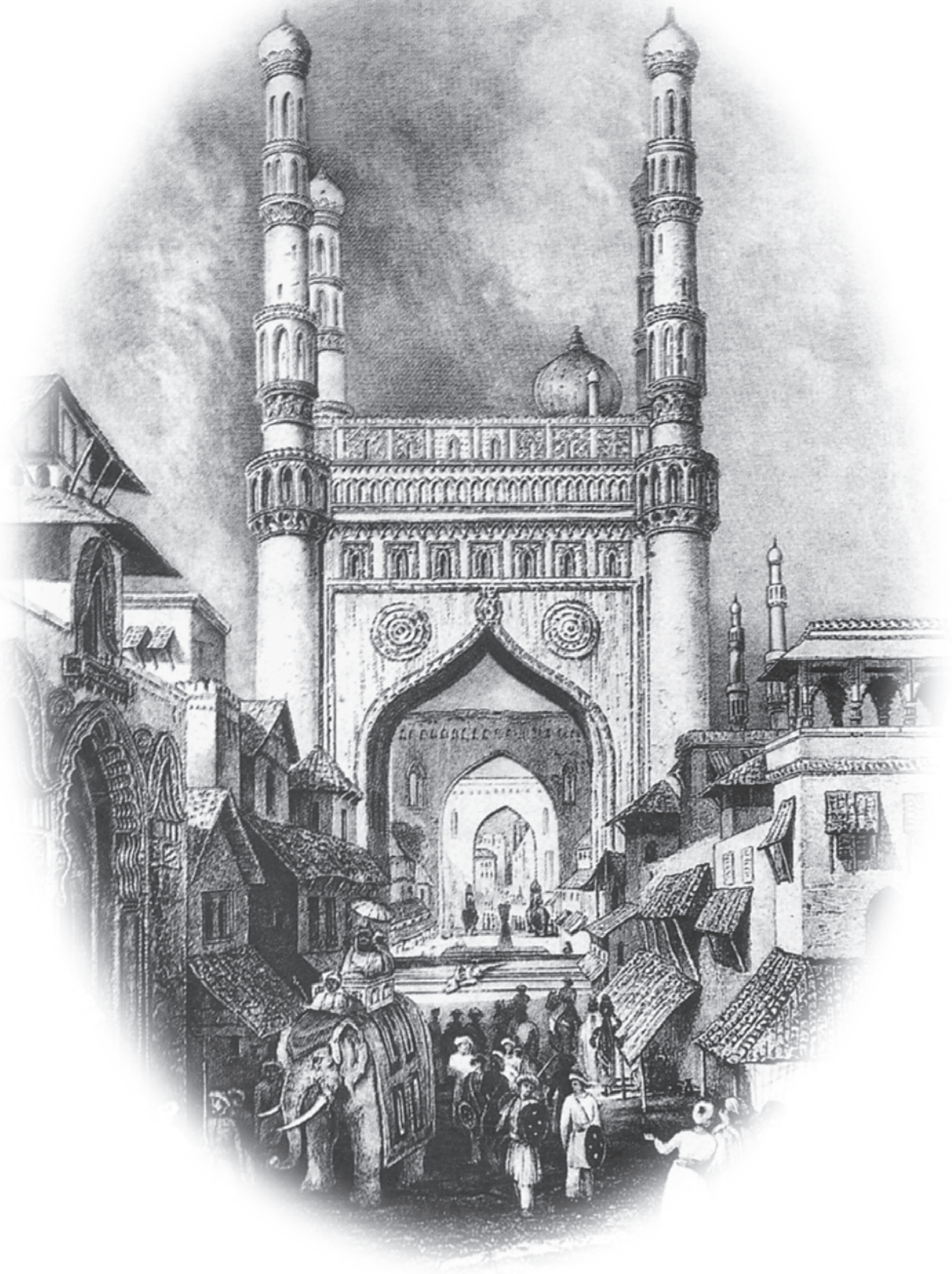




VST INDUSTRIES LIMITED

ANNUAL REPORT 2009





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BOARD OF DIRECTORS

Chairman
ABHIJIT BASU

Managing Director
RAYMOND S. NORONHA

Deputy Managing Director & Secretary
N. SAI SANKAR

Directors
JAYAMPATHI DIVALE BANDARANAYAKE
AIR CHIEF MARSHAL IDRIS HASAN LATIF, P.V.S.M. (Retd.)
T. LAKSHMANAN
MILIND ANNA KHARAT
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: +91 40 2335 0586, 2335 6507, 2335 6975
Fax : +91 40 4004 0554
E-mail: sta@sathguru.com



NOTICE OF MEETING

NOTICE IS HEREBY GIVEN THAT the Seventy Eighth Annual General Meeting of VST INDUSTRIES LIMITED will be held at Hotel Taj Krishna, Road No.1, Banjara Hills, Hyderabad - 500 034 on Thursday 16th July, 2009 at 10.30 a.m. for transacting the following business:

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2009, the Profit and Loss Account of the Company for the year ended on that date and the Reports of the Directors and Auditors thereon.
2. To declare a Dividend on the Equity Shares for the year ended 31st March, 2009.
3. To appoint a director in place of Mr. S. Thirumalai, who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint a director in place of Mr. N. Sai Sankar, who retires by rotation and being eligible offers himself for re-appointment.
5. To appoint Auditors and to fix their remuneration. In this connection, 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 M/s. 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.18 Lakhs (Rupees Eighteen Lakhs only) payable in two equal instalments plus service tax as applicable and reimbursement of actual out-of-pocket expenses incurred."

SPECIAL BUSINESS

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. Milind A. Kharat, a nominee of General Insurers' (Public Sector) Association of India who was appointed a Director of the Company with effect from 1st January, 2009 in place of Mr. V. Sekar and who vacates office at the ensuing Annual General Meeting pursuant to 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 Director be and is hereby

appointed as a Director of the Company whose period of office shall be liable to determination by 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 in partial supercession of the resolution passed by the Members at the Annual General Meeting held on 17th July, 2008, the current term of Mr. Raymond S. Noronha as Managing Director of the Company which is due to expire on 2nd September, 2010 be extended to 2nd September, 2012 (both days inclusive).

RESOLVED FURTHER THAT in partial supercession of the resolution passed by the Members at the Annual General Meeting held on 17th July, 2008, pursuant to the provisions of Sections 198, 269, 309, 310 and other applicable provisions, if any, of the Companies Act, 1956, the Company hereby accords its approval for an Adhoc Performance Payment of 50% of Consolidated Basic for the year 2008-09 to Mr. Raymond S. Noronha in addition to his approved remuneration.

All other existing terms of re-appointment of Mr. Raymond S. Noronha as the Managing Director of the Company including remuneration payable to him, as approved by the Members at their meeting held on 17th July, 2008, remain unchanged.

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

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

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

"RESOLVED THAT in partial supercession of the resolution passed at the Annual General Meeting held on 28th July, 2005, pursuant to the provisions of Sections 198, 269, 309, 314 and other applicable provisions, if any, of the Companies Act, 1956 and subject to such other approvals as may be required, Mr. N. Sai Sankar,



Wholetime Director & Secretary be re-designated as Deputy Managing Director & Secretary of the Company with effect from 1st February, 2009.

RESOLVED FURTHER THAT in partial supercession of the resolution passed by the Members at the Annual General Meeting held on 27th July, 2006, pursuant to the provisions of Sections 198, 269, 309, 310 and other applicable provisions, if any, of the Companies Act, 1956, the Company hereby accords its approval for an Adhoc Performance Payment of 50% of Consolidated Basic for the year 2008-09 to Mr. Sai Sankar in addition to his approved remuneration.

All other existing terms of re-appointment of Mr. N. Sai Sankar as Wholetime Director & Secretary including remuneration payable to him as approved by the Members at their meeting held on 27th July, 2006, remain unchanged.

RESOLVED FURTHER THAT the Board of Directors, be and is hereby authorised to do all things and deeds incidental thereto including entering into an agreement with Mr. Sai Sankar for the above purpose."

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

"RESOLVED THAT pursuant to the provisions of Section 309(4) and other applicable provisions if any, of the Companies Act, 1956, the Directors of the Company other than the Wholetime Directors be paid remuneration by way of commission not exceeding 1% of the Company's net profits computed in the manner referred to in Section 198 of the Companies Act, 1956, or any amendment or re-enactment thereof, for each of the five financial years of the Company commencing from 1st April, 2009, subject to a ceiling of Rs.25 Lakhs in the aggregate for all such Directors aforesaid or such amount as may be determined by the Board of Directors within the aforesaid ceiling of Rs.25 Lakhs, to be divided amongst the Directors aforesaid in such manner as the Board of Directors of the Company may from time to time determine and in default of such determination, equally.

RESOLVED FURTHER THAT the payment of commission, as aforesaid, shall be exclusive of the fees payable to such Directors for attending the meetings of the Board and Committees thereof."

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

"RESOLVED THAT pursuant to the provisions of Section 31 of the Companies Act, 1956, the Articles of Association of the Company be and is hereby altered by inserting the following at the end of Article 93 of the Articles of Association of the Company:

Notwithstanding anything contained to the contrary in these Articles, the Managing Director(s) and the Wholetime Director(s) of the Company shall not be director(s) liable to retire by rotation during their respective tenure of office as such."

The Register of Members of the Company will remain closed from 14th July, 2009 to 16th July, 2009 (both days inclusive) for payment of dividend, if declared.

Transfer of shares received in order at the Registrars and Share Transfer Agents of the Company, 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 13th July, 2009, will be registered in time for the transferees to become eligible for dividend, if declared.

Dividend, if declared, will be paid on or before 14th August, 2009 to those Members whose names appear in the Register of Members of the Company on 16th July, 2009 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 on 13th July, 2009, 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
VST INDUSTRIES LIMITED

N. SAI SANKAR
Secretary

Dated this 23rd day of April, 2009.
Azamabad, Hyderabad - 500 020,
Andhra Pradesh.



NOTES

1. A Member entitled to attend and vote at the Annual General Meeting may appoint a proxy to attend and vote on a poll on his behalf. A proxy need not be a Member of the Company. The instrument of proxy in order to be effective, must be deposited at the Registered Office of the Company, duly completed and signed not less than 48 hours before the Meeting i.e., by 10.30 a.m. on 14th July, 2009.
2. In accordance with Section 173(2) of the Companies Act, 1956, an Explanatory Statement in respect of items 6 to 10 being items of Special Business is annexed to the Notice of the Meeting.
3. Corporate members are requested to send, a duly certified copy of the board resolution pursuant to Section 187 of the Companies Act, 1956, authorising their representative to attend and vote at the Annual General Meeting.
4. Members 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 14th July, 2009.
5. Members 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. Members are requested to refer to the 'Shareholder Referencer' which inter-alia contains details regarding unclaimed dividend.
7. Members are requested to bring their copy of the Annual Report to the Meeting.
8. For the convenience of Members and for proper conduct of the meeting, entry to the place of meeting will be regulated by Admission Slip, which is part of the Annual Report. Members are requested to sign at the place provided on the Admission Slip and hand it over at the entrance to the venue.

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 Eighth Annual General Meeting of the Company to be held at Hotel Taj Krishna, Road No. 1, Banjara Hills, Hyderabad - 500 034 on Thursday, 16th July, 2009.

Item No. 6

Mr. Milind A. Kharat was nominated by General Insurers' (Public Sector) Association of India as a Director of your Company with effect from 1st January, 2009 in place of Mr. V. Sekar.

Mr. Milind A. Kharat who was appointed as a Director of the Company at the Board Meeting held on 16th January, 2009 to fill the casual vacancy caused by the resignation of Mr. V. Sekar 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. Kharat as a Director at this meeting.

Mr. Kharat is a Post Graduate in Economics, a Bachelor of Law and a Fellow of Insurance Institute of India (FIII). He has a rich experience of more than three decades in the General Insurance Industry. He was a Chief Metropolitan Magistrate appointed by Government of Maharashtra. He made significant contributions for revision of Fiji's Insurance Act, 1998. He served as an Executive Member on the National Road Safety Council of Fiji representing the insurance industry. He is an Executive Member of Foreign Non-Life Insurance Association of Japan. He is now the General Manager of United India Insurance Company Limited, Chennai.



None of the Directors of your Company other than Mr. Kharat is concerned or interested in this Resolution.

The Board commends this item of business for your approval.

Item No. 7

At the Seventy Seventh Annual General Meeting of your Company held on 17th July, 2008, the shareholders had approved the appointment of Mr. Raymond S. Noronha as Director and thereafter as 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.

The Board of Directors at their meeting held on 16th January, 2009, have subject to the approval of the Members at the Seventy Eighth Annual General Meeting, approved extension to the current tenure of appointment of Mr. Raymond S. Noronha as Managing Director due to expire on 2nd September, 2010 (the date of his retirement in the normal course), for a further period of two years upto 2nd September, 2012 (both days inclusive).

The Board of Directors at their meeting held on 23rd April, 2009, have subject to the approval of the Members at the Seventy Eighth Annual General Meeting approved an Adhoc Performance Payment of 50% of Consolidated Basic for the year 2008-09, to Mr. Raymond S. Noronha in addition to his approved remuneration taking into account the exceptional performance of the Company in a difficult year.

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 35 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.

None of the Directors of your Company other than Mr. Raymond S. Noronha is concerned or interested in this Resolution.

The Board commends this item of business for your approval.

Item No. 8

At the Seventy Fourth Annual General Meeting of your Company held on 28th July, 2005, the shareholders had approved the appointment of Mr. N. Sai Sankar as Director and thereafter as Wholetime Director & Secretary of the Company with effect from 1st January, 2006 to hold office for a period of five years from 1st January, 2006 to 31st December, 2010 (both days inclusive).

The Board of Directors at their meeting held on 16th January, 2009, have subject to the approval of the Members at the Seventy Eighth Annual General Meeting, approved the elevation and re-designation of Mr. Sai Sankar as Deputy Managing Director & Secretary of the Company with effect from 1st February, 2009 until the expiry of his current tenure of office on 31st December, 2010 (both days inclusive).

The Board of Directors at their meeting held on 23rd April, 2009, have subject to the approval of the Members at the Seventy Eighth Annual General Meeting approved an Adhoc Performance Payment of 50% of Consolidated Basic for the year 2008-09, to Mr. N. Sai Sankar in addition to his approved remuneration, taking into account the exceptional performance of the Company in a difficult year.

Mr. Sai Sankar is a B.Com (Hons.) from St. Xavier's College, Kolkata and is a Fellow Member of Institute of Chartered Accountants of India, Institute of Cost & Works Accountants of India and Institute of Company Secretaries of India. He has more than 28 years of experience in finance, accounting and secretarial field. He is a member of the Committee of Directors and Shareholders Grievance Committee of the Company. He is also a director on the Board of the Tobacco Institute of India. He acts as the Secretary of the Audit Committee.

None of the Directors of your Company other than Mr. Sai Sankar is concerned or interested in this Resolution.

The Board commends this item of business for your approval.



Item No.9

At the Seventy Third Annual General Meeting of the Company held on 22nd July, 2004, the Members approved payment of remuneration to the Non-Executive Directors of the Company, by way of commission not exceeding one percent of the net profits of the Company as provided under Section 309(4) of the Companies Act, 1956, for each financial year, subject to a ceiling of Rs.20,00,000 (Rupees Twenty Lakhs) to be divided amongst the Directors aforesaid in such manner as the Board of Directors may from time to time determine and in default of such determination, equally, for a period of five years from 1st April, 2004. The said approval expired on 31st March, 2009.

Keeping in view the current trends and commensurate with the time devoted and contributions made by Non-Executive Directors, the Board of Directors of your Company at its meeting held on 23rd April, 2009, recommended for the approval of the Members, payment of remuneration by way of commission not exceeding 1% of the Company's net profits to the Non-Executive Directors of the Company for each of the five financial years commencing from 1st April, 2009 in the manner stated in the text of the Special Resolution at Item 9 of the Notice.

None of the Directors of your Company other than the Non-Executive Directors is concerned or interested in this Special Resolution.

The Board commends this item of business for your approval.

Item No.10

One-third of the Directors (Wholetime/Non-Wholetime) currently are subject to retire by rotation annually. It is proposed to insert in Article 93 a provision to exclude the Managing Director(s) and the Wholetime Director(s) from retiring by rotation as directors during their respective tenure of office as such.

None of the Directors of your Company other than Mr. Raymond S. Noronha, Managing Director and Mr. N. Sai Sankar, the Deputy Managing Director & Secretary is concerned or interested in this Resolution.

Copy of the Memorandum and Articles of Association of the Company will be available for inspection by the Members of the Company at the Registered Office during normal business hours on any working day upto the date of the Annual General Meeting.

The Board commends this item of business for your approval.

By Order of the Board
VST INDUSTRIES LIMITED

N. SAI SANKAR
Secretary

Dated this 23rd day of April, 2009.
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, 2009

VST Industries Limited

The Directors of your Company have pleasure in presenting their Annual Report and Accounts for the year ended 31st March, 2009.

Financial Results	Rs. Lakhs	
	2008-09	2007-08
Revenue from Operations	100474*	77344
Net Profit after Tax	6182*	5835
Profit brought forward from previous year	8063	6441
Amount transferred to General Reserves	625	600
Balance available for Appropriation	13620	11676
Dividend proposed	4632	3088
Corporate Dividend Tax	788	525
Surplus carried in Profit and Loss Account	<u>8200</u>	<u>8063</u>

KEY RATIOS

Earnings Per Share (Rs.)	40.04*	37.79
Dividend Per Share (Rs.)	30.00*	20.00

**HIGHEST EVER RECORDED*

financial year the industry ended with a marginal negative growth. It is heartening to note that your Company has been able to build a substantial base in the filter segment and on date the percentage of representation by filter segment in the total portfolio is over 92% and if a comparison is made on percentage terms, the gain in filter segments has been to the extent of virtually 100%.

During the first quarter of the current financial year, another blow came in the form of tobacco prices which increased by over 100% for some of the grades of tobacco unparalleled in the history of the tobacco industry in India. This phenomenon was witnessed both in Andhra and Mysore markets from where your Company's tobacco is sourced. The overall price increases when compared to the year 2007-08 was in the region of 60-100%. However, for your Company these increases have been limited to around 60% affecting margins for current and future years.

Although tobacco price increases were unprecedented, Indian exports nevertheless improved substantially due to global demand with increase in the region of 13%. As far as your Company is concerned, the performance on tobacco exports has also been most encouraging and has touched record levels.

Volatility in foreign exchange rates was another phenomenon witnessed throughout the financial year. Rupee which was at Rs.40 to a dollar on 31st March, 2008 touched Rs.52 to a dollar during the month of March 2009, a variation of 30% never seen in the Indian context making it challenging to manage forex transactions of your Company.

The crude oil prices which were quoting around US\$ 35 per barrel touched an

INDUSTRY STRUCTURE & DEVELOPMENT

The financial year 2008-09 has been one of the most traumatic years in the history of your Company in terms of the tobacco industry, the Indian economy and the global financial meltdown.

You would recall that in the Union Budget presented in February 2008, the excise duty rates were increased by an unprecedented two and a half times to five times in respect of non-filter segments where your Company has always had a sizeable presence, while leaving the rates for the filter tipped cigarettes untouched. This resulted in a total upheaval in the traditional pricing pattern of cigarettes in the price sensitive lower price segments, whereby micro cigarettes became equated to regular size filter tipped and regular plain cigarettes to long-size filter cigarettes. The year thus began with a great deal

of uncertainty especially, as you are aware, that over the years the non-filter segments have always constituted over fifty percent of our volumes. We were therefore at a most disadvantageous position with respect to our major competitors.

