tobacco	Tonnes	205	170.99	90	80.60
Others			0.75		0.32
			<u>77343.57</u>		<u>72522.87</u>
(c) DETAILS OF STOCK-IN-TRADE					
(i) Opening Stock					
Cigarettes	Millions	221	1503.23	159	1166.75
(ii) Closing Stock					
Cigarettes	Millions	153	1479.58	221	1503.23
Stock Quantities exclude damaged stocks, samples, etc.					
(d) DETAILS OF RAW MATERIALS CONSUMED					
Unmanufactured Tobacco	Tonnes	15844	8401.77	14187	6962.58
Board	Tonnes	1982	671.74	1957	605.78
Hinge Lid Packs	Millions	214	938.52	235	1014.34
Cigarette Paper	M.Metres	541396	281.75	546993	314.73
Foil	M.Metres	24985	141.27	28408	174.07
Filter Rods	Millions	644	557.68	553	505.98
Others			2649.35		2149.00
			<u>13642.08</u>		<u>11726.48</u>



	2008		2007	
<b>20. Additional Information</b> (Contd.)				
(e) VALUE OF RAW MATERIALS, SPARE PARTS AND COMPONENTS CONSUMED	Rs.in Lakhs	%	Rs.in Lakhs	%
Raw Materials				
Imported	552.51	4.1	443.81	3.8
Indigenous	13089.57	95.9	11282.67	96.2
	<u>13642.08</u>	<u>100.0</u>	<u>11726.48</u>	<u>100.0</u>
Stores and Spare Parts				
Imported	55.22	18.7	39.75	14.1
Indigenous	239.76	81.3	242.62	85.9
	<u>294.98</u>	<u>100.0</u>	<u>282.37</u>	<u>100.0</u>
(f) EXPORTS AND IMPORTS				
Export of goods (F.O.B. Value)	6074.57		4689.71	
Imports (C.I.F. Value) (ON PAYMENT BASIS)				
Raw Materials	515.82		377.42	
Spare Parts	59.83		34.07	
Capital Goods	2571.36		1207.48	
	<u>3147.01</u>		<u>1618.97</u>	
(g) EXPENDITURE IN FOREIGN CURRENCY (ON PAYMENT BASIS)				
Miscellaneous - Travelling, Advertisement and Subscriptions etc.	127.38		164.35	
(h) DIVIDENDS PAID TO NON-RESIDENT SHAREHOLDERS IN FOREIGN CURRENCY				
FINAL				
Amount of dividend		993.18		620.74
Number of Non-Resident Shareholders	3		3	
Number of Shares held	49,65,902		49,65,902	
The year to which the Dividends relate (year ended)	31-03-2007		31-03-2006	
(i) COMPARATIVE FIGURES				
The Comparative figures for the previous year have been re-arranged to conform with the revised presentation of the accounts.				
SRINIVAS TALLURI Partner for and on behalf of LOVELOCK & LEWES Chartered Accountants	On behalf of the Board, A. BASU R. S. NORONHA N. SAI SANKAR		Chairman Managing Director Finance Director & Secretary	
Hyderabad, 17th April, 2008.	Hyderabad, 17th April, 2008.			



## SIGNIFICANT ACCOUNTING POLICIES

### BASIS OF PREPARATION OF ACCOUNTS

The financial statements have been prepared on the basis of going concern, under the historic cost convention, (with the exception of land and buildings, which have been revalued), to comply in all material aspects with applicable accounting principles in India, the applicable Accounting Standards notified under Section 211 (3C) of the Companies Act, 1956 ("the Act") and the relevant provisions of the Act.

### REVENUE RECOGNITION

Sales are recognised when the property in the goods is transferred and are recorded net of trade discounts, rebates and value added tax. Sales are inclusive of excise duty.

Income from investments and services is accounted for when accrued.

### FIXED ASSETS

Fixed Assets are stated at historic cost except so far as they relate to the revaluation of land and buildings. Historical cost is inclusive of freight, installation cost, duties and taxes, interest on specific borrowings utilised for financing the assets and other incidental expenses.