It is against this backdrop that one needs to judge the performance of your Company. The general pessimism which persisted during the first quarter of the current financial year was overcome to a large extent by some of the successes your Company has seen during later periods to capture market share in new geographies through new brands and it is with a great deal of satisfaction that your Company was able to recover virtually 80% of the affected plains and micro segments. It is pertinent to note that the industry, where some of the competitors have been better represented in terms of filter volumes, was also affected and during the



unheard of US\$ 143 per barrel leading to inflation in the country, which crossed double digit and peaked at 12.89% last seen several years back.

August and September 2008 were months when the global economy shook with several institutions collapsing leading to a global recession. While, India remained unaffected to a large extent, the impact was felt especially in the money markets when the call money rates touched 22% during particular days.

The performance of Indian stock market was dismal with a crash of almost 55-60% levels, causing severe liquidity crunch affecting returns. Further, this caused a great deal of uncertainty and as a result the general business index in the Indian economy was one of pessimism forcing the various agencies predicting GDP rates to moderate it downwards to 6.5 to 7% levels.

Though your Company has been challenged by regulatory restrictions, it continues to grow because of the positioning and strategy that has been put in place over the previous years.

Industry Issues

Ban on public smoking on an all India level was effected from 2nd October, 2008. Though the industry and other tobacco players challenged the notification, the matter is before the Supreme Court, with no interim relief granted to the tobacco industry. This could impact volumes over a longer time frame.

Graphical Health Warning which was expected to get introduced during the current financial year 2008-09 was deferred a number of times. The revised date of implementation is 31st May, 2009, subject to clearance from Group of Ministers, appointed to review the matter. While the notification for

implementation has been released by the Ministry of Health, this matter has also been challenged.

SEGMENT WISE PERFORMANCE

Your Company considers tobacco and related products as the primary segment for reporting. Geographical segments considered for disclosure mainly consist of sales within India and sales outside India. The entire activity pertaining to sales outside India is carried out from India.

As mentioned above, the steep increases in excise duty have virtually wiped away certain price segments from the market. The Indian cigarette industry is now virtually filterised and in the case of your Company, filterisation has increased steeply and now represents 92% by volume.

Charminar launched in filter format was able to garner substantial volumes.

Moments and Charms Virginia Filter were two brands which stood out improving the volume base.

Moments was able to garner substantial volumes in relatively new markets of south/north. Your Company is also working on launches of several value-for-money brands in price segments that offer opportunities.

Market Scenario

During the year under review the cigarette volumes stood at 7180 mns comprising of 92% from filter tipped cigarettes. The value realizations were accordingly higher at Rs.889 crore up from Rs.710 crore in the previous year.

Leaf Tobacco

We are happy to report that your Company has recorded Rs.106.35 crore leaf export turnover, which is 79% higher than the year 2007-2008, despite stiff competition and fluctuation in exchange rate.

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 optimizing 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 have completed 3 years of commercial operations, and we look forward to continued export growth for next 3 years. We have established markets with premium customers for Air Cured Burley in new areas apart from regular Air Cured Burley and Fire Cured tobacco exports, which will 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 and to conserve greenery, your Company is continuing social forestry through afforestation and Trees for Life programme. It is also actively discouraging child labour involvement in tobacco growing/processing. It has initiated the installation of water purifiers in major tobacco growing villages to improve the health of the rural community.

You will be pleased to note that your Company's Leaf Function is certified by Registro Italiano Navale, Genova, Italy for SA8000.



PRODUCTION AND PLANT MODERNISATION

Primary Manufacturing Department

Admoist with automatic PLC controls has been installed in the Stem Conditioning Line to ensure better and uniform conditioning of stems.

CTS box filler has been upgraded to ensure lesser degradation and achieve better tobacco filling.

Steam treated stem (STS) retrofit for casing application has been installed in the Cut Rolled Stem (CRS) line for online application of casing on CRS, which gives flexibility for smoke improvement.

New design conveyors have been installed on lamina and CRS drying lines to ensure less degradation and tobacco rejection.

Secondary Manufacturing Department

In pursuance of ongoing modernization plan of Secondary Manufacturing Department to improve productivity and quality, the following technology has been put in place

- One Loga 3D 85 - 9000 CPM Filter making Machine along with Filter Feeding unit has been installed
- Three new Parcelling machines were integrated with Packers to improve productivity and quality.
- One Coupon Unit on GD HRC (Half Round Corner) packer has been fitted.
- Three laser units on Packing machines were installed for on-line coding.

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, which is increasingly becoming tougher.

Development plans are drawn up for key managers to shoulder higher responsibilities as well as to increase their job effectiveness.

As on 31st March, 2009, your Company had a strength of 1,075 employees, with 281 management staff and 794 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

Your Company has received the Gold Award for the year 2008 from the Royal Society for Prevention of Accidents (RoSPA), UK, for maintaining the highest standards in Occupational, Health and Safety.

Safety Innovation Award for the year 2008 was awarded to your Company by the Safety & Quality Forum, Institute of Engineers (India) for implementing innovative Safety Management systems.

R&D is accredited with ISO 17025 certification by National Accreditation Board for Testing and Calibration Laboratories (NABL).

Environment, Health and Safety (EHS) in day-to-day business operations is given very high priority by your Company. 220 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 vigil on the performance monitoring. 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 2008.

Your Company celebrated the National Safety Day on 4th March, 2009, by conducting safety meetings inside the factory, and all contractors attended a safety programme conducted by the National Safety Council.

Registro Italiano Navale India (RINA) revalidated the Company's certifications of Surveillance Reviews of ISO 14001: 2004 & OHSAS 18001 for the year 2008.

On the environmental side, as a responsible corporate, your Company continues to put in sustained efforts in the upkeep and improvisation of existing systems like Scrubber, DRF systems, Rain Water Harvesting pits and ETP with Soil Bio-Technology.

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

All statutory compliances are in place.

FINANCE

a. Profits

The Profit after Tax for the year at Rs.61.82 crore is the highest ever recorded by your Company in its history. It must be mentioned that this was largely possible due to a one time write back of Rs.12.61 crore (Post Tax Rs.8.35 crore) on account of excise refund received last year.



The challenge of maintaining healthy cash flows and high operating margins has been there for some years now, however due to the steep increase in excise duties during the last budget, operating margins were impacted. Your Company's focus of growing volumes was intensified albeit at the cost of lower operating margins. On the operational front the tight management of working capital and costs has contributed to improvement in profitability. Tobacco leaf export profitability helped improve overall Profit after Tax.

The performance is all the more satisfying, 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 Schemes) of reputed fund houses. A very small portion has been deployed in equity schemes of mutual funds as also in Non-Banking Finance Company (NBFC) debentures.

Capital preservation with optimal returns has been the principle your Company has been following consistently over the last several years.

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 Technologies continue to partner with your Company with respect to networking.

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

Your Company is now working on plans to support the entire SAP, ERP system through internal resources.

FIXED DEPOSITS

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

As on 31st March, 2009, your Company does not have any deposits for the purpose of its business. Unclaimed deposits amounting to Rs.8,000 has been transferred to Investor Education and Protection Fund on their respective due dates.

RATING

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

UNCLAIMED DIVIDENDS

Your Company had by its letter dated 25th October, 2001 communicated to all the 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, 2002 remaining unpaid would be deposited by 28th August, 2009 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 guidelines, as amended from time to time.

INTERNAL CONTROL SYSTEMS

Your Company remains committed on 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 through a systems audit process, potential high risk areas identified and steps to mitigate these risks are taken on a continuous basis.

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 some of 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 on internal controls has been working effectively.

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



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, Mr. S. Thirumalai and Mr. N. Sai Sankar retire from the Board and being eligible, offer themselves, for re-election. Your Board recommends their re-appointment.

a. Mr. S. Thirumalai

Mr. S. Thirumalai was appointed as an Additional Director on the Board of your Company with effect from 20th October, 2005. He was appointed under the provisions of Section 257 of the Companies Act, 1956 at the Annual General Meeting held on 27th July, 2006. Mr. Thirumalai is due to retire by rotation at the forthcoming Annual General Meeting and being eligible, offers himself for re-appointment.

Mr. S. Thirumalai is a Commerce and Law Graduate and is a Fellow Member of Institute of Chartered Accountants of India and Institute of Company Secretaries of India. He is also a Certified Associate of the Indian Institute of Bankers. He attended the Advanced Management Program at Harvard Business School, Boston, M.A. (USA) in 1992. He has over 30 years of experience in manufacturing industry covering all aspects of Finance, Taxation and

General Management (including three years with Reserve Bank of India/Unit Trust of India as an Officer). He retired as a Partner from Deloitte Haskins and Sells, Chartered Accountants and is now the Senior Advisor to the consulting firm Deloitte Touche Tohmatsu India Private Limited. He is a Member of the Shareholders Grievance Committee and Committee of Directors of your Company. Mr. Thirumalai holds 25 shares in the Company and is not related to any other director of the Company.

b. Mr. N. Sai Sankar

Mr. N. Sai Sankar was appointed a Director on the Board of your Company with effect from 1st January, 2001. He was appointed under the provisions of Section 257 of the Companies Act, 1956 at the Annual General Meeting held on 14th June, 2001. Mr. Sai Sankar was re-appointed as Director with effect from 1st January, 2006 for a further period of five years at the Board Meeting held on 21st April, 2005 and this was approved by the Members at the Annual General Meeting held on 28th July, 2005. He was last retired and re-appointed at the Annual General Meeting held on 27th July, 2006. He was appointed as Deputy Managing Director & Secretary with effect from 1st February, 2009. Mr. Sai Sankar is now due to retire by rotation at the forthcoming Annual General Meeting and being eligible, offers himself for re-appointment.

Mr. Sai Sankar is a Commerce Graduate from St. Xavier's College, Kolkata and is a Fellow Member

of Institute of Chartered Accountants of India, Institute of Cost & Works Accountants of India and Institute of Company Secretaries of India. He has about 28 years of experience in finance, accounting and secretarial field. He is a member of the Committee of Directors and Shareholders Grievance Committee of the Company and is also a director on the board of the Tobacco Institute of India. He is also the Secretary of the Audit Committee. Mr. Sai Sankar does not hold any shares in the Company and is not related to any other director of the Company.

Directors' Resignation/ Appointments/Extension of tenure of office

a. Mr. V. Sekar

Mr. V. Sekar resigned as Director of the Company with effect from 31st December, 2008. The Board of Directors place on record their deep appreciation of the contribution made to your Company by Mr. V. Sekar.

b. Mr. Milind A. Kharat

Mr. Milind A. Kharat was nominated by General Insurers' (Public Sector) Association of India as a Director of your Company with effect from 1st January, 2009 in place of Mr. V. Sekar. 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. Milind A. Kharat as a Director of your Company.

Mr. Kharat is a Post Graduate in Economics, a Bachelor of Law and



a Fellow of Insurance Institute of India (FIII). He has rich experience of more than three decades in the General Insurance Industry. He was the Chief Metropolitan Magistrate appointed by Government of Maharashtra. He made significant contributions for revision of Fiji's Insurance Act, 1998. He served as an Executive Member on the National Road Safety Council of Fiji representing the insurance industry. He is an Executive Member of Foreign Non Life Insurance Association of Japan. He is now the General Manager of United India Insurance Company Limited. Mr. Kharat does not hold any shares in the Company and is not related to any other director of the Company.

c. 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 re-appointed at the Annual General Meeting held on 17th July, 2008 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.

The Board of Directors at their meeting held on 16th January, 2009 have subject to the approval of the Members at the Seventy-eighth Annual General Meeting, re-appointed Mr. Raymond S. Noronha granting extension of period of his current tenure of office as Managing Director due to expire on 2nd September, 2010

for a further period of two years from 3rd September, 2010 to 2nd September, 2012 (both days inclusive).

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 35 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. Noronha does not hold any shares in the Company and is not related to any other director of the Company.

d. Mr. N. Sai Sankar

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

The Board of Directors at their meeting held on 16th January, 2009, have subject to the approval of the Members at the Seventy

eighth Annual General Meeting, approved the elevation of Mr. Sai Sankar as Deputy Managing Director & Secretary of the Company with effect from 1st February, 2009 whose period of office as such shall continue until the expiry of his existing tenure on 31st December, 2010 (both days inclusive).

Mr. Sai Sankar is a Commerce Graduate from St. Xavier's College, Kolkata and is a Fellow Member of Institute of Chartered Accountants of India, Institute of Cost & Works Accountants of India and Institute of Company Secretaries of India. He has about 28 years of experience in finance, accounting and secretarial field. He is a member of the Committee of Directors and Shareholders Grievance Committee of the Company and is also a director on the board of the Tobacco Institute of India. He is also the Secretary of the Audit Committee. Mr. Sai Sankar does not hold any shares in the Company and is not related to any other director of the Company.

Separate Resolutions for the appointments/re-appointments of Mr. Milind A. Kharat, Mr. Raymond S. Noronha and Mr. N. Sai Sankar have been 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 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

As mentioned in last year's Report, 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, which had set aside levy of Luxury Tax. The Department has alleged that your Company has failed to pay an amount of Rs.34.86 crore being the Luxury Tax collected from customers by your 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 said judgement dated 20th January, 2005. An amount of Rs.29.81 crore has also been claimed as interest thereon @ 24% per annum.

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. The matter is still pending for final adjudication by the Supreme Court.

iii. Entry Tax

As mentioned in last year's Report, many High Courts in the country including Andhra Pradesh, Kerala, Tamilnadu and Assam have struck down levy of Entry Tax on the ground that it is violative of Article 301 and not saved under the Article 304 (b) of the Constitution, as it is not compensatory in the manner required in terms of the Supreme Court judgement in the case of M/s. Jindal Stainless Ltd. Thereafter, several states such as Uttar Pradesh, Bihar and Haryana have attempted to re-introduce Entry Tax by amending the original Acts, sparking a fresh round of legal challenges in the High Courts. By its Judgement dated 28th August, 2008, the Patna High Court in the case of VST Distribution, Storage & Leasing Company Private Limited (VSTDSL) has struck down Entry Tax from 25th July, 2001 to 29th August, 2006, while upholding the levy thereafter. Your Company and VSTDSL are in the process of challenging the re-imposition of Entry Tax in Bihar and UP. In any case, the Supreme Court by its Order dated 18th December, 2008 in the batch of cases headed by Jai Prakash Associates vs the State of MP has referred a number of vital questions on levy of Entry Tax, to the Constitutional Bench in terms of Article 145 (3) of the Constitution.



EXCISE

i. Gay Wrappers

As mentioned in last year's Report, the Customs, Excise and Service Tax Appellate Tribunal, Bangalore by its Order dated 8th October, 2004, had allowed your Company's Appeal and set aside the demand of the Excise Department for an amount of Rs.3.62 crore (including penalty and interest @ 24%) 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. An Appeal against the said Order has been filed by the Excise Department and is presently pending in the Supreme Court.

In the meantime, the Supreme Court by its Order dated 27th November, 2008 has remanded various other similar Appeals pertaining to other manufacturers back to their respective Tribunals for re-adjudication in the light of individual facts of each case. Notices for subsequent periods have also been received by your Company which have been kept pending awaiting the decision of the Supreme Court.

ii. North-East

As mentioned in last year's Report, the Excise Department had demanded a sum of Rs.6.90 crore from two of your Company's former contract manufacturers, by way of interest on the principal amount of Rs.31.20 crore repaid to the Excise Department, consequent upon the Judgement of the Supreme Court

dated 19th September, 2005. The two contract manufacturers had filed Writ Petitions challenging the said demands in the Guwahati High Court and obtained Interim Orders staying partial recovery until final disposal. Against the said Interim Orders, the Department had filed Appeals in the Supreme Court. The matter was heard on 26th March, 2009 and is reserved for Orders.

iii. Misclassification of plain cigarettes

As mentioned in last year's Report, 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 specific regard to manufacture of certain brands of non-filter cigarettes where the mouth-end of the cigarette rod comprising of Cut Rag Stem (CRS) has been considered by the Department to be a filter cigarette and differential duty demanded, as payable for a filter cigarette.

In the meantime, the Supreme Court by its Judgement dated 3rd September, 2008 has decided that similar cigarettes made by another manufacturer are classifiable as plain cigarettes. Accordingly, your Company has replied to the Show Cause Notice and asked the Department to drop further proceedings in the light of the above Supreme Court judgement.

PUBLIC INTEREST LITIGATION

As mentioned in last year's Report, the

Public Interest Litigation filed in the Supreme Court by M/s. Narinder Sarma and Himanshu Sarma, Advocates, against various cigarettes, zarda, pan masala and beedi manufacturers seeking proper and prompt implementation of Cigarettes and Other Tobacco Products (Prohibition of Advertisement and Regulation of Trade and Commerce, Production, Supply and Distribution) Act, 2003 (COTPA) and other health related warnings, is still pending in the Supreme Court. Another Public Interest Litigation recently filed by an NGO 'Health for Millions' in the Supreme Court seeking similar reliefs, including immediate implementation of COTPA, has also been admitted and notice has been issued to the Respondents on 28th March, 2009 including the Health Ministry.

FINANCIAL SERVICES BUSINESS

As mentioned in the last year's Report the Company Petition filed by the Official Liquidator (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 is still pending. In terms of the Order dated 10th July, 2007 the Division Bench of the Hon'ble A.P. High Court had directed the Regional Director, Department of Corporate Affairs, Chennai to conduct an investigation and submit a report showing who were the persons who promoted ITCATF and the persons who are responsible in conducting its affairs until its winding up.

A comprehensive report dated 19th May, 2008 was prepared and filed in the Hon'ble A.P. High Court by the Regional Director in July 2008. All the matters are still pending for final adjudication.



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

- i. 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 outdoor advertising, regulation of on-store advertising, prohibition of sale of cigarettes to persons below the age of 18 years, etc.
- ii. 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 (GoM) was constituted to relook at the warnings. Based on their recommendations, a new set of labelling requirements has been prescribed under the Cigarettes and Other Tobacco Products (Packaging and Labelling) Rules, 2008 which were published on 16th March, 2008. However, these have again been modified based on representations made. The GoM has yet to give its conclusive recommendations. The Ministry of Health has however issued a notification for implementation by 31st May, 2009.
- iii. In the meantime, some Tobacco manufacturers had challenged various provisions of COTPA and Rules made thereunder in different

High Courts across the country. The Union Government filed Transfer Petitions in the Supreme Court seeking to transfer 31 pending Writ Petitions from various High Courts to the Supreme Court. On 18th November, 2008 all the Transfer Petitions were allowed and the Writ Petitions have thus been moved to the Supreme Court, for final adjudication.

- iv. Your Company had also filed a Writ Petition in the Hon'ble A.P. High Court challenging COTPA Rules 2006 and the Amendment Rules 2008, on the grounds inter alia that they are ultra vires of COTPA and therefore the Notifications issued thereunder (including those seeking implementation of Graphic Health Warnings) should be quashed. The said Writ Petition was admitted on 17th October, 2008 but no interim orders were passed by the Court.
- v. A ban on smoking in public places as envisaged under the COTPA Act, came into effect on 2nd October, 2008, under which smoking has been banned in virtually all public places including courts, public buildings, restaurants, bars, cinema halls etc. A batch of writ petitions challenging this was filed in the Delhi High Court and transferred to the Supreme Court, which came up for admission on 29th September, 2008. While the Supreme Court admitted the Transfer Petitions it declined to grant interim relief prayed for by the petitioners seeking to postpone implementation of the ban on smoking in public places.

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, M/s. Lovelock & Lewes, Chartered Accountants, retire at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

THE FUTURE

In view of the general elections, only an interim budget was presented. A normal Union Budget is anticipated during June/July 2009.

The recovery of the business which was witnessed in the last six months is expected to slowdown, in view of the general economic environment prevailing in India and globally.

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. The effort to build market share in new geographies would continue and with the success achieved this year, efforts to increase the spread would continue.

The Company's thrust of increasing the leaf tobacco exports will continue.

On behalf of the Board,

A. BASU
Chairman

Dated this 23rd day of April, 2009.
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, 2009.

A. CONSERVATION OF ENERGY

1. Energy conservation measures taken:

- i. Variable frequency drives, boiler, forced draft, induced draft fans & water pumps
- ii. Motors fitted with energy efficient fans
- iii. Running both 360 CFM compressors with closed loop controls
- iv. Reduced the generating pressure of the compressors from 6.35 Kg/Cm² to optimum level of 5.8 Kg/Cm²
- v. Installed 105 energy efficient light-emitting diode (LED) street lights
- vi. Solar water heating for boiler feed make up water
- vii. Improved productivity: Balancing the making & packing capacity
- viii. Installed automatic shut off valves for compressed air on Plains
- ix. Awareness programme among employees towards energy conservation

2. Additional investments and proposals, for motors if any, being implemented for reduction of consumption of energy:

- i. LED Lighting
- ii. Automatic transfer switch for power source change over

- iii. Energy efficient fans for SMD dust removal fans (DRF)
- iv. Variable frequency drives (VFDs) for filter makers' DRF
- v. Individual vacuum pumps for filter makers

3. Impact of the measures at (1) above for reduction of energy consumption and consequent impact on the cost of production of goods

Achieved on account of the above:

- i. Reduction of coal consumption by 10%
- ii. Reduction in energy consumption by 3%

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

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 from 87.3 to 87.8 & WMS utilization
- iv. R&D is accredited with ISO 17025 certification by National Accreditation Board for Testing & Calibration Laboratories (NABL), Department of Science & Technology, Government of India, New Delhi

3. Future plan of action:

- i. Development of new blends & brands as per domestic and export market requirements
- ii. Inputs to technical staff and workmen for further improvement of Product Quality, EHS rating & utilization of tobacco and non tobacco materials

Expenditure on R&D	Rs.Lakhs
a. Capital	-
b. Recurring	233.37
TOTAL	233.37
c. Total R&D expenditure as a percentage of:	
Gross Turnover	0.23%
Net Turnover	0.61%

C. FOREIGN EXCHANGE EARNINGS AND OUTGO

1. Activities relating to exports:

- i. Your Company is exporting Cut Tobacco & Finished Product to various export markets



ii.	Your Company is marketing Dark Fire Cured, Light Soil Burley, Oriental, Flue Cured tobacco and other Sun/Air Cured tobacco	markets for products & services and export plans:	Earned:	Rs.Lakhs
		i.	Cigarettes (CIF, C&F & FOB) :	15.35
			Tobacco (CIF, C&F & FOB) :	10635.34
		ii.	Cut Tobacco (CIF, C&F & FOB) :	279.19
iii.	Improved leaf growing technology for quality/farm yield improvement and minimizing TSNA levels. Creating awareness to minimize/eliminate NTRM (Non-tobacco related material)	3.	Total Foreign Exchange:	
			Used:	Rs.Lakhs
			Raw Materials :	627.10
			Spare Parts :	48.66
			Capital Goods :	1230.95
			Overseas Travel, Advertisement & Subscriptions, etc. :	106.71
iv.	To increase the exports further, tie up with merchant companies, production of low pesticide residue		Dividends :	993.18
				<u>3006.60</u>
v.	Upgradation of processing & manufacturing technology			<u><u>3006.60</u></u>
2.	Initiatives taken to increase exports and development of new export			
			On behalf of the Board,	
			A. BASU	
			Chairman	
			Dated this 23rd day of April, 2009.	
			Azamabad, Hyderabad - 500 020,	
			Andhra Pradesh.	



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, 2009

Name	Age	Qualifications	Designation & Nature of Duties	Date of Commencement of Employment	Experience in years	Remuneration Received/ Receivable Rs.	Last Employment
Employed throughout the financial year							
Devraj Lahiri	36	B.Com., M.B.A.	Vice President - Brands	12-03-2001	11	36,39,010	NFO Singapore
Dr. Lakshmi Narasaiah T.	43	M.Sc.(Ag.) Ph.D.	General Manager - Leaf	01-02-1994	15	24,80,521	-
Madhava Reddy Y.	56	B.Sc.(Ag.)	Vice President - Leaf	15-09-1976	32	40,77,896	-
Ramadhar Reddy B.	52	B.Com., M.B.A., Diploma in Labour Law	Vice President - HR	13-11-2000	29	36,72,302	Ballarpur Industries Ltd.
Raymond S. Noronha	58	B.A.(Hons.)	Managing Director	01-11-1998	35	2,94,43,415	British American Tobacco Co., Mauritius
Rohit Sahni	47	B.Sc.	Zonal Manager - Marketing	01-03-2006	21	25,60,455	Manager, Modern Trade-Dabur India Ltd.
Sai Sankar N.	51	B.Com.(Hons.), FCA, FICWA, FCS	Deputy Managing Director & Secretary	17-03-1995	28	1,69,39,797	Finance Manager, Palmtech India Ltd.
Sanjay Khanna	53	B.A., LL.B.	Corporate General Counsel	15-03-1983	28	26,69,318	Advocate in the office of Mr. K. Srinivasamurthy
Dr. Subba Rao M.	58	M.Sc., Ph.D.	Vice President - Technical	06-11-1984	32	45,76,646	Scientific Officer - Bhabha Atomic Research Centre, Mumbai.

Employed for part of the financial year

NIL

NOTES:

1. All appointments are/were contractual.
2. No Director is related to any other Director or employee of the Company listed above.
3. 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 23rd day of April, 2009.
Azamabad, Hyderabad - 500 020,
Andhra Pradesh.

A. BASU
Chairman



STATEMENT REGARDING SUBSIDIARY COMPANY

VST Industries Limited

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, 2009	50,000	9.42	12.43
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	
<p>Dated this 23rd day of April, 2009. Azamabad, Hyderabad - 500 020, Andhra Pradesh.</p> <p style="text-align: right;">On behalf of the Board, A. BASU Chairman R.S. NORONHA Managing Director N. SAI SANKAR Deputy Managing Director & Secretary</p>				



VST Industries Limited

ANNEXURE TO THE DIRECTORS' REPORT

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

To the Members of
VST Industries Limited

We have examined the compliance of conditions of Corporate Governance by VST Industries Limited ("the Company" or "VST"), for the year ended 31st March, 2009, 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.

Mumbai, 23rd April, 2009.

LALIT PUNJABI
Partner
Membership No. 48102
For and on behalf of
LOVELOCK & LEWES
Chartered Accountants



REPORT ON CORPORATE GOVERNANCE

VST Industries Limited

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, 2009.

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 accountability, integrity, regulatory compliance, improvement in quality of life and meeting social responsibility. Your Company believes that good corporate governance practices enable the management to direct and control the affairs of the Company in an efficient manner and to achieve its ultimate goal of maximising value for all its stakeholders.

2. I. Board of Directors

(A) Composition of Board

The Board of Directors of your Company has an optimum combination of Executive and Non-Executive Directors. As on 31st March, 2009, your Company's Board has nine Directors, out of whom seven Directors are Non-Executive Directors including the Chairman and the remaining two are Executive Directors.

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

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

Name of the Director	Position	Relationship with other Directors	No. of outside directorships held	No. of memberships/ chairmanships of board committees of other companies
Mr. A. Basu	Chairman (Independent Non-Executive Director)	None	–	Nil
Mr. Raymond S. Noronha	Managing Director	None	1	Nil
Mr. J.D. Bandaranayake	Non-Executive Director	None	9	Nil
Air Chief Marshal I.H. Latif (Retd.)	Independent Non-Executive Director	None	–	Nil
Mr. T. Lakshmanan	Independent Non-Executive Director	None	–	Nil
Mr. R.V.K.M. Suryarau	Independent Non-Executive Director	None	–	Nil
Mr. N. Sai Sankar	Deputy Managing Director & Secretary	None	1	Nil
Mr. S. Thirumalai	Independent Non-Executive Director	None	–	Nil
Mr. V. Sekar ¹	Independent Non-Executive Director	None	1	Nil
Mr. Milind Anna Kharat ²	Independent Non-Executive Director	None	–	Nil

¹ Nominee of General Insurers' (Public Sector) Association of India - resigned as a Director w.e.f. 31st December, 2008.

² Nominee of General Insurers' (Public Sector) Association of India - appointed as a Director w.e.f. 1st January, 2009.



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

(B) Non-Executive Directors' compensation and disclosures

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

(C) Other provisions as to Board and Committees

- i. During the financial year ended 31st March, 2009, four meetings of the Board were held on 17th April, 2008, 16th July, 2008, 17th October, 2008 and 16th January, 2009.

The table below gives the number of Board Meetings held and the attendance of Directors for the year ended 31st March, 2009 -

Name of the Director	No. of Board Meetings held	No. of Board Meetings attended	Attendance at last AGM
Mr. A. Basu	4	4	Yes
Mr. Raymond S. Noronha	4	4	Yes
Air Chief Marshal I.H. Latif (Retd.)	4	4	Yes
Mr. T. Lakshmanan	4	4	Yes
Mr. R.V.K.M. Suryarau	4	4	Yes
Mr. N. Sai Sankar	4	4	Yes
Mr. S. Thirumalai	4	4	Yes
Mr. J. D. Bandaranayake	4	4	Yes
Mr. V. Sekar ¹	4	3	No
Mr. Milind Anna Kharat ²	4	Nil	Not applicable ³

¹ Resigned as Nominee Director w.e.f. 31st December, 2008.

² Appointed as Nominee Director w.e.f. 1st January, 2009.

³ AGM was held on 17th July, 2008 before the date of his appointment.

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

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



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

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

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

(D) Code of Conduct

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

II. Audit Committee

(A) The Audit Committee comprises three independent Directors, the details 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 Deputy Managing 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, 2009 four Audit Committee meetings were held on 16th April, 2008, 15th July, 2008, 16th October, 2008 and 15th January, 2009.

Name of Audit Committee Member	No. of meetings held	No. of meetings attended
Mr. R.V.K.M. Suryarau	4	4
Mr. A. Basu	4	4
Air Chief Marshal I.H. Latif (Retd.)	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 re-assurance to the Board on the existence of an effective internal control environment and performs the following functions:

- overseeing the Company's financial reporting process and disclosure of financial information to ensure that the financial statement is correct, sufficient and credible;
- ensure compliance with accounting standards and with listing requirements with respect to the financial statements;
- recommending the appointment and removal of external auditor, fixation of audit fee and approval for payment for any other services;
- reviewing with Executive Directors, the quarterly, half yearly and annual financial statements before submission to the Board for approval;
- reviewing significant financial reporting judgements contained in financial statements;
- reviewing with the management, performance of statutory and internal auditors, adequacy of the internal control systems;
- monitoring and reviewing the effectiveness/adequacy of internal audit function;
- 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;
- reviewing related party transactions;
- 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

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



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

Relying on the review and discussions conducted with the management and the independent auditors, the Audit Committee believes that the Company's financial statements are fairly presented in conformity with generally accepted accounting principles in all material aspects. The Committee also reviewed the statement of related party transactions, submitted by the management and the same is disclosed in the financial statements for the year ended 31st March, 2009.

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, 2009 be accepted by the Board as a true and fair statement of financial status of the Company.
- b. Re-appointment of M/s. Lovelock & Lewes, Chartered Accountants, as the statutory auditors of the Company and the fees payable for the financial year ending 31st March, 2010. The necessary resolution for appointing them as auditors is placed before the Members of the Company.

The Committee also reviewed the appointment of M/s. Ernst & Young Private Limited as systems auditors to review various operations of the Company and determined and approved the fees payable to them for the financial year ending 31st March, 2010.

III. Subsidiary Company

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

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, 2009.

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

(B) *Disclosure of Accounting Treatment*

The Company has complied with the appropriate accounting policies and has ensured that they have been applied consistently. There have been no deviations from the treatment prescribed in the Accounting Standards notified under Section 211 (3C) of the Companies Act, 1956. Significant Accounting Policies 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.



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 a quarterly basis and monitors the progress of risk management.

ii. Internal Control System

The Company has put in place an adequate 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. The management uses effective diagnostic as well as transaction analysis through software tool for prioritizing areas of key process controls based on risks and also to evaluate the existence of internal controls.

The most essential parts of the control environment related to financial reporting are included in delegation of power with authority limits for approving revenue as well as capital expenditure. The Company also has an exhaustive budgetary control system to monitor all expenditures against approved budgets on an ongoing basis.

The Company has appointed M/s. Ernst & Young Private Limited to carry out systems audit of the Company's activities. The audit is based on 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 statutory 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 being taken up at the Board, subject further to the approval of Members. Non-Executive Directors' remuneration is considered by the Board subject to Members' approval.



Details of remuneration paid/payable to the Directors for the financial year ended 31st March, 2009

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	1,08,000	9,08,000
Mr. R.S. Noronha	Managing Director	1,00,88,400	67,44,515	1,26,10,500	—	—	2,94,43,415
Mr. N. Sai Sankar	Deputy Managing Director & Secretary	59,78,400	34,88,397	74,73,000	—	—	1,69,39,797
Air Chief Marshal I.H. Latif (Retd.)	Non-Executive Director	—	—	—	4,00,000	1,32,000	5,32,000
Mr. T. Lakshmanan	Non-Executive Director	—	—	—	83,334	48,000	1,31,334
Mr. R.V.K.M. Suryarau	Non-Executive Director	—	—	—	4,00,000	1,32,000	5,32,000
Mr. S. Thirumalai	Non-Executive Director	—	—	—	1,50,000	96,000	2,46,000
Mr. J. D.Bandaranayake	Non-Executive Director	—	—	—	^	48,000	48,000
Mr. V. Sekar	Non-Executive Director	—	—	—	@	36,000	36,000
Mr. Milind Anna Kharat	Non-Executive Director	—	—	—	@	Nil	—

^ Rs.83,333 Commission paid to British American Tobacco Company represented by its Director Mr. J.D. Bandaranayake.

@ Rs.83,333 Commission paid to United India Insurance Company Limited represented by its Director Mr. V. Sekar [upto 31st December, 2008] and Mr. Milind Anna Kharat [from 1st January, 2009].

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

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

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

Criteria for making payments to Non-Executive Directors

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

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

Rupees

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



Members of the Company have approved payment of commission upto 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 which ends on 31st March, 2009. The special resolution for payment of commission to Non-Executive Directors w.e.f. 1st April, 2009 for each of the five financial years is being placed for Members' approval.

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, 2009 the number of shares held by Non-Executive Directors are 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 none held by the Non-Executive Directors during the year ended 31st March, 2009.

(F) Management

- The Management Discussion and Analysis as part of Directors' Report to the shareholders is provided elsewhere in the Annual Report.
- For the year ended 31st March, 2009 your Company's Board has obtained senior management declarations 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

- Details of Directors who have been appointed by the Board and those seeking re-appointment/extension of tenure of office

Mr. S. Thirumalai

Mr. S. Thirumalai was appointed as an Additional Director on the Board of your Company with effect from 20th October, 2005. He was appointed under the provisions of Section 257 of the Companies Act, 1956 at the Annual General Meeting held on 27th July, 2006. Mr. Thirumalai is due to retire by rotation at the forthcoming Annual General Meeting and being eligible, offers himself for re-appointment.

Mr. S. Thirumalai is a Commerce and Law Graduate and is a Fellow Member of Institute of Chartered Accountants of India and Institute of Company Secretaries of India. He is also a Certified Associate of the Indian Institute of Bankers. He attended the Advanced Management Program at Harvard Business School, Boston, M.A. (USA) in 1992. He has over 30 years of experience in manufacturing industry covering all aspects of Finance, Taxation and General Management (including three years with Reserve Bank of India/Unit Trust of India as an Officer). He retired as a Partner from Deloitte Haskins and Sells, Chartered Accountants and is now the Senior Advisor to the consulting firm Deloitte Touche Tohmatsu India Private Limited. He is a Member of the Shareholders Grievance Committee and Committee of Directors of your Company. Mr. Thirumalai holds 25 shares in the Company and is not related to any other director of the Company.

Mr. N. Sai Sankar

Mr. Sai Sankar was appointed a Director on the Board of your Company with effect from 1st January, 2001. He was appointed under the provisions of Section 257 of the Companies Act, 1956 at the Annual General Meeting held on 14th June, 2001. Mr. Sai Sankar was re-appointed as Director with effect from 1st January, 2006 for a further period of five years at the Board Meeting held on 21st April, 2005 and this was approved by the Members at the Annual General Meeting held on 28th July, 2005. He was last retired and re-appointed at the Annual



General Meeting held on 27th July, 2006. He was appointed as Deputy Managing Director & Secretary with effect from 1st February, 2009. Mr. Sai Sankar is now due to retire by rotation at the forthcoming Annual General Meeting and being eligible, offers himself for re-appointment.

Mr. Sai Sankar is a Commerce Graduate from St. Xavier's College, Kolkata and is a Fellow Member of Institute of Chartered Accountants of India, Institute of Cost & Works Accountants of India and Institute of Company Secretaries of India. He has about 28 years of experience in finance, accounting and secretarial field. He is a member of the Committee of Directors and Shareholders Grievance Committee of the Company and is also a director on the board of the Tobacco Institute of India. He is also the Secretary to the Audit Committee. Mr. Sai Sankar does not hold any shares in the Company and is not related to any other director of the Company.

Mr. Milind A. Kharat

Mr. Milind A. Kharat was nominated by General Insurers' (Public Sector) Association of India as a Director of your Company with effect from 1st January, 2009 in place of Mr. V. Sekar. 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. Milind A. Kharat as a Director of your Company.

Mr. Kharat is a Post Graduate in Economics, a Bachelor of Law and a Fellow of Insurance Institute of India. He has rich experience of more than three decades in the general insurance industry. He was the Chief Metropolitan Magistrate appointed by Government of Maharashtra. He has made significant contributions for revision of Fiji's Insurance Act, 1998. He served as an Executive Member on National Road Safety Council of Fiji representing Insurance industry. He is an Executive Member of Foreign Non-Life Insurance Association of Japan. He is now the General Manager of United India Insurance Company Limited. Mr. Kharat does not hold any shares in the Company and is not related to any other director of the Company.

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 re-appointed at the Annual General Meeting held on 17th July, 2008 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.

The Board of Directors at their meeting held on 16th January, 2009 have subject to the approval of the shareholders at the Seventy-eighth Annual General Meeting, re-appointed Mr. Raymond S. Noronha granting extension of period of his current tenure of office as Managing Director due to expire on 2nd September, 2010 for a further period of two years from 3rd September, 2010 to 2nd September, 2012 (both days inclusive).

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 over 35 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. Noronha does not hold any shares in the Company and is not related to any other director of the Company.

- ii. The quarterly results are sent to the stock exchanges on which the Company is listed so as to display the same on their respective websites. During the year, there were 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 related to transfer of shares, non-receipt of declared dividends, non-receipt of annual report etc. The Committee also oversees the performance of the Registrar and Transfer Agents of the Company and recommends measures for overall improvements in the quality of investor services.

*Composition, name of members and Chairman*

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

Meetings and attendance during the year

During the financial year ended 31st March, 2009 four meetings of Shareholders Grievance Committee were held on 16th April, 2008, 15th July, 2008, 16th October, 2008 and 15th January, 2009.