Depreciation is provided on plant and machinery on straight line basis at the rates specified in Schedule XIV of the Companies Act, 1956 and on other assets on straight line basis at rates based on estimated useful life of assets as determined by the management and such rates adopted are higher than the Schedule XIV rates as given below.

	Rate of Depreciation %
Buildings Freehold	5
Leasehold Property	5
Furniture & Fixtures	15 - 25
Motor Vehicles etc.	25

Rights on Time shares are amortised over a period of 20 years.

Assets costing less than Rs.5,000 are fully depreciated in the year of purchase. Depreciation on the revalued assets is calculated on the revalued costs and the Revaluation Reserve is adjusted with the difference between the depreciation calculated on such revalued costs and historic costs. All the fixed assets are assessed for any indication of impairment, at the end of each financial year. On such indication, the impairment loss, being the excess of carrying value over the recoverable value of the assets, is charged to the Profit and Loss Account in the respective financial years. The impairment loss recognised in the prior years is reversed in cases where the recoverable value exceeds the carrying value, upon re-assessment in the subsequent years.

### INVENTORIES

Inventories are valued at cost or below. Cost is computed based on the weighted average cost per unit after taking into account receipts at actual cost net of CENVAT credit availed. Consumption and/or other stock diminution is accounted for at the aforesaid weighted average cost. In the case of finished goods, cost comprises of material, direct labour, applicable overhead expenses, applicable excise duty and taxes paid/payable thereon.

Goods in transit/with third parties are valued at cost which represents the costs incurred upto the stage at which the goods are in transit/with third parties.

### TAXES ON INCOME

Current tax is determined as the amount of tax payable in respect of taxable income for the period.

Deferred tax is recognised on timing differences between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods, subject to consideration of prudence.

### INVESTMENTS

Long term investments are valued at cost net of provision, for permanent diminution if any. Current investments are stated at lower of cost and fair value.

### RETIREMENT BENEFITS

Contribution to various recognised provident funds/approved pension and gratuity funds and contributions to secured retiral benefits are charged to revenue. Liability for gratuity and leave encashment is determined on the basis of actuarial valuation as at the end of the accounting period.

Payments under Voluntary Retirement Scheme are charged to revenue on accrual basis in the year in which they become due for payment.

### RESEARCH AND DEVELOPMENT

Revenue expenditure on Research and Development is charged to Profit and Loss Account in the year it is incurred.

Capital expenditure on research and development is included under fixed assets.

### FOREIGN EXCHANGE TRANSACTIONS

The transactions in foreign currency are accounted for at the exchange rate prevailing at the date of the transaction. Foreign currency monetary assets and liabilities are translated at the rates of exchange ruling at the balance sheet date. Gains/losses on foreign exchange rate fluctuations related to foreign currency monetary assets and liabilities are accounted for at the year end.

Gains/Losses arising out of fluctuations in exchange rates are accounted for in the Profit and Loss Account on realisation/payment.

Difference between the forward exchange contract rate and the exchange rate as at the date of transaction is recognised as income or expense over the life of the said contract.

### PROPOSED DIVIDEND

Dividend proposed by the Directors, pending approval at the Annual General Meeting, is provided for in the books of account.

### LEASES

Assets acquired by way of finance lease are capitalised at the lower of the fair value and the present value of the minimum lease payments at the inception of the lease term and disclosed as leased assets. Lease payments are apportioned between finance charge and reduction of the lease liability based on the implicit rate of return. Finance charges are charged in the Profit and Loss Account.

Lease rentals paid in respect of operating leases are charged to Profit and Loss Account.

# CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2008



VST Industries Limited

Rs. in Lakhs

	2008	2007
<b>A. Cash flow from operating activities</b>		
Net Profit Before Tax	8625.46	8552.33
Adjustments:		
Depreciation (Net)	1380.52	1156.20
Liabilities no longer required written back	-	(70.54)
(Profit)/Loss on Sale of Fixed Assets (Net)	2.57	(17.71)
Unrealised (Gain)/Loss on exchange (Net)	57.13	(16.53)
Interest Income on Loans and Deposits etc. (Gross)	(225.99)	(159.31)
Interest Paid	12.85	9.24
Income from Long term Investments	(62.26)	(53.21)
Income from Current Investments	(460.49)	(269.84)
(Profit)/Loss on Sale of Investments (Net)	(743.27)	(934.95)
Operating Profit before Working Capital changes	8586.52	8195.68
Adjustments for:		
Trade and Other Receivables	(106.66)	(1.79)
Inventories	(1809.73)	(853.37)
Trade and Other Payables	3482.99	3016.86
Cash generated from operations	10153.12	10357.38
Direct Taxes paid	(3222.59)	(3194.46)
Cash flow before Extraordinary Item	6930.53	7162.92
Extraordinary Item (Refer note (II) on Schedule 19)	(102.97)	(99.23)
Net cash from operating activities	6827.56	7063.69
<b>B. Cash flow from investing activities</b>		
Purchase of Fixed Assets	(3820.96)	(1946.11)
Sale of fixed assets	8.48	75.09
Purchase of Investments	(151299.66)	(80973.69)
Sale/Redemption of Investments	148130.94	79612.59
Income from Long Term Investments	62.26	53.21
Income from Current Investments	460.49	269.84
Interest Income on Loans and Deposits etc. (Gross)	329.93	51.54
Net cash used in investing activities	(6128.52)	(2857.53)
<b>C. Cash flow from financing activities</b>		
Finance lease Payments	(55.78)	(43.62)
Interest - Others	(12.85)	(9.24)
Dividends paid	(3613.25)	(2200.97)
Net cash used in financing activities	(3681.88)	(2253.83)
Net Increase/(Decrease) in cash and cash equivalents	(2982.84)	1952.33
Opening cash and cash equivalents	3446.84	1494.51
Closing cash and cash equivalents	464.00	3446.84



- (a) The Comparative figures for the previous year have been re-arranged to conform with the revised presentation of the accounts.
- (b) The above cash flow statement has been prepared using the 'Indirect Method' as set out in the Accounting Standard - 3 on Cash Flow Statement as notified under Section 211 (3C) of the Companies Act, 1956.

This is the Consolidated Cash Flow Statement referred to in our report of even date.

SRINIVAS TALLURI  
Partner  
for and on behalf of  
LOVELOCK & LEWES  
Chartered Accountants

Hyderabad, 17th April, 2008.

On behalf of the Board,

A. BASU Chairman  
R. S. NORONHA Managing Director  
N. SAI SANKAR Finance Director  
& Secretary

Hyderabad, 17th April, 2008.



## Operating Results 1999 - 2008

Rs. in Lakhs

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>GROSS INCOME</b>	70203	74769	75578	68457	66937	64062	69460	73650	73944	78712
EXCISE & CUSTOMS DUTIES	41990	43159	43127	40176	38598	34416	37317	40411	38903	43347
<b>OPERATING PROFIT</b>	3064	3837	3865	6655	7325	7359	10178	11940	9474	9781
DEPRECIATION	545	616	502	546	809	879	951	1024	1148	1372
INTEREST	2233	1383	359	272	(237)	(106)	(54)	(274)	(150)	(197)
<b>PROFIT BEFORE TAX</b>	285	1838	3004	5837	6753	6586	9281	11190	8476	8606
<b>PROFIT AFTER TAX</b>	279	1570	2750	3698	3824	2857	5402	7221	5509	5835
PROFIT / (LOSS) AFTER TAX & EXTRAORDINARY ITEM	(8887)	1570	2750	3698	3824	2857	5402	4310	5509	5835
DIVIDENDS <sup>^</sup>	-	277	509	722	958	1045	2203*	2201	3613	3613
EARNINGS IN FOREIGN EXCHANGE (FOB VALUE)	3182	3889	2016	2645	3275	4793	5259	4527	4690	6075