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	4

Shareholders/Investors complaints

The Shareholders/Investors complaints and other complaints are normally responded to within a period of 7 working days except where constrained by disputes or legal impediments. There are 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.

Nature of Complaints	Received	Attended to
Non-receipt of share certificates - transfers	2	2
Transmission of shares	40	40
Non-receipt of dividend warrants	48	48
Matters relating to dematerialisation of shares	1	1

- 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, 2009 has been annexed at the end of this report. Similarly, the CEO/CFO also give quarterly certification on financial results while placing the quarterly financial results before the Board in terms of Clause 41 of the Listing Agreement entered into with Stock Exchanges.

VI. Adoption of Mandatory and Non-Mandatory Requirements of Clause 49

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



3. GENERAL BODY MEETINGS

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

Year	Venue	Date	Time
2007-08	Hotel Taj Krishna, Banjara Hills, Hyderabad	17.7.2008	10.30. a.m.
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.

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

Annual General Meeting held on 17th July, 2008 - No special resolutions were passed

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 Directors
- To delist the Company's shares from the Hyderabad Stock Exchange Limited

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

4. MEANS OF COMMUNICATION

- The quarterly, half yearly and annual results are published in Business Standard and in a vernacular newspaper i.e., Andhra Prabha. The results are also posted on the Company's website viz., www.vsthyd.com. 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. 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, 16th July, 2009, at 10.30 a.m. at Hotel Taj Krishna, Road No.1, Banjara Hills, Hyderabad - 500 034, Andhra Pradesh.

Financial Calendar 2009 - 2010 (Tentative)

First Quarter Results	July, 2009
Second Quarter and Half Yearly Results	October, 2009
Third Quarter Results	January, 2010
Annual Results	April, 2010



Dates of Book Closure

14th July, 2009 to 16th July, 2009 (both days inclusive)

Dividend Payment Date

Within 30 days from 16th July, 2009

Listing on Stock Exchanges with Stock Code

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

Listing Fees for the year 2009 - 2010 has been paid to the above stock exchanges.

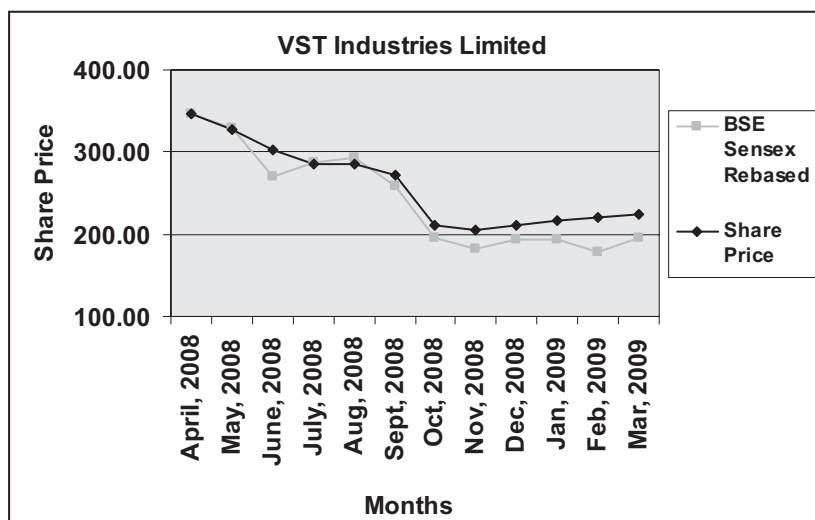
Market Price Data: High/Low during each month in the last financial year (2008-09)

Rupees

Period	Bombay Stock Exchange Limited		National Stock Exchange of India Limited	
	High	Low	High	Low
April, 2008	364.95	295.60	358.00	295.00
May, 2008	359.85	273.00	358.95	325.15
June, 2008	364.95	281.00	350.00	265.50
July, 2008	340.00	265.00	345.00	265.00
August, 2008	299.70	275.05	296.00	277.10
September, 2008	299.90	261.00	296.00	226.85
October, 2008	270.00	190.75	270.00	185.10
November, 2008	259.00	189.00	242.70	191.00
December, 2008	230.00	182.65	235.00	196.00
January, 2009	267.00	203.10	245.00	201.00
February, 2009	236.55	206.00	230.80	207.00
March, 2009	264.00	208.00	247.50	205.00

Performance in comparison with BSE Sensex

(based on closing price/Sensex)





CONTACT INFORMATION

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

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

COMPLIANCE OFFICER

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

Registrar and Transfer Agents

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

M/s. Sathguru Management Consultants Private Limited
Plot No. 15, Hindi Nagar, Behind Sai Baba Temple
Punjagutta
Hyderabad - 500 034
Phone: +91 40 2335 6507, 2335 0586, 2335 6975
Fax : +91 40 4004 0554
Email : sta@sathguru.com
Contact person: Mr. R. Chandra Sekar, Senior Divisional Manager, Capital Markets

Share Transfer System

The share transfers which are received in physical form are registered and returned in the normal course within an average period of 15 days from the date of receipt, if the documents are clear in all respects. The Board has delegated the authority for approving transfer, transmission etc., of the Company's securities to the Managing Director and Deputy Managing Director & Secretary. A summary of transfer and transmission of shares of the Company approved is placed at the meeting of the Shareholders Grievance Committee.

Requests for dematerialisation of shares are processed and confirmation is given to the respective depositories i.e., National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) within 3 working days from the date of receipt of request.

There are no pending share transfers as at 31st March, 2009.

Secretarial Audit

For each quarter of the financial year 2008-09, a qualified Company Secretary in Practice has carried out secretarial audit to reconcile the total admitted capital with NSDL and CDSL and total issued and listed capital. The audit report confirms that the total issued / paid-up capital is in agreement with the total number of shares in physical form and the total number of dematerialised shares held with NSDL and CDSL.

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

*Categories of Shareholding as on 31st March, 2009*

Category	Number of Shares Held	Percentage of Shareholding
Promoters and Associates	49,65,902	32.16
Foreign Institutional Investors	50	0.00
Public Financial Institutions	16,30,406	10.56
Mutual Funds	250	0.00
Nationalised banks and other banks	16,270	0.11
NRIs and OCBs	64,906	0.42
Bodies Corporate	64,02,357	41.46
Indian Public and Others	23,61,779	15.29
TOTAL	1,54,41,920	100.00

Distribution of shareholding as on 31st March, 2009

Slab	No. of Shares	%	No. of Shareholders	%
1 - 500	9,81,529	6.36	9,833	91.49
501 - 1000	3,70,346	2.40	510	4.75
1001 - 2000	2,93,537	1.90	211	1.96
2001 - 3000	2,03,822	1.32	85	0.79
3001 - 4000	1,03,197	0.67	30	0.28
4001 - 5000	1,01,074	0.65	23	0.21
5001 - 10000	1,86,242	1.21	26	0.24
10001 and above	1,32,02,173	85.49	30	0.28
Total	1,54,41,920	100.00	10,748	100.00
Physical Mode	59,53,587	38.55	4,869	45.30
Demat Mode	94,88,333	61.45	5,879	54.70

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, 2009, 94,88,333 Equity Shares of the Company constituting 61.45% of Issued and Subscribed Capital, were held in depository mode. The processing activities with respect to the requests received for dematerialisation are generally completed within one working day. Under the Depository System, the International Securities Identification Number (ISIN) allotted to the Company's shares is INE710A01016. The annual custody fee for the financial year 2009-2010 has been paid to NSDL and CDSL, the Depositories.

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



Outstanding GDRs/ADRs/Warrants or any Convertible Instruments, conversion date and likely impact on Equity

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

Plant Location

1-7-1063/1065, Azamabad,

Hyderabad - 500 020

Andhra Pradesh

India

6. AUDITORS' CERTIFICATE ON CORPORATE GOVERNANCE

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



SHAREHOLDER REFERENCER

Pursuant to Section 205A(5) of the Companies Act, 1956, unclaimed dividends upto and including for the financial year 1994 - 1995 have been transferred to the General Revenue Account of the Central Government. Members who have not encashed their dividend warrant(s) relating to financial year(s) upto and including the financial year 1994 - 1995 are requested to claim the amounts from the Registrar of Companies, Andhra Pradesh, 2nd Floor, Kendriya Sadan, No. 3-5-998, Sultan Bazar, Hyderabad - 500 095 in the prescribed form, which can be furnished by the Company's Registrar on request. However, no claim shall lie either with the Company or Investor Education and Protection Fund (IEPF), in terms of Section 205C of Companies Act, 1956, in respect of the unclaimed dividend transferred to IEPF for the financial year 1995 - 1996 and thereafter. The dividend for the financial year 2000 - 2001 viz., Dividend No. 166 has been transferred to Investor Education and Protection Fund Account on 17th July, 2008.

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 31.03.2009 Rs.	Due for transfer to IEPF on
2001 - 2002	167	24.07.2002	6,94,88,640	10,23,501	28.08.2009
2002 - 2003	168	24.07.2003	8,49,30,560	13,52,598	28.08.2010
2003 - 2004	169	22.07.2004	9,26,51,520	14,89,644	26.08.2011
2004 - 2005	170	28.07.2005	19,30,24,000	27,42,789	30.08.2012
2005 - 2006	171	27.07.2006	19,30,24,000	30,84,682	31.08.2013
2006 - 2007	172	18.07.2007	30,88,38,400	44,91,420	23.08.2014
2007 - 2008	173	17.07.2008	30,88,38,400	43,87,906	22.08.2015

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

BANK DETAILS

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

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

Members 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 Members residing in the following cities:

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

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

DEPOSITORY SERVICES

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

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

Phone : +91 22 2499 4200
Fax : +91 22 2497 2993 / 2497 6351
e-mail : info@nsdl.co.in
website: www.nsdl.co.in

Central Depository Services (India) Limited
Phiroze Jeejeebhoy Towers
28th Floor, Dalal Street,
Mumbai - 400 023

Phone : +91 22 2272 3333 / 2272 3224
Fax : +91 22 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 Members can send their queries to the 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. Members are advised to avail of this facility by submitting the nomination in Form 2B which could be obtained from Registrars - Sathguru Management Consultants Private Limited at the address mentioned above.

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



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, 2009.

Hyderabad, 23rd April, 2009

RAYMOND S. NORONHA
Managing Director

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

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

1. We have reviewed the Balance Sheet and Profit and Loss Account and all its schedules and notes on accounts as well as the Cash Flow Statements for the year ended 31st March, 2009.
2. To the best of our knowledge and belief,
 - i. these statements do not contain any untrue statement or omit any material fact or contain statements that might be misleading;
 - ii. the financial statements and other financial information included in this report present a true and fair view of the Company's affairs and are in compliance with existing accounting standards and applicable laws and regulations.
3. To the best of our knowledge and belief, there are no transactions entered into by the Company during the year which are fraudulent, illegal or violative of the Company's code of conduct.
4. We accept responsibility for establishing and maintaining internal controls for financial reporting.

We have evaluated the effectiveness of internal control systems of the Company pertaining to financial reporting and have disclosed to the Auditors and the Audit Committee, deficiencies in the design or operation of such internal controls, if any, of which we are aware and steps taken or proposed to be taken for rectifying these deficiencies.

5. We have indicated to the Company's Auditors and the Audit Committee of the Company's board of directors that during the year :
 - i. there are no significant changes in internal control over financial reporting;
 - ii. there are no significant changes in accounting policies; and,
 - iii. there are no frauds, whether or not material that involves management or other employees who have significant role in the Company's internal control system over financial reporting.

RAYMOND S. NORONHA
Managing Director

N. SAI SANKAR
Deputy Managing Director & Secretary
Hyderabad, 23rd April, 2009



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, 2009, 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, 2009, and taken on record by the Board of Directors, none of the directors is disqualified as on 31st March, 2009, 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, 2009;
 - 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.

Mumbai, 23rd April, 2009.

LALIT PUNJABI
Partner
Membership No. 48102
For and on behalf of
LOVELOCK & LEWES
Chartered Accountants



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, 2009.]

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.

(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	135.82	April 2002 to November 2008	Hon'ble Supreme Court of India
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

10. The Company has no accumulated losses as at 31st March, 2009, 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, (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.

LALIT PUNJABI

Partner

Membership No. 48102

For and on behalf of

LOVELOCK & LEWES

Chartered Accountants

Mumbai, 23rd April, 2009.



BALANCE SHEET AS AT 31ST MARCH, 2009

VST Industries Limited

Rs. in Lakhs

	Schedule	2009	2008
I. SOURCES OF FUNDS			
1. Shareholders' Funds			
(a) Capital	1	1544.19	1544.19
(b) Reserves and Surplus	2	<u>22401.10</u>	<u>21649.01</u>
TOTAL		<u>23945.29</u>	<u>23193.20</u>
II. APPLICATION OF FUNDS			
1. Fixed Assets	3		
(a) Gross Block		24921.29	23058.25
(b) Less : Depreciation		<u>12377.34</u>	<u>11172.72</u>
(c) Net Block		12543.95	11885.53
(d) Capital Work-in-Progress		<u>541.96</u>	<u>286.83</u>
2. Investments	4	19296.06	22333.91
3. Deferred Tax - Net	5	852.47	923.76
4. Current Assets, Loans and Advances			
(a) Inventories	6	13426.25	7609.69
(b) Sundry Debtors	7	488.53	431.76
(c) Cash and Bank Balances	8	1370.13	457.87
(d) Other Current Assets	9	49.64	21.13
(e) Loans and Advances	10	<u>1295.04</u>	<u>1692.04</u>
		<u>16629.59</u>	<u>10212.49</u>
Less : Current Liabilities and Provisions			
(a) Liabilities	11	20498.86	18836.07
(b) Provisions	12	<u>5419.88</u>	<u>3613.25</u>
		<u>25918.74</u>	<u>22449.32</u>
Net Current Assets		(9289.15)	(12236.83)
TOTAL		<u>23945.29</u>	<u>23193.20</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.

LALIT PUNJABI
Partner
Membership No. 48102
for and on behalf of
LOVELOCK & LEWES
Chartered Accountants

Mumbai, 23rd April, 2009.

On behalf of the Board,

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

Hyderabad, 23rd April, 2009.



PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2009

VST Industries Limited

Rs. in Lakhs

	Schedule	2009	2008
I. Income			
Sales (Gross)		100473.70	77343.57
Less : Excise Duty		62366.03	43346.78
Sales (Net)		38107.67	33996.79
Other Income	15	693.80	1578.22
		<u>38801.47</u>	<u>35575.01</u>
II. Expenditure			
Raw Materials, Purchases and Stock-in-Trade	16	18092.81	13690.72
Manufacturing, Selling, Distribution and Administration Expenses, etc.	17	11752.91	11906.63
Depreciation		1581.99	1371.92
		<u>31427.71</u>	<u>26969.27</u>
III. Profit before Taxation and Exceptional Item		7373.76	8605.74
IV. Exceptional Item - (Refer note (II) on schedule 19)		1260.79	—
V. Profit before Taxation		8634.55	8605.74
Fringe Benefit Tax		96.53	125.00
Taxation	18	2355.68	2645.43
VI. Profit after Taxation		6182.34	5835.31
Balance Brought Forward		8063.02	6440.96
VII. Profit available for Appropriation		<u>14245.36</u>	<u>12276.27</u>
VIII. Appropriations			
Transfer to General Reserve		625.00	600.00
Dividends on			
Ordinary Shares - Final (Proposed)		4632.58	3088.38
Dividend Tax thereon		787.30	524.87
		<u>6044.88</u>	<u>4213.25</u>
IX. Balance Carried Forward		<u>8200.48</u>	<u>8063.02</u>
Basic and diluted Earnings Per Share (Rs.)		40.04	37.79
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.

LALIT PUNJABI
Partner
Membership No. 48102
for and on behalf of
LOVELOCK & LEWES
Chartered Accountants

Mumbai, 23rd April, 2009.

On behalf of the Board,

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

Hyderabad, 23rd April, 2009.



SCHEDULES TO THE BALANCE SHEET

VST Industries Limited

Rs. in Lakhs

	2009	2008
1. Capital		
AUTHORISED		
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>
ISSUED AND SUBSCRIBED		
1,54,41,920 Ordinary Shares of Rs.10 each fully paid up	<u>1544.19</u>	<u>1544.19</u>
OF THE ABOVE ORDINARY SHARES:		
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>
2. Reserves and Surplus		
CAPITAL REDEMPTION RESERVE	1000.00	1000.00
GENERAL RESERVE		
As at the commencement of the year	12166.09	11566.09
Add - Transfer from Profit and Loss Account	<u>625.00</u>	<u>600.00</u>
	12791.09	12166.09
REVALUATION RESERVE		
As at the commencement of the year	419.90	472.11
Transfer to Profit and Loss Account		
- Depreciation (Refer note V on Schedule 3)	<u>10.37</u>	<u>52.21</u>
	409.53	419.90
PROFIT AND LOSS ACCOUNT - BALANCE	8200.48	8063.02
	<u>22401.10</u>	<u>21649.01</u>



Rs. in Lakhs

	Goodwill & Trade Marks	Land Freehold	Buildings Freehold	Leasehold Property	Plant & Machinery	Furniture & Fixtures	Leasehold Equipment	Motor Vehicles	Total 2009	Total 2008
3. Fixed Assets										
COST/REVALUATION										
As at 1st April, 2008	5.81	328.12	464.09	1228.70	19921.99	575.48	274.88	259.18	23058.25	19325.99
Additions	—	—	458.03	5.08	1635.31	107.45	—	47.77	2253.64	3838.41
	5.81	328.12	922.12	1233.78	21557.30	682.93	274.88	306.95	25311.89	23164.40
Disposals	—	—	—	—	337.90	1.95	50.75	—	390.60	106.15
GROSS BLOCK										
As at 31st March, 2009	5.81	328.12	922.12	1233.78	21219.40	680.98	224.13	306.95	24921.29	23058.25
DEPRECIATION/ADJUSTMENTS										
As at 1st April, 2008	5.81	—	275.52	1022.92	9227.12	413.96	141.42	85.97	11172.72	9843.38
For the year	—	—	15.90	28.40	1348.08	79.86	55.79	64.33	1592.36	1424.13
	5.81	—	291.42	1051.32	10575.20	493.82	197.21	150.30	12765.08	11267.51
Adjustment on Disposals	—	—	—	—	335.04	1.95	50.75	—	387.74	94.79
Depreciation as at 31st March, 2009	5.81	—	291.42	1051.32	10240.16	491.87	146.46	150.30	12377.34	11172.72
NET BLOCK										
As at 31st March, 2009	—	328.12	630.70	182.46	10979.24	189.11	77.67	156.65	12543.95	11885.53
Capital Work-in-Progress	—	—	—	—	—	—	—	—	541.96	286.83
Per Balance Sheet 31st March, 2009	—	328.12	630.70	182.46	10979.24	189.11	77.67	156.65	13085.91	12172.36
Per Balance Sheet 31st March, 2008	—	328.12	188.57	205.78	10694.87	161.52	133.46	173.21	12172.36	

NOTES:

- (I) Leasehold property include Buildings on Leasehold Land cost Rs.575.24 Lakhs (2008 - Rs.570.16 Lakhs), Depreciation Rs.450.80 Lakhs (2008 - Rs.428.63 Lakhs).
- (II) Deeds of conveyance are to be executed for Land Freehold Rs.0.83 Lakhs (2008 - Rs.0.83 Lakhs), Building Freehold Rs.11.28 Lakhs (2008 - Rs.11.28 Lakhs).
- (III) Furniture & Fixtures as at the year end include, Computer Software cost Rs.169.72 Lakhs (2008 - Rs.169.72 Lakhs), Depreciation Rs.137.13 Lakhs (2008 - Rs.120.75 Lakhs).
- (IV) Leasehold Equipment represents computers and related assets acquired under finance lease.
- (V) Depreciation for the year ended 31st March, 2009 of Rs.1592.36 Lakhs (2008 - Rs.1424.13 Lakhs) includes Rs.10.37 Lakhs (2008 - Rs.52.21 Lakhs) transferred from Revaluation Reserve.
- (VI) Capital Work-in-Progress includes Capital Advances of Rs.492.97 Lakhs (2008 - Rs.272.95 Lakhs) which are Unsecured and Considered Good.



Rs. in Lakhs

	2009	2008
4. Investments		
Long Term Other than Trade - at Cost		
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.21.77 Lakhs, (Previous Year - Rs.33.77 Lakhs)]	<u>0.13</u>	<u>0.13</u>
UNQUOTED		
Government/Trust Securities		
National Savings Certificate cost Rs.500 lodged with Government Authority (Previous Year - Rs.500)		
Subsidiary Company		
VST Distribution, Storage & Leasing Company Private Limited		
50,000 Equity Shares of Rs.10 each fully paid up	5.00	5.00
	<u>5.00</u>	<u>5.00</u>
Other Investments		
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
Citifinancial Consumer Finance India Limited		
1,000 Secured Redeemable Non-Convertible Debentures Series - 390 of Rs.1,00,000 each fully paid up - Purchased during the year	1000.00	—
India Infrastructure Finance Company Limited		
1,000 6.85% Tax free Bonds of Rs.1,00,000 each fully paid up - Purchased during the year	1000.00	—
500 6.85% Tax free Bonds - Series II of Rs.1,00,000 each fully paid up - Purchased during the year	500.00	—
Unit Trust of India		
8,31,209 6.75% Tax free US64 Bonds of Rs.100 each fully paid up - Sold during the year	—	831.76
50,025 6.60% Tax free ARS Bonds of Rs.100 each fully paid up	51.32	51.32
B876G Birla FTP - Institutional - Series AD - Growth		
50,00,000 units of Rs.10 each fully paid up	500.00	500.00
B897IG Birla FTP - Institutional - Series AM - Growth		
50,00,000 units of Rs.10 each fully paid up	500.00	500.00
B915IG Birla Sun Life FTP - Institutional Series BD - Growth		
1,00,00,000 units of Rs.10 each fully paid up - Purchased during the year	1000.00	—
DSP BlackRock FMP 12.5M Series I - Institutional Growth		
50,00,000 units of Rs.10 each fully paid up	500.00	500.00
DWS Fixed Term Fund Series 46 - Institutional Growth		
50,00,000 units of Rs.10 each fully paid up	500.00	500.00



Rs. in Lakhs

	2009	2008
4. Investments (Contd.)		
5373/HDFC FMP 13M March 2008 (VII) (2) - Wholesale Plan Growth		
1,00,00,000 units of Rs.10 each fully paid up	1000.00	1000.00
HSBC Fixed Term Series - 44 Institutional - Growth		
1,00,00,000 units of Rs.10 each fully paid up	1000.00	1000.00
HSBC Fixed Term Series 57 Institutional Growth - Tenure 370 days		
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	1000.00	1000.00
G561 IDFC Fixed Maturity Plan - Yearly Series 19 - Plan B - Growth		
50,00,000 units of Rs.10 each fully paid up	500.00	500.00
Kotak FMP 14M Series 4 - Institutional - Growth		
50,00,000 units of Rs.10 each fully paid up	500.00	500.00
Reliance Fixed Horizon Fund - IV - Series 6 - Institutional Growth Plan		
50,00,000 units of Rs.10 each fully paid up	500.00	500.00
Reliance Fixed Horizon Fund - VII - Series 4 - Institutional Growth Plan		
50,00,000 units of Rs.10 each fully paid up	500.00	500.00
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	500.00	500.00
B332G Birla Sun Life Savings Fund Institutional - Growth		
60,11,892 units of Rs.10 each fully paid up - Purchased during the year	1000.00	1000.23
(65,60,483 units of Rs.10 each fully paid up - Sold during the year)		
2026/HDFC Floating Rate Income Fund - Long Term Plan - Growth		
67,93,617 units of Rs.10 each fully paid up - Purchased during the year	1000.00	—
HSBC Ultra Short Term Bond Fund - Institutional Plus - Growth		
59,29,826 units of Rs.10 each fully paid up	615.00	615.00
27 ICICI Prudential Flexible Income Plan Premium - Growth		
92,05,956 units of Rs.10 each fully paid up - Purchased during the year	1500.00	—
Kotak Liquid (Institutional Premium) - Growth		
70,49,353 units of Rs.10 each fully paid up	1000.00	1000.00
Reliance Medium Term Fund - Retail Plan - Growth Option		
55,05,032 units of Rs.10 each fully paid up - Purchased during the year	1000.00	—
TFLG Tata Floater Fund - Growth		
76,48,652 units of Rs.10 each fully paid up - Purchased during the year	1000.00	—
DSP Merrill Lynch Fixed Term Plan Series 3E - Growth - Institutional		
50,000 units of Rs.1,000 each fully paid up - Sold during the year	—	500.00
DWS Fixed Term Fund - Series 20 - Growth Plan		
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 - Sold during the year	—	1000.00
HDFC FMP 14M March 2007 (3) - Wholesale Plan - Growth		
50,00,000 units of Rs.10 each fully paid up - Sold during the year	—	500.00
OF211G HSBC Fixed Term Series - 21 Institutional - Growth		
1,00,00,000 units of Rs.10 each fully paid up - Sold during the year	—	1000.00
P1691G Prudential ICICI FMP - Series - 35 - Thirteen Months Plan B - Institutional Growth		
1,00,00,000 units of Rs.10 each fully paid up - Sold during the year	—	1000.00



Rs. in Lakhs

	2009	2008
4. Investments (Contd.)		
Reliance Fixed Horizon Fund Institutional Plan C - Series I Growth Option		
50,00,000 units of Rs.10 each fully paid up - Sold during the year	—	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 - Sold during the year	—	1000.00
L135G SBI Debt Fund Series - 13 Months (March 07) - Growth		
50,00,000 units of Rs.10 each fully paid up - Sold during the year	—	500.00
G186 Standard Chartered Fixed Maturity Plan - Yearly Series 3 - Growth		
50,00,000 units of Rs.10 each fully paid up - Sold 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 - Sold during the year	—	500.00
Templeton Fixed Horizon Fund Series II - Plan A - Institutional - Growth		
1,00,00,000 units of Rs.10 each fully paid up - Sold during the year	—	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 - Sold during the year	—	1000.00
IDFC 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 units of Rs.10 each fully paid up	199.23	199.23
Sundaram BNP Paribas Energy Opportunities Fund - Growth		
10,00,000 units of Rs.10 each fully paid up	100.00	100.00
Franklin Infotech Fund - Growth		
1,17,084 units of Rs.10 each fully paid up - Sold during the year	—	52.23
Reliance Equity Fund - Growth		
6,44,745 units of Rs.10 each fully paid up - Sold during the year	—	100.00
Reliance Index Fund - Nifty Plan - Growth Plan		
2,71,639 units of Rs.10 each fully paid up - Sold during the year	—	53.63
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>19290.93</u>	<u>21328.78</u>
Current Investment - At lower of cost and fair value		
Other than Trade and Unquoted		
Kotak Quarterly Interval plan Series 2 - Dividend		
99,96,301 units of Rs.10 each fully paid up - Sold during the year	—	1000.00
	—	1000.00
Aggregate amount of unquoted investments	<u>19295.93</u>	<u>22333.78</u>
TOTAL	<u>19296.06</u>	<u>22333.91</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 13,69,428 units of Rs.1,000 each

UTI Treasury Advantage Fund - Institutional Plan (Daily Dividend Option) - Reinvestment 11,10,543 units of Rs.1,000 each

UTI Short Term Fixed Maturity Plan Series I - IX (90 Days) - Institutional Dividend Plan - Payout 50,00,000 units of Rs.10 each

UTI - Nifty Index Fund - Growth Plan 23,93,051 units of Rs.10 each

L147ID SBI SHF Liquid Plus - Institutional Plan - Daily Dividend Reinvestment 56,17,884 units of Rs.10 each

OCFPDD HSBC Cash Fund - Institutional Plus - Daily Dividend 1,24,03,489 units of Rs.10 each

OLPIPD HSBC Liquid Plus - Institutional Plus - Daily Dividend 2,29,91,440 units of Rs.10 each

5403/HDFC FMP 90D April 2008 (VII) - Wholesale Plan - Dividend 50,00,000 units of Rs.10 each

2031/HDFC Cash Management Fund - Treasury Advantage Plan - Wholesale - Daily Dividend Reinvestment 9,57,85,850 units of Rs.10 each

HDFC CMF - Call Plan - Daily Dividend Reinvestment 7,96,81,550 units of Rs.10 each

Principal Cash Management Fund - Liquid Option - Institutional Premium Plan - Dividend Reinvestment Daily 3,70,68,819 units of Rs.10 each

Principal Floating Rate Fund FMP - Institutional Option - Daily Dividend Reinvestment 5,73,61,045 units of Rs.10 each

DSP BlackRock Liquidity Fund - Institutional Plan - Daily Dividend 2,83,240 units of Rs.1,000 each

DSP BlackRock Money Manager Fund - Institutional Plan - Daily Dividend 3,17,262 units of Rs.1,000 each

DSP ML Floating Rate Fund - Regular Plan - Daily Dividend Reinvestment 70,29,242 units of Rs.10 each

1313 ICICI Prudential Interval Fund III Monthly Interval Plan - Institutional Dividend - Payout Dividend 50,00,000 units of Rs.10 each

321SD ICICI Prudential Institutional Liquid Plan - Super Institutional Daily Dividend 11,05,78,259 units of Rs.10 each

28Q ICICI Prudential - Flexible Income Plan Dividend - Daily 10,00,95,400 units of Rs.10 each

G618 IDFC Fixed Maturity Plan - Monthly Series 3 - Dividend 40,00,000 units of Rs.10 each

G632 IDFC Fixed Maturity Plan - Monthly Series 5 - Dividend 40,00,000 units of Rs.10 each

G652 IDFC Fixed Maturity Plan - Monthly Series 8 - Dividend 50,00,000 units of Rs.10 each

G50 IDFC Floating Rate Fund - Long Term - Institutional Plan B - Daily Dividend 1,88,39,584 units of Rs.10 each

GFCD IDFC Money Manager Fund - Treasury Plan - Super Institutional Plan C - Daily Dividend 1,86,70,417 units of Rs.10 each

GCCD IDFC Cash Fund - Super Institutional Plan C - Daily Dividend 87,99,385 units of Rs.10 each

G70 IDFC Liquidity Manager - Plus - Daily Dividend 1,20,496 units of Rs.1,000 each

Kotak Flexi Debt Scheme - Daily Dividend 1,01,72,780 units of Rs.10 each

Reliance Quant Plus fund - Retail Plan - Growth Plan 5,30,309 units of Rs.10 each

Reliance Medium Term Fund - Daily Dividend Plan 3,47,21,354 units of Rs.10 each

Reliance Liquid Plus Fund - Institutional Option - Daily Dividend Plan 4,78,404 units of Rs.1,000 each

Reliance Liquidity Fund - Daily Dividend Reinvestment Option 7,17,96,497 units of Rs.10 each

TLSD01 Tata Liquid Super High Investment Fund - Daily Dividend 12,30,161 units of Rs.1,000 each

TFLD Tata Floater Fund - Daily Dividend 9,02,37,013 units of Rs.10 each

TDBD Tata Dynamic Bond Fund Option B - Dividend 48,75,623 units of Rs.10 each

Lotus India Liquid Fund - Institutional Daily Dividend 1,44,58,223 units of Rs.10 each

Lotus India Liquid Plus Fund Institutional Daily Dividend 72,20,816 units of Rs.10 each

B332DD Birla Sun Life Savings Fund - Institutional - Daily Dividend - Reinvestment 6,27,60,590 units of Rs.10 each

B891D BSL Quarterly Interval - Series 6 - Dividend Payout 1,00,00,000 units of Rs.10 each

B503DD Birla Sun Life Cash Plus - Institutional Premium Daily Dividend - Reinvestment 7,65,19,182 units of Rs.10 each

B85DD Birla Sun Life Short Term Fund - Institutional - Daily Dividend Reinvestment 1,16,28,139 units of Rs.10 each

Mirae Asset Liquid Fund - Institutional - Dividend Plan - Daily 22,488 units of Rs.1,000 each

Mirae Asset Liquid Plus Fund - Institutional - Dividend Plan - Daily Reinvestment 22,556 units of Rs.1,000 each

Mirae Asset Liquid Plus Fund - Super Institutional - Dividend Plan - Daily Reinvestment 50,082 units of Rs.1,000 each



Rs. in Lakhs

	2009	2008
5. Deferred Tax - Net		
Deferred tax asset		
On employees' separation and retirement	172.66	235.53
On State and Central Taxes etc.	1771.46	1686.71
On other timing differences	30.27	35.43
	<u>1974.39</u>	<u>1957.67</u>
Deferred tax liability		
On fiscal allowances on fixed assets	1121.92	1033.91
	<u>852.47</u>	<u>923.76</u>
6. Inventories		
Stores and Spare Parts - At cost or below	63.04	54.42
Raw Materials - At cost or below	10528.59	5955.48
Stock-in-Trade		
Finished Goods - At cost or net realisable value whichever is lower	2648.99	1479.58
Work-in-Process - At cost or net realisable value whichever is lower	185.63	120.21
	<u>13426.25</u>	<u>7609.69</u>
7. Sundry Debtors		
(Unsecured, Considered Good)		
Debts outstanding for a period exceeding six months	8.30	3.54
Other Debts	480.23	428.22
	<u>488.53</u>	<u>431.76</u>
8. Cash and Bank Balances		
Cash including Cheques on hand	2.90	1.23
With Scheduled Banks		
- On Unclaimed Ordinary Dividend Account	185.73	149.02
- On Preference Share Redemption Account	0.18	0.18
- On Current Accounts	192.21	293.29
- On Term Deposits	989.11	14.15
[Includes towards Margin Money Rs.13.34 Lakhs (2008 - Rs.13.34 Lakhs)]		
	<u>1370.13</u>	<u>457.87</u>
9. Other Current Assets		
(Unsecured, Considered Good)		
Interest accrued on Loans, Deposits and Investments	49.64	21.13
	<u>49.64</u>	<u>21.13</u>



Rs. in Lakhs

	2009	2008
10. Loans and Advances (Considered Good)		
Secured - Loans	113.69	132.68
Unsecured - Loans	33.02	51.85
- Advances recoverable in cash or in kind or for value to be received	883.87	758.60
- Balances with Excise Authorities	138.73	335.57
- Deposits	24.22	24.22
- Taxation (net of provisions)	101.51	389.12
	<u>1295.04</u>	<u>1692.04</u>
Advances includes Advances to Subsidiary viz. VST Distribution, Storage & Leasing Company Private Limited - Rs.Nil (2008 - Rs.Nil) [The maximum outstanding during the year was Rs.0.01 Lakhs (2008 - Rs.11.53 Lakhs)].		
11. Liabilities		
Sundry Creditors		
- Total outstanding dues of micro enterprises and small enterprises (Refer note IV on Schedule 14)	—	—
- Total outstanding dues of other than micro enterprises and small enterprises	16172.73	15273.28
	<u>16172.73</u>	<u>15273.28</u>
Advances from Customers	4116.83	3395.55
Unpaid/Unclaimed Dividends	185.73	149.02
Unclaimed/Unencashed Matured Deposits	0.08	0.28
Interest on Matured Deposits	0.03	0.13
Preference Share Redemption Account	0.18	0.18
Security Deposits	1.50	2.00
Other Liabilities	21.78	15.63
	<u>20498.86</u>	<u>18836.07</u>
There is no amount due and outstanding to be credited to Investor Education and Protection Fund.		
12. Provisions		
Proposed Dividend including Tax thereon	5419.88	3613.25
	<u>5419.88</u>	<u>3613.25</u>
13. Capital Expenditure Commitments (not provided for)	<u>1717.80</u>	<u>1545.39</u>
14. Notes to Balance Sheet		
I Contingent Liabilities		
Claims against the Company not acknowledged as debts Rs.242.62 Lakhs (2008 - Rs.242.68 Lakhs).		
These Comprise -		
a. Land disputes representing claims towards Land grabbing cases pending before Hon'ble Special Court aggregating to Rs.227.59 Lakhs (2008 - Rs.227.59 Lakhs).		
b. Other matters relating to labour cases etc. aggregating to Rs.15.03 Lakhs (2008 - Rs.15.09 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 IV 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	31.03.2009			31.03.2008		
	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	55.91	8.29	47.61	62.89	12.76	50.13
Later than one year and not later than five years	54.77	5.98	48.79	110.67	14.27	96.40
Total	110.68	14.27	96.40*	173.56	27.03	146.53*

*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

		31.03.2009		31.03.2008	
Currency Pair	Currency	Buy	Sell	Buy	Sell
USD/INR	INR	–	3197.35	–	3728.45

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

		31.03.2009		31.03.2008	
Currency Pair	Currency	Buy	Sell	Buy	Sell
USD/INR	INR	3066.19	461.45	2127.22	427.26

IV Micro and small scale business entities

There are no Micro and Small Enterprises, to whom the Company owes sums, which are outstanding more than 45 days as at 31st March, 2009. This information as required to be disclosed under the Micro, Small and Medium Enterprises Development Act, 2006 has been determined to the extent such parties have been identified on the basis of information available with the Company.

V Employee Benefits

a. 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 Government 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.93.57 Lakhs (2008 - Rs.95.56 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.

b. 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	
	31.03.2009	31.03.2008	31.03.2009	31.03.2008	31.03.2009	31.03.2008
Projected benefit obligation at the beginning of the year	1414.45	1293.51	127.00	132.33	396.22	318.14
Current Service Cost	118.13	56.58	8.27	5.81	41.51	41.31
Interest cost	97.14	102.40	8.76	10.58	31.03	25.05
Actuarial (Gain)/Loss	110.07	(10.99)	4.50	(17.69)	(60.15)	21.61
Less: Benefits Paid	53.34	27.05	3.83	4.03	16.80	9.89
Projected benefit obligation at the end of the year	1686.45	1414.45	144.70	127.00	391.81	396.22
Amounts recognised in the Balance Sheet						
Projected benefit obligation at the end of the year	1686.45	1414.45	144.70	127.00	391.81	396.22
Fair value of plan assets at the end of the year	1686.45	1454.22	149.86	140.54	445.21	406.96
Asset recognised in the Balance Sheet	—	39.77	5.16	13.54	53.40	10.74
Cost of Retirement and Other Benefits for the year						
Current Service cost	118.13	56.58	8.27	5.81	41.51	41.31
Interest Cost	97.14	102.40	8.76	10.58	31.03	25.05
Expected return on plan assets	(134.93)	(120.97)	(13.15)	(12.24)	(38.25)	(31.49)
Net actuarial (Gain)/Loss recognised in the year	110.07	(10.99)	4.50	(17.69)	(60.15)	21.61
Net Cost recognised in the Profit and Loss Account	190.41	27.02	8.38	(13.54)	(25.86)	56.48
Assumptions						
Discount Rate (%)	7.00	8.00	7.00	8.00	7.00	8.00
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

VST Industries Limited

Rs. in Lakhs

	2009	2008
15. Other Income		
Miscellaneous Income	244.81	166.73
Gain/(Loss) on Exchange	(1561.38)	(65.22)
Income from Long Term Investments - Other than Trade (Gross)	1.84	63.75
Income from Current Investments - Other than Trade (Gross)	679.95	460.49
Profit/(Loss) on sale of Long Term Investments (Net)	1158.75	684.07
Profit/(Loss) on sale of Current Investments (Net)	53.41	59.20
Interest on Loans and Deposits etc. (Gross)	116.42	209.20
	<u>693.80</u>	<u>1578.22</u>
Income from Long Term and Current Investments is stated at Gross, the amount of Income Tax deducted is Rs.Nil (2008 - Rs.0.35 Lakhs).		
Interest on Loans and Deposits etc. is stated at Gross, the amount of Income Tax deducted is Rs.8.18 Lakhs (2008 - Rs.60.50 Lakhs).		
16. Raw Materials, Purchases and Stock-in-Trade		
a. Raw Materials Consumed*		
Opening Stock	5955.48	4130.30
Purchases	<u>22959.04</u>	<u>15467.26</u>
	28914.52	19597.56
Less: Closing Stock	<u>10528.59</u>	<u>5955.48</u>
	18385.93	13642.08
b. (Increase)/Decrease in Stock-in-Trade		
Opening Stock		
- Cigarettes	1479.58	1503.23
Closing Stock		
- Cigarettes	<u>2648.99</u>	<u>1479.58</u>
	(1169.41)	23.65
c. Increase/(Decrease) in Excise Duties on Stock-in-Trade	941.71	32.17
d. (Increase)/Decrease in Work-in-Process		
Opening	120.21	113.03
Closing	<u>185.63</u>	<u>120.21</u>
	(65.42)	(7.18)
	<u>18092.81</u>	<u>13690.72</u>
* Includes 9,808 Tonnes (2008 - 7,957 Tonnes) of unmanufactured tobacco etc. sold - Value Rs.8052.07 Lakhs (2008 - Rs.5182.64 Lakhs).		