## Sources and Application of Funds 1999 - 2008

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>SOURCES</b>										
EQUITY CAPITAL	1544	1544	1544	1544	1544	1544	1544	1544	1544	1544
PREFERENCE CAPITAL	3554@	3647@	3769@	-	-	-	-	-	-	-
RESERVES	1226	2505	4719	7719	10569	12359	15544	17633	19479	21649
BORROWINGS	11605@	4050@	4764@	1803	1199	598	-	-	-	-
<b>NET CAPITAL EMPLOYED</b>	17929	11746	14796	11066	13312	14501	17088	19177	21023	23193
<b>APPLICATION</b>										
GROSS FIXED ASSETS	9755	8813	9052	10124	11859	13862	15360	17768	19551	23345
DEPRECIATION	4896	5262	5699	5992	6711	7290	7983	8865	9843	11173
NET FIXED ASSETS	4859	3551	3353	4132	5148	6572	7377	8903	9708	12172
NET CURRENT ASSETS (INCL. INVESTMENTS & MISC. EXP.)	13070	8195	11443	6934	8164	7929	9711	10274	11315	11021
<b>NET ASSETS EMPLOYED</b>	17929	11746	14796	11066	13312	14501	17088	19177	21023	23193

## Performance Ratios 1999 - 2008

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
DIVIDEND RATE ON EQUITY CAPITAL (%)	-	10	25	45	55	60	125*	125	200	200
<b>EARNINGS PER SHARE (Rs.)</b>										
- BEFORE EXTRAORDINARY ITEM	1.8	9.6	17.3	23.8	24.8	18.5	35.0	46.8	35.7	37.8
- AFTER EXTRAORDINARY ITEM	-	9.6	17.3	23.8	24.8	18.5	35.0	27.9	35.7	37.8
<b>RETURN ON NET CAPITAL EMPLOYED (%)</b>										
- BEFORE EXTRAORDINARY ITEM	1.6	13.4	18.6	33.4	28.7	19.7	31.6	37.7	26.2	25.2
- AFTER EXTRAORDINARY ITEM	-	13.4	18.6	33.4	28.7	19.7	31.6	22.5	26.2	25.2
<b>RETURN ON NET WORTH (%)</b>										
- BEFORE EXTRAORDINARY ITEM	4.4	20.4	27.4	39.9	31.6	20.5	31.6	37.7	26.2	25.2
- AFTER EXTRAORDINARY ITEM	-	20.4	27.4	39.9	31.6	20.5	31.6	22.5	26.2	25.2
DEBT/EQUITY (%)	183.5	52.5	47.5	19.5	9.9	4.3	-	-	-	-
INTEREST COVER (Times)	1.1	2.3	9.4	22.5	-	-	-	-	-	-

<sup>^</sup> Includes Income Tax on Dividends.

\* Includes Platinum Jubilee Dividend of 60%.

@ External Commercial Borrowing pending conversion into Preference Capital has been considered under Preference Capital.







## VST INDUSTRIES LIMITED

Registered Office : AZAMABAD, HYDERABAD - 500 020

Dear Shareholder(s),

### Option for ECS Mandate/Bank Mandate

#### ECS Mandate

As an added service to our shareholders, we are pleased to offer the facility of electronic credit of dividend directly to the respective bank accounts of our shareholders, through Electronic Clearing Service (ECS).

In order to avail the ECS facility, the shareholders are requested to fill and sign the mandate form provided on the facing page and return the same latest by **14th July, 2008**.

- **in case of shareholders holding shares in physical mode, the ECS form be sent to M/s. Sathguru Management Consultants Private Limited, Plot No. 15, Hindi Nagar, Near Sai Baba Temple, Punjagutta, Hyderabad - 500 034.**
- **in case of shareholders holding shares in dematerialised form, the ECS form be sent to their respective Depository Participant with whom the account is maintained.**

Please note that these instructions will supercede all your previous bank mandates/details including those that may have been incorporated at the time of opening a beneficiary account with the Depository Participant.

The ECS facility provides adequate protection against fraudulent interception and encashment of dividend warrants apart from eliminating loss/damage of dividend warrants in transit, correspondence with the company on revalidation / issue of duplicate dividend warrants.

In case the ECS facility is not available to you at a particular centre, the dividend amount due to you would be remitted by means of a dividend warrant which would be posted to your address with the particulars of the bank/branch and account number furnished by you duly incorporated on it.