Rs. in Lakhs

	2009	2008
17. Manufacturing, Selling, Distribution and Administration Expenses, etc.		
Salaries, Wages and Bonus	4035.08	3818.40
Contributions to Provident, Gratuity and Other Retiral Funds	464.04	275.77
Workmen and Staff Welfare Expenses	<u>389.59</u>	<u>401.46</u>
	4888.71	4495.63
Insurance	90.86	89.95
Consumption of Stores and Spare Parts	273.87	294.98
Power and Fuel	219.93	236.31
Rent	139.08	167.56
Repairs - Buildings	22.60	31.37
- Machinery	37.22	38.32
- Others	16.98	12.72
Rates and Taxes	858.81	795.61
Excise Duty on Samples	60.32	74.81
Outward Freight	894.84	957.65
Advertising	1116.37	1405.23
Distribution Expenses	1418.94	1386.28
Miscellaneous	1673.24	1882.05
(Profit)/Loss on Fixed Assets sold and discarded (Net)	0.95	2.57
Interest - Others	12.87	12.58
Payment to Auditors - Audit Fee	16.00	14.00
- Reimbursement of Expenses	0.05	0.04
- Fees for certificates etc.	6.02	5.62
Directors' Fees	<u>6.00</u>	<u>5.85</u>
	11753.66	11909.13
Less: Recovery of Costs	<u>0.75</u>	<u>2.50</u>
	<u>11752.91</u>	<u>11906.63</u>
R&D Expenses included above	233.37	279.68
18. Taxation		
Taxation - Current	2305.00	2481.05
- Prior Years	(20.61)	(9.99)
Deferred Tax	<u>71.29</u>	<u>174.37</u>
	<u>2355.68</u>	<u>2645.43</u>



Rs. in Lakhs

	2009	2008
19. Notes to Profit and Loss Account		
(I) Directors' Remuneration		
Remuneration	228.86	205.80
Performance Linked Bonus	200.83*	108.36
Commission to Non Wholetime Directors	20.00	20.00
Other Benefits	34.14	31.07
Directors' Fees	6.00	5.85
	<u>489.83</u>	<u>371.08</u>
*Includes Rs.80.33 Lakhs - payment subject to shareholders approval.		
Computation of Net Profit in accordance with Section 198 of the Companies Act, 1956:		
Profit before Taxation	8634.55	8605.74
Add - Depreciation as per Profit and Loss Account	1581.99	1371.92
Managerial Remuneration as above	489.83	371.08
(Profit)/Loss on sale of assets (Net)	0.95	2.57
Wealth Tax	<u>40.00</u>	<u>29.12</u>
	2112.77	1774.69
	<u>10747.32</u>	<u>10380.43</u>
Less: Depreciation (Section 350)	1581.99	1371.92
(Profit)/Loss on sale of assets - Net (Section 350)	0.95	2.57
	<u>9164.38</u>	<u>9005.94</u>
Profit for the purpose of Directors' Remuneration		
Commission payable to Non Wholetime Directors		
at 1% of above under Section 309(4) of the Companies Act, 1956	91.64	90.06
Restricted to	20.00	20.00
(II) The Post Manufacturing Expenses dispute relates 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 was held in favour of the Company by the Hon'ble High Court of Andhra Pradesh and consequently, a refund of Rs.1260.79 Lakhs (including an interest of Rs.545.51 Lakhs) was received from the excise department during the previous year ended 31st March, 2008. Considering various aspects involved, the said refund received has now been considered in the Profit and Loss Account.		
(III) Earnings Per Share		
Earnings Per Share is computed based on the following -		
a. Profit after Taxation (Rs.Lakhs)	6182.34	5835.31
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.	40.04	37.79



Rs. in Lakhs

	2009	2008
19. Notes to Profit and Loss Account (Contd.)		
(IV) Related party transactions during the year		
1. Companies:		
a. Subsidiary Company		
VST Distribution, Storage & Leasing Company Private Limited		
Nature of transactions		
Receipts - Secondment/Service Charges	0.75	2.50
- Interest	—	1.54
Receipt on redemption of Optionally Convertible Debentures	—	308.00
b. Company having significant influence		
British American Tobacco Group		
Nature of transactions		
Sales - Goods	635.13	36.31
Other payments- Services etc.	0.77	0.89
- Dividends Paid	993.18	993.18
Outstanding as at the year end		
- Receivable	40.54	—
2. Remuneration to Key Managerial Personnel		
Mr. Raymond S. Noronha - Managing Director	294.43	219.65
Mr. N. Sai Sankar - Deputy Managing Director & Secretary (Finance Director & Secretary until 31st January, 2009)	169.40	125.58
(V) Segment Reporting		
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 segment considered for disclosure mainly consists of sales within India and sales outside India, information in respect thereof is as under:		
a. Sales within India	89543.83	71186.24
b. Sales outside India	10929.87	6157.33
	<u>100473.70</u>	<u>77343.57</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.		



			2009		2008
	Unit	Quantity	Rs. in Lakhs	Quantity	Rs. in Lakhs
20. Additional Information pursuant to the Provisions of Paragraphs 3, 4C and 4D of Part II of Schedule VI of the Companies Act, 1956					
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	25318		23872	
Actual Saleable Production (includes contract manufacture and manufactured for others)	Millions	7308		8799	
* 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	7188	88960.60	8844	71032.68
Unmanufactured Tobacco	Tonnes	9808	11231.16	7957	6139.15
Cut Tobacco	Tonnes	220	279.19	205	170.99
Others			2.75		0.75
			<u>100473.70</u>		<u>77343.57</u>
c. DETAILS OF STOCK-IN-TRADE					
i. Opening Stock					
Cigarettes	Millions	153	1479.58	221	1503.23
ii. Closing Stock					
Cigarettes	Millions	248	2648.99	153	1479.58
Stock Quantities exclude damaged stocks, samples, etc.					



			2009	2008
	Unit	Quantity	Rs. in Lakhs	Quantity Rs. in Lakhs
20. Additional Information (Contd.)				
d. DETAILS OF RAW MATERIALS CONSUMED				
Unmanufactured Tobacco	Tonnes	15295	12363.73	15844 8401.77
Board	Tonnes	1604	666.00	1982 671.74
Hinge Lid Packs	Millions	517	1324.77	214 938.52
Cigarette Paper	M.Metres	388722	273.99	541396 281.75
Foil	M.Metres	70206	371.13	24985 141.27
Filter Rods	Millions	1165	1097.04	644 557.68
Others			2289.27	2649.35
			<u>18385.93</u>	<u>13642.08</u>
e. VALUE OF RAW MATERIALS, SPARE PARTS AND COMPONENTS CONSUMED				
			Rs. in Lakhs %	Rs. in Lakhs %
Raw Materials				
Imported		712.37	3.9	552.51 4.1
Indigenous		17673.56	96.1	13089.57 95.9
		<u>18385.93</u>	<u>100.0</u>	<u>13642.08</u> <u>100.0</u>
Stores and Spare Parts				
Imported		47.59	17.4	55.22 18.7
Indigenous		226.28	82.6	239.76 81.3
		<u>273.87</u>	<u>100.0</u>	<u>294.98</u> <u>100.0</u>
f. EXPORTS AND IMPORTS				
Export of goods (F.O.B. Value)		10841.50		6074.57
Imports (C.I.F. Value) (ON PAYMENT BASIS)				
Raw Materials		627.10		515.82
Spare Parts		48.66		59.83
Capital Goods		1230.95		2571.36
		<u>1906.71</u>		<u>3147.01</u>
g. EXPENDITURE IN FOREIGN CURRENCY (ON PAYMENT BASIS)				
Miscellaneous - Travelling, Advertisement and Subscriptions etc.		106.71		127.38



Rs. in Lakhs

	2009	2008
20. Additional Information (Contd.)		
h. DIVIDENDS PAID TO NON-RESIDENT SHAREHOLDERS IN FOREIGN CURRENCY FINAL		
Amount of dividend	993.18	993.18
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)	31-03-2008	31-03-2007
i. COMPARATIVE FIGURES		
The Comparative figures for the previous year have been re-arranged to conform with the revised presentation of the accounts.		
LALIT PUNJABI Partner Membership No. 48102 for and on behalf of LOVELOCK & LEWES Chartered Accountants Mumbai, 23rd April, 2009.	On behalf of the Board, A. BASU R. S. NORONHA N. SAI SANKAR Hyderabad, 23rd April, 2009.	Chairman Managing Director Deputy Managing Director & Secretary



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, 2009

VST Industries Limited

Rs. in Lakhs

	2009	2008
A. Cash flow from operating activities		
Net Profit Before Taxation	8634.55	8605.74
Adjustments:		
Depreciation (Net)	1581.99	1371.92
(Profit)/Loss on Sale of Fixed Assets (Net)	0.95	2.57
Unrealised (Gain)/Loss on exchange (Net)	170.00	57.13
Interest Income on Loans and Deposits etc. (Gross)	(116.42)	(209.20)
Interest Paid	12.87	12.58
Income from Long Term Investments	(1.84)	(63.75)
Income from Current Investments	(679.95)	(460.49)
(Profit)/Loss on sale of Investments (Net)	(1212.16)	(743.27)
Operating Profit before Working Capital changes	8389.99	8573.23
Adjustments for:		
Trade and Other Receivables	52.62	(99.21)
Inventories	(5816.56)	(1809.73)
Trade and Other Payables	1542.92	3383.07
Cash generated from operations	4168.97	10047.36
Direct Taxes Paid	(2093.31)	(3217.64)
Net cash from operating activities	2075.66	6829.72
B. Cash flow from investing activities		
Purchase of Fixed Assets	(2508.77)	(3820.96)
Sale of Fixed Assets	1.92	8.48
Purchase of Investments	(163985.15)	(151299.66)
Sale/Redemption of Investments	168235.16	148130.94
Redemption of Debenture - Subsidiary Company	-	308.00
Income from Long Term Investments	1.84	63.75
Income from Current Investments	679.95	460.49
Interest Income on Loans and Deposits etc. (Gross)	87.90	313.14
Net cash used in investing activities	2512.85	(5835.82)
C. Cash flow from financing activities		
Finance lease payments	(50.13)	(55.78)
Interest - Others	(12.87)	(12.58)
Dividends paid	(3613.25)	(3613.25)
Net cash used in financing activities	(3676.25)	(3681.61)
Net Increase/(Decrease) in cash and cash equivalents	912.26	(2687.71)
Opening cash and cash equivalents	457.87	3145.58
Closing cash and cash equivalents	1370.13	457.87



- 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.

LALIT PUNJABI
Partner
Membership No. 48102
for and on behalf of
LOVELOCK & LEWES
Chartered Accountants

Mumbai, 23rd April, 2009.

On behalf of the Board,

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

Hyderabad, 23rd April, 2009.



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, 2009, 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 1 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, 2009, and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31st March, 2009 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, 2009;
 - ii. in the case of the Profit and Loss Account, of the profit for the year ended on that date; and
 - iiii. 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, 21st April, 2009.

ANNEXURE TO THE REPORT OF THE AUDITORS
(Statement referred to in Paragraph (1) of our Report of even date)

1. The Company does not have any tangible fixed assets, hence reporting regarding proper records, physical verification and discrepancies thereof does not arise.
2. The Company does not have any inventory, hence reporting regarding proper records, physical verification and discrepancies thereof does not arise.
3. 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.
 - 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, 2009 which are outstanding for a period of more than six months from the date they become payable.
 - 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, 2009 which has not been deposited on account of dispute.
10. The Company has neither accumulated losses as on 31st March, 2009 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

VST DISTRIBUTION, STORAGE & LEASING COMPANY PRIVATE LIMITED

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.

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
Partner

Hyderabad, 21st April, 2009.

BALANCE SHEET AS AT 31ST MARCH, 2009

Rupees

	Schedule	2009	2008
I. SOURCES OF FUNDS			
1. Shareholders' Funds			
(a) Capital	1	5,00,000	5,00,000
(b) Reserves and Surplus	2	2,95,23,805	2,85,81,368
		<u>3,00,23,805</u>	<u>2,90,81,368</u>
2. Loan Funds			
(a) Unsecured Loans	3	—	—
3. Deferred Tax Liability (Net)		29,70,130	27,32,777
TOTAL		<u>3,29,93,935</u>	<u>3,18,14,145</u>
II. APPLICATION OF FUNDS			
1. Fixed Assets	4		
(a) Gross Block		1,72,00,000	172,00,000
(b) Less: Depreciation		36,23,975	27,63,975
(c) Net Block		<u>1,35,76,025</u>	<u>1,44,36,025</u>
2. Investments	5	1,15,11,985	6,220
3. Current Assets, Loans and Advances			
(a) Cash and Bank Balances	6	49,910	6,12,972
(b) Loans and Advances	7	78,76,418	1,67,88,928
		<u>79,26,328</u>	<u>1,74,01,900</u>
Less: Current Liabilities	8	20,403	30,000
		<u>20,403</u>	<u>30,000</u>
Net Current Assets		79,05,925	1,73,71,900
TOTAL		<u>3,29,93,935</u>	<u>3,18,14,145</u>
Notes on Accounts	9		
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.		On behalf of the Board,	
For M. BHASKARA RAO & CO.		SANJAY KHANNA	Director
Chartered Accountants			
V. RAGHUNANDAN		ANISH GUPTA	Director
Partner			
Hyderabad, 21st April, 2009.		Hyderabad, 21st April, 2009.	

PROFIT AND LOSS ACCOUNT FOR THE
YEAR ENDED 31ST MARCH, 2009

Rupees

	Schedule	2009	2008
I. Income			
Brokerage Income		1,29,889	19,77,849
Other Income		60,040	1,98,324
Income from Long Term Investments - Trade		5,000	5,000
Income from Current Investments		7,18,660	–
Interest Received - Gross [Including Others Rs.15,84,882 (2008 - Rs.Nil)]		15,84,882	16,79,124
[Income Tax Deducted thereon Rs.Nil (2008 - Rs.3,40,924)]			
		<u>24,98,471</u>	<u>38,60,297</u>
II. Expenditure			
Rates & Taxes		13,205	94,969
Interest		–	1,80,812
Depreciation/Amortisation		8,60,000	8,60,000
Directors' Sitting Fees		–	5,000
Miscellaneous Expenses		86,120	7,09,015
Payment to Auditors - Audit Fee		10,000	30,000
- Fees for Certificates etc.		2,247	8,247
		<u>9,71,572</u>	<u>18,88,043</u>
III. Profit before Taxation		15,26,899	19,72,254
Income Tax Expense [Including Prior year tax - Rs.2,47,109 (2008 - Rs.1,800)],		5,84,462	7,29,456
[Deferred tax Rs.2,37,353 (2008 - Rs.5,12,156)]			
IV. Profit after Taxation		<u>9,42,437</u>	<u>12,42,798</u>
V. Profit Brought Forward		2,36,36,674	98,83,232
VI. Appropriations			
Transfer from Debenture Redemption Reserve		–	1,25,10,644
		<u>–</u>	<u>1,25,10,644</u>
VII. Balance Carried to Balance Sheet		<u>2,45,79,111</u>	<u>2,36,36,674</u>
Basic Earnings Per Share		18.85	24.86
Diluted Earnings Per Share		18.85	0.85
Notes on Accounts	9		
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		On behalf of the Board, SANJAY KHANNA	Director
V. RAGHUNANDAN Partner Hyderabad, 21st April, 2009.		ANISH GUPTA Hyderabad, 21st April, 2009.	Director

SCHEDULES

Rupees

	2009	2008
1. Share Capital		
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>
2. Reserves and Surplus		
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
Less : Transfer to Profit and Loss Account	—	(1,25,10,644)
	<u>—</u>	<u>—</u>
Profit and Loss Account - Balance	2,45,79,111	2,36,36,674
	<u>2,95,23,805</u>	<u>2,85,81,368</u>
3. Unsecured Loans		
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
Redeemed during the year	—	3,03,00,000
	<u>—</u>	<u>—</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
Redeemed during the year	—	5,00,000
	<u>—</u>	<u>—</u>
4. Fixed Assets		
Time Share Rights		
COST		
As at 1st April, 2008	1,72,00,000	1,72,00,000
GROSS BLOCK		
As at 31st March, 2009	<u>1,72,00,000</u>	<u>1,72,00,000</u>
DEPRECIATION/AMORTISATION		
As at 1st April, 2008	—	19,03,975
For the year	8,60,000	8,60,000
DEPRECIATION/AMORTISATION		
As at 31st March, 2009	<u>36,23,975</u>	<u>27,63,975</u>
NET BLOCK		
As at 31st March, 2009	<u>1,35,76,025</u>	<u>1,44,36,025</u>

SCHEDULES

Rupees

	2009	2008
5. Investments at Cost		
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
[Market Value of Quoted Investments Rs.1,49,154 (2008 - Rs.2,73,866)]		
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		
OTHER INVESTMENTS		
Reliance Medium Term Fund - Daily Dividend Plan		
6,73,028.851 Units of Rs.10 each	1,15,05,765	—
	<u>1,15,11,985</u>	<u>6,220</u>
Note: Details of Investments purchased and sold during the year in addition to above-		
Reliance Liquidity Fund - Treasury Plan - Institutional Daily Dividend Plan - 14,01,166 units of Rs.10 each		
Birla Quarterly Interval - Series 8 - Dividend payout - 10,00,000 units of Rs.10 each		
6. Cash and Bank Balances		
With Scheduled Banks - On Current Account	49,910	6,12,972
	<u>49,910</u>	<u>6,12,972</u>
7. Loans and Advances (Unsecured, Considered Good)		
Advances recoverable in cash or in kind or for value to be received	20,000	20,000
Taxation (net of provisions)	78,56,418	1,67,68,928
	<u>78,76,418</u>	<u>1,67,88,928</u>
8. Current Liabilities		
a. Sundry Creditors (Other than small scale industrial undertakings)	11,030	30,000
b. Other Liabilities	9,373	—
	<u>20,403</u>	<u>30,000</u>

9. 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.63,74,138 (2008 - Rs.63,41,985).

These comprise -

- a. Income Tax Demands disputed by the Company relating to disallowances made in various assessment proceedings, under appeal, aggregating to Rs.63,74,138 (2008 - Rs.63,41,985)
- b. Other matters relating to dealers etc. Rs.Nil (2008 - Rs.Nil)

- 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 (2008 - Rs.55,362)

Deferred tax liability: On fiscal allowances on fixed assets Rs.30,25,492 (2008 - Rs.27,88,139)

- 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
	2009	2008
E. Earnings Per Share		
Earnings Per Share is computed based on the following:		
a. Profit After Taxation as per Profit & Loss Account considered for Basic EPS	9,42,437	12,42,798
b. Add: Debenture Interest (Net of Income Tax)	–	1,01,655
c. Profit considered for diluted EPS	9,42,437	13,44,453
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
f. Weighted average number of Equity shares considered for Diluted EPS	50,000	15,90,000
g. Basic Earnings Per Share	18.85	24.86
h. Diluted Earnings Per Share	18.85	0.85
(Nominal Value of Shares - Rs.10)		
F. Related Party Transactions		
Holding Company: VST Industries Limited		
Nature of Transactions		
Payments - Service/Secondment Charges	75,000	2,50,000
- Interest	–	1,54,000
G. The comparative figures for the previous year have been regrouped wherever considered necessary.		
For M. BHASKARA RAO & CO. Chartered Accountants V. RAGHUNANDAN Partner Hyderabad, 21st April, 2009.	On behalf of the Board, SANJAY KHANNA Director ANISH GUPTA Director Hyderabad, 21st April, 2009.	

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I. Registration Details	
Registration No.	<div> <div></div> <div></div> <div></div> <div></div> <div>3</div> <div>1</div> <div>5</div> <div>6</div> </div>
State Code	<div> <div>0</div> <div>1</div> </div>
Corporate Identification No.	<div> <div>U</div> <div>5</div> <div>2</div> <div>5</div> <div>2</div> <div>0</div> <div>A</div> <div>P</div> <div>1</div> <div>9</div> <div>8</div> <div>1</div> <div>P</div> <div>T</div> <div>C</div> <div>0</div> <div>0</div> <div>3</div> <div>1</div> <div>5</div> <div>6</div> </div>
Balance Sheet Date	<div> <div>3</div> <div>1</div> <div>0</div> <div>3</div> <div>2</div> <div>0</div> <div>0</div> <div>9</div> </div>
	<div> <div>Date</div> <div>Month</div> <div>Year</div> </div>
II. Capital raised during the year (Amount in Rs. Thousands)	
Public Issue	<div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> </div>
Rights Issue	<div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> </div>
Bonus Issue	<div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> </div>
Private Placement	<div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> </div>
III. Position of Mobilisation and Deployment of Funds (Amount in Rs. Thousands)	
Total Liabilities	<div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> </div>
Total Assets	<div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> </div>
Sources of Funds	
Paid-up Capital	<div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> </div>
Reserves & Surplus	<div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> </div>
Secured Loans	<div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> </div>
Unsecured Loans	<div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> </div>
Deferred Tax Liability	<div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> </div>
Application of Funds	
Net Fixed Assets	<div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> </div>
Investments	<div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> </div>
Net Current Assets	<div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> </div>
Miscellaneous Expenditure	<div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> </div>
Accumulated Losses	<div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> </div>
IV. Performance of Company (Amount in Rs. Thousands)	
Turnover	<div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> </div>
Total Expenditure	<div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> </div>
Profit/Loss before Tax	<div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> </div>
Profit/Loss after Tax	<div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> </div>
Earnings of Share Rs.	<div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> </div>
Dividend rate %	<div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> </div>
On year end of Capital	<div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> </div>
Recommended	<div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> </div>
V. Generic Names of Principal Products/Services of the Company (as per monetary terms)	
Item Code No. (ITC CODE)	<div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> </div>
Service Description	<div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> </div>

On behalf of the Board,

SANJAY KHANNA Director

ANISH GUPTA Director

Hyderabad, 21st April, 2009.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2009

Rupees

	2009	2008
A. Cash flow from operating activities		
Net Profit before Tax	15,26,899	19,72,254
Adjustments:		
Depreciation/Amortisation	8,60,000	8,60,000
Income from Long Term Investments	(5,000)	(5,000)
Income from Current Investments	(7,18,660)	—
Interest (Net)	(15,84,882)	(14,98,313)
Operating Profit before Working Capital changes	78,357	13,28,941
Adjustments for:		
Trade and Other Receivables	—	1,51,000
Trade and Other Payables	(9,597)	(12,01,212)
Cash generated from operations	<u>68,760</u>	<u>2,78,729</u>
Direct Taxes Paid	<u>85,65,401</u>	<u>(4,94,480)</u>
Net Cash from Operating Activities	<u>86,34,161</u>	<u>(2,15,751)</u>
B. Cash flow from investing activities		
Purchase of Investments	(4,29,25,666)	—
Sale of Investments	3,14,19,901	—
Income from Long term Investments	5,000	5,000
Income from Current Investments	7,18,660	—
Net Cash used for investing activities	(1,07,82,105)	5,000
C. Cash flow from financing activities		
Debenture Redemption	—	(3,08,00,000)
Interest (Net)	15,84,882	14,98,313
Net cash from financing activities	15,84,882	(2,93,01,687)
Net increase/(Decrease) in cash and cash equivalent	(5,63,062)	(2,95,12,438)
Opening cash and cash equivalents	6,12,972	3,01,25,410
Closing cash and cash equivalents	<u>49,910</u>	<u>6,12,972</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, 21st April, 2009.

On behalf of the Board,

SANJAY KHANNA Director

ANISH GUPTA Director

Hyderabad, 21st April, 2009.

VST DISTRIBUTION, STORAGE & LEASING COMPANY PRIVATE LIMITED

Report of the Directors for the year ended 31st March, 2009

The Directors of your Company have pleasure in presenting their Annual Report and Accounts for the year ended 31st March, 2009.

Financial Results

Rs.

The Net Profit for the year, after deducting all charges and expenses and taxation amounts to	9,42,437
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Adding thereto profit brought forward from the previous year	2,36,36,674
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Leaving an undistributed amount of in the Profit and Loss Account to be carried forward to the following year.	<u>2,45,79,111</u>
--	-------	--------------------

OPERATIONS

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

The Company is now engaged in distribution of mutual funds and other businesses.

The Company has earned brokerage income of Rs.1.30 lakhs during the year.

Net profit accordingly was at Rs.9.42 lakhs as compared to Rs.12.43 lakhs for the year 2007-08.

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

In accordance with the Articles of Association of the Company, Mr. Sanjay Khanna retires from the Board, and being eligible, will be proposed for re-appointment.

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, 21st April, 2009.



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, 2009, 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.329.94 Lakhs as at 31st March, 2009 and the Group's share of total revenues of Rs.24.98 Lakhs and net cash outflows amounting to Rs.5.63 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, 2009;
 - (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.

Mumbai, 23rd April, 2009.

LALIT PUNJABI
Partner
Membership No. 48102
For and on behalf of
LOVELOCK & LEWES
Chartered Accountants



CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH, 2009

VST Industries Limited

Rs. in Lakhs

Schedule		2009	2008
I. SOURCES OF FUNDS			
1. Shareholders' Funds			
(a) Capital	1	1544.19	1544.19
(b) Reserves and Surplus	2	<u>22696.34</u>	<u>21934.82</u>
TOTAL		<u>24240.53</u>	<u>23479.01</u>
II. APPLICATION OF FUNDS			
1. Fixed Assets	3		
(a) Gross Block		25093.29	23230.25
(b) Less : Depreciation		<u>12413.58</u>	<u>11200.36</u>
(c) Net Block		12679.71	12029.89
(d) Capital Work-in-Progress		<u>541.96</u>	<u>286.83</u>
2. Investments	4	19406.18	22328.97
3. Deferred Tax - Net	5	822.77	896.43
4. Current Assets, Loans and Advances			
(a) Inventories	6	13426.25	7609.69
(b) Sundry Debtors	7	488.53	431.76
(c) Cash and Bank Balances	8	1370.63	464.00
(d) Other Current Assets	9	49.64	21.13
(e) Loans and Advances	10	<u>1373.80</u>	<u>1859.93</u>
		<u>16708.85</u>	<u>10386.51</u>
Less : Current Liabilities and Provisions			
(a) Liabilities	11	20499.06	18836.37
(b) Provisions	12	<u>5419.88</u>	<u>3613.25</u>
		<u>25918.94</u>	<u>22449.62</u>
Net Current Assets		(9210.09)	(12063.11)
TOTAL		<u>24240.53</u>	<u>23479.01</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.

LALIT PUNJABI
Partner
Membership No. 48102

for and on behalf of
LOVELOCK & LEWES
Chartered Accountants
Mumbai, 23rd April, 2009.

On behalf of the Board,

A. BASU

Chairman

R. S. NORONHA

Managing Director

N. SAI SANKAR

Deputy Managing
Director & Secretary

Hyderabad, 23rd April, 2009.



CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2009

VST Industries Limited

Rs. in Lakhs

	Schedule	2009	2008
I. Income			
Sales (Gross)		100473.70	77343.57
Less: Excise Duty		62366.03	43346.78
Sales (Net)		38107.67	33996.79
Brokerage Income		1.30	19.78
Other Income	15	717.48	1595.50
		<u>38826.45</u>	<u>35612.07</u>
II. Expenditure			
Raw Materials, Purchases and Stock-in-Trade	16	18092.81	13690.72
Manufacturing, Selling, Distribution and Administration Expenses, etc.	17	11754.02	11915.37
Depreciation		1590.59	1380.52
		<u>31437.42</u>	<u>26986.61</u>
III. Profit before Taxation and Exceptional Item		7389.03	8625.46
IV. Exceptional Item - (Refer note (II) on schedule 19)		1260.79	-
V. Profit before Taxation		8649.82	8625.46
Fringe Benefit Tax		96.53	125.00
Taxation	18	2361.52	2652.73
VI. Profit after Taxation		6191.77	5847.73
Balance Brought Forward		8227.53	6467.94
VII. Profit available for Appropriation		<u>14419.30</u>	<u>12315.67</u>
VIII. Appropriations			
Transfer to General Reserve		625.00	600.00
Transfer from Debenture Redemption Reserve		-	(125.11)
Dividends on			
Ordinary Shares - Final (Proposed)		4632.58	3088.38
Dividend Tax thereon		787.30	524.87
		<u>6044.88</u>	<u>4088.14</u>
IX. Balance Carried Forward		<u>8374.42</u>	<u>8227.53</u>
Basic and diluted Earnings Per Share (Rs.)		40.10	37.87
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.

LALIT PUNJABI
Partner
Membership No. 48102

for and on behalf of
LOVELOCK & LEWES
Chartered Accountants
Mumbai, 23rd April, 2009.

On behalf of the Board,

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

Hyderabad, 23rd April, 2009.



SCHEDULES TO THE CONSOLIDATED BALANCE SHEET

VST Industries Limited

Rs. in Lakhs

	2009	2008
1. Capital		
AUTHORISED		
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>
ISSUED AND SUBSCRIBED		
1,54,41,920 Ordinary Shares of Rs.10 each fully paid up	<u>1544.19</u>	<u>1544.19</u>
OF THE ABOVE ORDINARY SHARES:		
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>
2. Reserves and Surplus		
CAPITAL REDEMPTION RESERVE	1000.25	1000.25
GENERAL RESERVE		
As at the commencement of the year	12287.14	11687.14
Add - Transfer from Profit and Loss Account	<u>625.00</u>	<u>600.00</u>
	12912.14	12287.14
REVALUATION RESERVE		
As at the commencement of the year	419.90	472.11
Transfer to Profit and Loss Account		
- Depreciation (Refer note V on Schedule 3)	<u>10.37</u>	<u>52.21</u>
	409.53	419.90
DEBENTURE REDEMPTION RESERVE*		
As at the commencement of the year	-	125.11
Less - Transfer to Profit and Loss Account	<u>-</u>	<u>125.11</u>
	-	-
PROFIT AND LOSS ACCOUNT - BALANCE	<u>8374.42</u>	<u>8227.53</u>
	<u>22696.34</u>	<u>21934.82</u>
*Represents Debenture Redemption Reserve created in subsidiary, VST Distribution, Storage & Leasing Company Private Limited, 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 2009	Total 2008
3. Fixed Assets											
COST/REVALUATION											
As at 1st April, 2008	5.81	172.00	328.12	464.09	1228.70	19921.99	575.48	274.88	259.18	23230.25	19497.99
Additions	—	—	—	458.03	5.08	1635.31	107.45	—	47.77	2253.64	3838.41
	5.81	172.00	328.12	922.12	1233.78	21557.30	682.93	274.88	306.95	25483.89	23336.40
Disposals	—	—	—	—	—	337.90	1.95	50.75	—	390.60	106.15
	5.81	172.00	328.12	922.12	1233.78	21219.40	680.98	224.13	306.95	25093.29	23230.25
GROSS BLOCK											
As at 31st March, 2009	5.81	172.00	328.12	922.12	1233.78	21219.40	680.98	224.13	306.95	25093.29	23230.25
DEPRECIATION/ADJUSTMENTS											
As at 1st April, 2008	5.81	27.64	—	275.52	1022.92	9227.12	413.96	141.42	85.97	11200.36	9862.42
For the year	—	8.60	—	15.90	28.40	1348.08	79.86	55.79	64.33	1600.96	1432.73
	5.81	36.24	—	291.42	1051.32	10575.20	493.82	197.21	150.30	12801.32	11295.15
Adjustment on Disposals	—	—	—	—	—	335.04	1.95	50.75	—	387.74	94.79
	5.81	36.24	—	291.42	1051.32	10240.16	491.87	146.46	150.30	12413.58	11200.36
NET BLOCK											
As at 31st March, 2009	—	135.76	328.12	630.70	182.46	10979.24	189.11	77.67	156.65	12679.71	12029.89
Capital Work-in-Progress	—	—	—	—	—	—	—	—	—	541.96	286.83
	—	135.76	328.12	630.70	182.46	10979.24	189.11	77.67	156.65	13221.67	12316.72
Per Balance Sheet 31st March, 2009	—	135.76	328.12	630.70	182.46	10979.24	189.11	77.67	156.65	13221.67	12316.72
Per Balance Sheet 31st March, 2008	—	144.36	328.12	188.57	205.78	10694.87	161.52	133.46	173.21	12316.72	

NOTES:

- (I) Leasehold property include Buildings on Leasehold Land cost Rs.575.24 Lakhs (2008 - Rs.570.16 Lakhs), Depreciation Rs.450.80 Lakhs (2008 - Rs.428.63 Lakhs).
- (II) Deeds of conveyance are to be executed for Land Freehold Rs.0.83 Lakhs (2008 - Rs.0.83 Lakhs), Building Freehold Rs.11.28 Lakhs (2008 - Rs.11.28 Lakhs).
- (III) Furniture & Fixtures as at the year end include, Computer Software cost Rs.169.72 Lakhs (2008 - Rs.169.72 Lakhs), Depreciation Rs.137.13 Lakhs (2008 - Rs.120.75 Lakhs).
- (IV) Leasehold Equipment represents computers and related assets acquired under finance lease.
- (V) Depreciation for the year ended 31st March, 2009 of Rs.1592.36 Lakhs (2008 - Rs.1424.13 Lakhs) includes Rs.10.37 Lakhs (2008 - Rs.52.21 Lakhs) transferred from Revaluation Reserve.
- (VI) Capital Work-in-Progress includes Capital Advances Rs.492.97 Lakhs (2008 - Rs.272.95 Lakhs) which are Unsecured and Considered Good.
- (VII) The unexpired amortisation period for Time Share Rights is 16 years.



Rs. in Lakhs

	2009	2008
4. Investments		
Long Term Other than Trade - at Cost		
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.23.26 Lakhs, (Previous Year - Rs.36.51 Lakhs)].	<u>0.19</u>	<u>0.19</u>
UNQUOTED		
Government/Trust Securities		
National Savings Certificate cost Rs.500 lodged with Government Authority (Previous Year - Rs.500)		
Other Investments		
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
Citifinancial Consumer Finance India Limited		
1,000 Secured Redeemable Non-Convertible Debentures Series - 390 of Rs.1,00,000 each fully paid up - Purchased during the year	1000.00	-
India Infrastructure Finance Company Limited		
1,000 6.85% Tax free Bonds of Rs.1,00,000 each fully paid up - Purchased during the year	1000.00	-
500 6.85% Tax free Bonds - Series II of Rs.1,00,000 each fully paid up - Purchased during the year	500.00	-
Unit Trust of India		
8,31,209 6.75% Tax free US64 Bonds of Rs.100 each fully paid up - Sold during the year	-	831.76
50,025 6.60% Tax free ARS Bonds of Rs.100 each fully paid up	51.32	51.32
B876G Birla FTP - Institutional - Series AD - Growth		
50,00,000 units of Rs.10 each fully paid up	500.00	500.00
B897IG Birla FTP - Institutional - Series AM - Growth		
50,00,000 units of Rs.10 each fully paid up	500.00	500.00
B915IG Birla Sun Life FTP - Institutional Series BD - Growth		
1,00,00,000 units of Rs.10 each fully paid up - Purchased during the year	1000.00	-
DSP BlackRock FMP 12.5M Series I - Institutional Growth		
50,00,000 units of Rs.10 each fully paid up	500.00	500.00
DWS Fixed Term Fund Series 46 - Institutional Growth		
50,00,000 units of Rs.10 each fully paid up	500.00	500.00



Rs. in Lakhs

	2009	2008
4. Investments (Contd.)		
5373/HDFC FMP 13M March 2008 (VII) (2) - Wholesale Plan Growth		
1,00,00,000 units of Rs.10 each fully paid up	1000.00	1000.00
HSBC Fixed Term Series - 44 Institutional - Growth		
1,00,00,000 units of Rs.10 each fully paid up	1000.00	1000.00
HSBC Fixed Term Series 57 Institutional Growth - Tenure 370 days		
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	1000.00	1000.00
G561 IDFC Fixed Maturity Plan-Yearly Series 19 - Plan B - Growth		
50,00,000 units of Rs.10 each fully paid up	500.00	500.00
Kotak FMP 14M Series 4 - Institutional - Growth		
50,00,000 units of Rs.10 each fully paid up	500.00	500.00
Reliance Fixed Horizon Fund - IV - Series 6 - Institutional Growth Plan		
50,00,000 units of Rs.10 each fully paid up	500.00	500.00
Reliance Fixed Horizon Fund - VII - Series 4 - Institutional Growth Plan		
50,00,000 units of Rs.10 each fully paid up	500.00	500.00
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	500.00	500.00
B332G Birla Sun Life Savings Fund Institutional - Growth		
60,11,892 units of Rs.10 each fully paid up - Purchased during the year	1000.00	1000.23
(65,60,483 units of Rs.10 each fully paid up - Sold during the year)		
2026/HDFC Floating Rate Income Fund - LTP - Growth		
67,93,617 units of Rs.10 each fully paid up - Purchased during the year	1000.00	-
HSBC Ultra Short Term Bond Fund - Institutional Plus - Growth		
59,29,826 units of Rs.10 each fully paid up	615.00	615.00
27 ICICI Prudential Flexible Income Plan Premium - Growth		
92,05,956 units of Rs.10 each fully paid up - Purchased during the year	1500.00	-
Kotak Liquid (Institutional Premium) - Growth		
70,49,353 units of Rs.10 each fully paid up	1000.00	1000.00
Reliance Medium Term Fund - Retail Plan - Growth Option		
55,05,032 units of Rs.10 each fully paid up - Purchased during the year	1000.00	-
TFLG Tata Floater Fund - Growth		
76,48,652 units of Rs.10 each fully paid up - Purchased during the year	1000.00	-
DSP Merrill Lynch Fixed Term Plan Series 3E - Growth - Institutional		
50,000 units of Rs.1,000 each fully paid up - Sold during the year	-	500.00
DWS Fixed Term Fund - Series 20 - Growth Plan		
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 - Sold during the year	-	1000.00
HDFC FMP 14M March 2007 (3) - Wholesale Plan - Growth		
50,00,000 units of Rs.10 each fully paid up - Sold during the year	-	500.00
OF211G HSBC Fixed Term Series - 21 Institutional - Growth		
1,00,00,000 units of Rs.10 each fully paid up - Sold during the year	-	1000.00
P1691G Prudential ICICI FMP - Series-35 - Thirteen Months Plan B - Institutional Growth		
1,00,00,000 units of Rs.10 each fully paid up - Sold during the year	-	1000.00
Reliance Fixed Horizon Fund Institutional Plan C - Series I Growth Option		
50,00,000 units of Rs.10 each fully paid up - Sold during the year	-	500.00