#### Bank Mandate

Shareholders holding shares of the Company in physical form and who, for any reason, would not like to avail of the ECS facility being offered to such shareholders as mentioned above, are requested to furnish in the mandate form provided on the facing page, details of their bank account number, name of the bank and address of the branch, which would be printed on the dividend warrants to avoid fraudulent encashment thereof.

Kindly note that the ECS/Bank mandate instructions should be under the signature of the shareholder(s) as per specimen lodged with the Company.

We seek your co-operation to enable us to serve you better.

Yours faithfully,  
VST INDUSTRIES LIMITED

N. SAI SANKAR  
Secretary

## FORM FOR ECS MANDATE / BANK MANDATE

M/s. Sathguru Management Consultants Private Limited  
Unit: VST INDUSTRIES LIMITED  
Plot No. 15, Hindi Nagar, Near Sai Baba Temple,  
Punjagutta, Hyderabad - 500 034

Dear Sir,

I/We, ..... do hereby authorise VST Industries Limited to

- credit my dividend amount directly to my Bank Account as per details furnished below by Electronic Clearing Service (ECS) - ECS Mandate\*
- print the details of my Bank Account as furnished below, on my dividend warrant which will be mailed to me - Bank Mandate\*

(\*Strike out whichever is not applicable)

Folio No. ....

(For shares held in physical form)

DP ID .....

Client ID .....

(For shares held in electronic form)

A. Name of First holder

B. Bank Name

C. Branch Name

D. Branch Address (for ECS Mandate only)

E. Bank Account Number

F. Account Type (Savings / Current)

G. 9 Digit Code Number of the bank & branch as appearing on the MICR cheque (for ECS Mandate only)

I hereby declare that particulars given above are correct and complete. If any transaction is delayed or not effected at all for reasons of incompleteness or incorrectness of information supplied as above, VST Industries Limited will not be held responsible.

\_\_\_\_\_  
Signature of first named shareholder  
(as per specimen lodged with the Company)

NOTE :

Please attach a blank cancelled cheque or a photocopy of a cheque issued by your Bank relating to your above account.



ADMISSION SLIP



VST INDUSTRIES LIMITED

Registered Office : AZAMABAD, HYDERABAD - 500 020.

VST Industries Limited

DP. ID\* :

Client ID\* :

Sr. No.

Reg. Folio No. :

No. of shares :

\*Applicable if shares are held in electronic form

Name & Address of Member

I certify that I am a registered shareholder/proxy for the registered shareholder of the Company.

I hereby record my presence at the SEVENTY SEVENTH ANNUAL GENERAL MEETING of the Company at Hotel Taj Krishna, Road No.1, Banjara Hills, Hyderabad - 500 034 on Thursday, 17th July, 2008 at 10.30 a.m.

Member's/Proxy's Signature

NOTE : Please fill this admission slip and hand it over at the entrance of the hall duly signed.

FORM OF PROXY



VST INDUSTRIES LIMITED

Registered Office : AZAMABAD, HYDERABAD - 500 020.

VST Industries Limited

DP. ID\* :

Client ID\* :

Reg. Folio No. :

No. of shares :

\*Applicable if shares are held in electronic form

I/We \_\_\_\_\_

of \_\_\_\_\_ in the district of \_\_\_\_\_

being a Member/Members of **VST INDUSTRIES LIMITED** hereby appoint \_\_\_\_\_

of \_\_\_\_\_ in the district of \_\_\_\_\_ or failing him

of \_\_\_\_\_ in the district of \_\_\_\_\_

as my/our Proxy to attend and vote for me/us on my/our behalf at the SEVENTY SEVENTH ANNUAL GENERAL MEETING of the Company to be held at 10.30 a.m. on Thursday, 17th July, 2008, or at any adjournment thereof.

Signed this \_\_\_\_\_ day \_\_\_\_\_ 2008.

NOTE:

This form in order to be effective should be duly stamped, completed and signed and must be deposited at the Registered Office of the Company, not less than 48 hours before the time of the meeting.

Signature

Affix  
15P.  
Revenue  
Stamp



**VST Industries Limited**