Rs. in Lakhs

	2009	2008
4. Investments (Contd.)		
Reliance Fixed Horizon Fund II - Annual Plan- Series VI - Institutional Growth Plan		
1,00,00,000 units of Rs.10 each fully paid up - Sold during the year	-	1000.00
L135G SBI Debt Fund Series -13 Months (March 07) - Growth		
50,00,000 units of Rs.10 each fully paid up - Sold during the year	-	500.00
G186 Standard Chartered Fixed Maturity Plan - Yearly Series 3 - Growth		
50,00,000 units of Rs.10 each fully paid up - Sold 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 - Sold during the year	-	500.00
Templeton Fixed Horizon Fund Series II - Plan A - Institutional - Growth		
1,00,00,000 units of Rs.10 each fully paid up - Sold during the year	-	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 - Sold during the year	-	1000.00
IDFC 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 units of Rs.10 each fully paid up	199.23	199.23
Sundaram BNP Paribas Energy Opportunities Fund - Growth		
10,00,000 units of Rs.10 each fully paid up	100.00	100.00
Franklin Infotech Fund - Growth		
1,17,084 units of Rs.10 each fully paid up - Sold during the year	-	52.23
Reliance Equity Fund - Growth		
6,44,745 units of Rs.10 each fully paid up - Sold during the year	-	100.00
Reliance Index Fund - Nifty Plan - Growth Plan		
2,71,639 units of Rs.10 each fully paid up - Sold during the year	-	53.63
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>19290.93</u>	<u>21328.78</u>
Current Investment - At lower of cost and fair value		
Other than Trade and Unquoted		
Kotak Quarterly Interval plan Series 2 - Dividend		
99,96,301 units of Rs.10 each fully paid up - Sold during the year	-	1000.00
Reliance Medium Term Fund - Daily Dividend Plan		
6,73,029 units of Rs.10 each fully paid up - Purchased during the year	115.06	-
	<u>115.06</u>	<u>1000.00</u>
Aggregate amount of unquoted investments	19405.99	22328.78
TOTAL	<u>19406.18</u>	<u>22328.97</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 13,69,428 units of Rs.1,000 each

UTI Treasury Advantage Fund - Institutional Plan (Daily Dividend Option) - Reinvestment 11,10,543 units of Rs.1,000 each

UTI Short Term Fixed Maturity Plan Series I - IX (90 Days) - Institutional Dividend Plan - Payout 50,00,000 units of Rs.10 each

UTI - Nifty Index Fund - Growth Plan 23,93,051 units of Rs.10 each

L147ID SBI SHF Liquid Plus - Institutional Plan - Daily Dividend Reinvestment 56,17,884 units of Rs.10 each

OCFPDD HSBC Cash Fund - Institutional Plus - Daily Dividend 1,24,03,489 units of Rs.10 each

OLPIPD HSBC Liquid Plus - Institutional Plus - Daily Dividend 2,29,91,440 units of Rs.10 each

5403/HDFC FMP 90D April 2008 (VII) - Wholesale Plan - Dividend 50,00,000 units of Rs.10 each

2031/HDFC Cash Management Fund - Treasury Advantage Plan - Wholesale - Daily Dividend Reinvestment 9,57,85,850 units of Rs.10 each

HDFC CMF - Call Plan - Daily Dividend Reinvestment 7,96,81,550 units of Rs.10 each

Principal Cash Management Fund - Liquid Option - Institutional Premium Plan - Dividend Reinvestment Daily 3,70,68,819 units of Rs.10 each

Principal Floating Rate Fund FMP - Institutional Option - Daily Dividend Reinvestment 5,73,61,045 units of Rs.10 each

DSP BlackRock Liquidity Fund - Institutional Plan - Daily Dividend 2,83,240 units of Rs.1,000 each

DSP BlackRock Money Manager Fund - Institutional Plan - Daily Dividend 3,17,262 units of Rs.1,000 each

DSP ML Floating Rate Fund - Regular Plan - Daily Dividend Reinvestment 70,29,242 units of Rs.10 each

1313 ICICI Prudential Interval Fund III Monthly Interval Plan - Institutional Dividend - Payout Dividend 50,00,000 units of Rs.10 each

32ISD ICICI Prudential Institutional Liquid Plan - Super Institutional Daily Dividend 11,05,78,259 units of Rs.10 each

28Q ICICI Prudential - Flexible Income Plan Dividend - Daily 10,00,95,400 units of Rs.10 each

G618 IDFC Fixed Maturity Plan - Monthly Series 3 - Dividend 40,00,000 units of Rs.10 each

G632 IDFC Fixed Maturity Plan - Monthly Series 5 - Dividend 40,00,000 units of Rs.10 each

G652 IDFC Fixed Maturity Plan - Monthly Series 8 - Dividend 50,00,000 units of Rs.10 each

G50 IDFC Floating Rate Fund - Long Term - Institutional Plan B - Daily Dividend 1,88,39,584 units of Rs.10 each

GFCD IDFC Money Manager Fund - Treasury Plan - Super Institutional Plan C - Daily Dividend 1,86,70,417 units of Rs.10 each

GCCD IDFC Cash Fund - Super Institutional Plan C - Daily Dividend 87,99,385 units of Rs.10 each

G70 IDFC Liquidity Manager - Plus - Daily Dividend 1,20,496 units of Rs.1,000 each

Kotak Flexi Debt Scheme - Daily Dividend 1,01,72,780 units of Rs.10 each

Reliance Quant Plus fund - Retail Plan - Growth Plan 5,30,309 units of Rs.10 each

Reliance Medium Term Fund - Daily Dividend Plan 3,47,21,354 units of Rs.10 each

Reliance Liquid Plus Fund - Institutional Option - Daily Dividend Plan 4,78,404 units of Rs.1,000 each

Reliance Liquidity Fund - Daily Dividend Reinvestment Option 7,17,96,497 units of Rs.10 each

TLSD01 Tata Liquid Super High Investment Fund - Daily Dividend 12,30,161 units of Rs.1,000 each

TFLD Tata Floater Fund - Daily Dividend 9,02,37,013 units of Rs.10 each

TDBD Tata Dynamic Bond Fund Option B - Dividend 48,75,623 units of Rs.10 each

Lotus India Liquid Fund - Institutional Daily Dividend 1,44,58,223 units of Rs.10 each

Lotus India Liquid Plus Fund Institutional Daily Dividend 72,20,816 units of Rs.10 each

B332DD Birla Sun Life Savings Fund - Institutional - Daily Dividend - Reinvestment 6,27,60,590 units of Rs.10 each

B891D BSL Quartely Interval - Series 6 - Dividend Payout 1,00,00,000 units of Rs.10 each

B503DD Birla Sun Life Cash Plus - Institutional Premium Daily Dividend - Reinvestment 7,65,19,182 units of Rs.10 each

B85DD Birla Sun Life Short Term Fund - Institutional - Daily Dividend Reinvestment 1,16,28,139 units of Rs.10 each

Mirae Asset Liquid Fund - Institutional - Dividend Plan Daily 22,488 units of Rs.1,000 each

Mirae Asset Liquid Plus Fund - Institutional - Dividend Plan Daily Reinvestment 22,556 units of Rs.1,000 each

Mirae Asset Liquid Plus Fund - Super Institutional - Dividend Plan Daily Reinvestment 50,082 units of Rs.1,000 each

Reliance Liquidity Fund Treasury Plan - Institutional - Daily Dividend Plan 14,01,166 units of Rs.10 each

Birla Quartely Interval - Series 8 - Dividend Payout 10,00,000 units of Rs.10 each



Rs. in Lakhs

	2009	2008
5. Deferred Tax - Net		
Deferred tax asset		
On employees' separation and retirement	172.66	235.53
On State and Central Taxes etc.	1771.46	1686.71
On other timing differences	30.82	35.98
	<u>1974.94</u>	<u>1958.22</u>
Deferred tax liability		
On fiscal allowances on fixed assets	1152.17	1061.79
	<u>822.77</u>	<u>896.43</u>
6. Inventories		
Stores and Spare Parts - At cost or below	63.04	54.42
Raw Materials - At cost or below	10528.59	5955.48
Stock-in-Trade		
Finished Goods - At cost or net realisable value whichever is lower	2648.99	1479.58
Work-in-Process - At cost or net realisable value whichever is lower	185.63	120.21
	<u>13426.25</u>	<u>7609.69</u>
7. Sundry Debtors (Unsecured, Considered Good)		
Debts outstanding for a period exceeding six months	8.30	3.54
Other Debts	480.23	428.22
	<u>488.53</u>	<u>431.76</u>
8. Cash and Bank Balances		
Cash including Cheques on hand	2.90	1.23
With Scheduled Banks		
- On Unclaimed Ordinary Dividend Account	185.73	149.02
- On Preference Share Redemption Account	0.18	0.18
- On Current Accounts	192.71	299.42
- On Term Deposits	989.11	14.15
[Includes towards Margin Money Rs.13.34 Lakhs (2008 - Rs.13.34 Lakhs)]		
	<u>1370.63</u>	<u>464.00</u>



Rs. in Lakhs

	2009	2008
9. Other Current Assets (Unsecured, Considered Good)		
Interest accrued on Loans, Deposits and Investments	49.64	21.13
	<u>49.64</u>	<u>21.13</u>
10. Loans and Advances (Considered Good)		
Secured - Loans	113.69	132.68
Unsecured - Loans	33.02	51.85
- Advances recoverable in cash or in kind or for value to be received	884.07	758.80
- Balances with Excise Authorities	138.73	335.57
- Deposits	24.22	24.22
- Taxation (net of provisions)	180.07	556.81
	<u>1373.80</u>	<u>1859.93</u>
11. Liabilities		
Sundry Creditors		
- Total outstanding dues of micro enterprises and small enterprises (Refer note V on Schedule 14)	-	-
- Total outstanding dues of other than micro enterprises and small enterprises	16172.84	15273.58
	<u>16172.84</u>	<u>15273.58</u>
Advances from Customers	4116.83	3395.55
Unpaid/Unclaimed Dividends	185.73	149.02
Unclaimed/Unencashed Matured Deposits	0.08	0.28
Interest on Matured Deposits	0.03	0.13
Preference Share Redemption Account	0.18	0.18
Security Deposits	1.50	2.00
Other Liabilities	21.87	15.63
	<u>20499.06</u>	<u>18836.37</u>
There is no amount due and outstanding to be credited to Investor Education and Protection Fund.		
12. Provisions		
Proposed Dividend including Tax thereon	5419.88	3613.25
	<u>5419.88</u>	<u>3613.25</u>
13. Capital Expenditure Commitments (not provided for)	<u>1717.80</u>	<u>1545.39</u>
14. Notes to Consolidated Balance Sheet		
I. The Consolidated Financial Statements relate to "VST Industries Limited" (the parent company) and "VST Distribution, Storage & Leasing Company Private Limited" which is a wholly owned subsidiary of VST Industries Limited, all of which are hereinafter referred to as "The Company".		
II. Contingent Liabilities		
Claims against the Company not acknowledged as debts Rs.306.42 Lakhs (2008 - Rs.306.10 Lakhs). These comprise -		
a. Income Tax demands disputed by the Company relating to disallowances made in various assessment proceedings, under appeal, aggregating to Rs.63.74 Lakhs (2008 - Rs.63.42 Lakhs).		



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 (2008 - Rs.227.59 Lakhs).
- c. Other matters relating to labour cases etc. aggregating to Rs.15.03 Lakhs (2008 - Rs.15.09 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 IV 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	31.03.2009			31.03.2008		
	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	55.91	8.29	47.61	62.89	12.76	50.13
Later than one year and not later than five years	54.77	5.98	48.79	110.67	14.27	96.40
Total	110.68	14.27	96.40*	173.56	27.03	146.53*

*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

		31.03.2009		31.03.2008	
Currency Pair	Currency	Buy	Sell	Buy	Sell
USD/INR	INR	–	3197.35	–	3728.45

- 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

		31.03.2009		31.03.2008	
Currency Pair	Currency	Buy	Sell	Buy	Sell
USD/INR	INR	3066.19	461.45	2127.22	427.26

V. Micro and Small scale business entities

There are no Micro and Small Enterprises, to whom the Company owes sums, which are outstanding more than 45 days as at 31st March, 2009. This information as required to be disclosed under the Micro, Small and Medium Enterprises Development Act, 2006 has been determined to the extent such parties have been identified on the basis of information available with the Company.

VI. Employee Benefits

- a. 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 Government 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.93.57 Lakhs (2008 - Rs.95.56 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.

b. 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	
	31.03.2009	31.03.2008	31.03.2009	31.03.2008	31.03.2009	31.03.2008
Projected benefit obligation at the beginning of the year	1414.45	1293.51	127.00	132.33	396.22	318.14
Current Service Cost	118.13	56.58	8.27	5.81	41.51	41.31
Interest cost	97.14	102.40	8.76	10.58	31.03	25.05
Actuarial (Gain)/Loss	110.07	(10.99)	4.50	(17.69)	(60.15)	21.61
Less: Benefits Paid	53.34	27.05	3.83	4.03	16.80	9.89
Projected benefit obligation at the end of the year	1686.45	1414.45	144.70	127.00	391.81	396.22
Amounts recognised in the Balance Sheet						
Projected benefit obligation at the end of the year	1686.45	1414.45	144.70	127.00	391.81	396.22
Fair value of plan assets at the end of the year	1686.45	1454.22	149.86	140.54	445.21	406.96
Asset recognised in the Balance Sheet	-	39.77	5.16	13.54	53.40	10.74
Cost of Retirement and Other Benefits for the year						
Current Service cost	118.13	56.58	8.27	5.81	41.51	41.31
Interest Cost	97.14	102.40	8.76	10.58	31.03	25.05
Expected return on plan assets	(134.93)	(120.97)	(13.15)	(12.24)	(38.25)	(31.49)
Net actuarial (Gain)/Loss recognised in the year	110.07	(10.99)	4.50	(17.69)	(60.15)	21.61
Net Cost recognised in the Profit and Loss Account	190.41	27.02	8.38	(13.54)	(25.86)	56.48
Assumptions						
Discount Rate (%)	7.00	8.00	7.00	8.00	7.00	8.00
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

	2009	2008
15. Other Income		
Miscellaneous Income	245.41	168.71
Gain/(Loss) on Exchange	(1561.38)	(65.22)
Income from Long Term Investments - Other than Trade (Gross)	1.89	62.26
Income from Current Investments - Other than Trade (Gross)	687.14	460.49
Profit/(Loss) on sale of Long Term Investments (Net)	1158.75	684.07
Profit/(Loss) on sale of Current Investments (Net)	53.41	59.20
Interest on Loans and Deposits etc. (Gross)	132.26	225.99
	<u>717.48</u>	<u>1595.50</u>
Income from Long Term and Current Investments is stated at Gross, the amount of Income Tax deducted is Rs.Nil (2008 - Rs.0.35 Lakhs).		
Interest on Loans and Deposits etc. is stated at Gross. The amount of Income Tax deducted is Rs.8.18 Lakhs (2008 - Rs.63.91 Lakhs).		
16. Raw Materials, Purchases and Stock-in-Trade		
a. Raw Materials Consumed*		
Opening Stock	5955.48	4130.30
Purchases	<u>22959.04</u>	<u>15467.26</u>
	28914.52	19597.56
Less : Closing Stock	<u>10528.59</u>	<u>5955.48</u>
	18385.93	13642.08
b. (Increase)/Decrease in Stock-in-Trade		
Opening Stock		
- Cigarettes	1479.58	1503.23
Closing Stock		
- Cigarettes	<u>2648.99</u>	<u>1479.58</u>
	(1169.41)	23.65
c. Increase/(Decrease) in Excise Duties on Stock-in-Trade	941.71	32.17
d. (Increase)/Decrease in Work-in-Process		
Opening	120.21	113.03
Closing	<u>185.63</u>	<u>120.21</u>
	(65.42)	(7.18)
	<u>18092.81</u>	<u>13690.72</u>
* Includes 9,808 Tonnes (2008 - 7,957 Tonnes) of unmanufactured tobacco etc. sold - Value Rs.8052.07 Lakhs (2008 - Rs.5182.64 Lakhs).		



Rs. in Lakhs

	2009	2008
17. Manufacturing, Selling, Distribution and Administration Expenses etc.		
Salaries, Wages and Bonus	4035.08	3818.40
Contributions to Provident, Gratuity and Other Retiral Funds	464.04	275.77
Workmen and Staff Welfare Expenses	389.59	401.46
Insurance	90.86	89.95
Consumption of Stores and Spare Parts	273.87	294.98
Power and Fuel	219.93	236.31
Rent	139.08	167.56
Repairs - Buildings	22.60	31.37
- Machinery	37.22	38.32
- Others	16.98	12.72
Rates and Taxes	858.94	796.56
Excise Duty on Samples	60.32	74.81
Outward Freight	894.84	957.65
Advertising	1116.37	1405.23
Distribution Expenses	1418.94	1386.28
Miscellaneous	1673.35	1886.64
(Profit)/Loss on Fixed Assets sold and discarded (Net)	0.95	2.57
Interest - Others	12.87	12.85
Payment to Auditors - Audit Fee	16.10	14.30
- Reimbursement of Expenses	0.05	0.04
- Fees for certificates etc.	6.04	5.70
Directors' Fees	6.00	5.90
	<u>11754.02</u>	<u>11915.37</u>
R&D Expenses included above	233.37	279.68
18. Taxation		
Taxation - Current	2306.00	2483.21
- Prior Years	(18.14)	(9.97)
Deferred Tax	73.66	179.49
	<u>2361.52</u>	<u>2652.73</u>



Rs. in Lakhs

	2009	2008
19. Notes to Consolidated Profit and Loss Account		
(I) Directors' Remuneration		
Remuneration	228.86	205.80
Performance Linked Bonus	200.83 *	108.36
Commission to Non Wholetime Directors	20.00	20.00
Other Benefits	34.14	31.07
Directors' Fees	6.00	5.90
	<u>489.83</u>	<u>371.13</u>
* Includes Rs.80.33 Lakhs - payment subject to shareholders approval.		
(II) The Post Manufacturing Expenses dispute relates 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 was held in favour of the Company by the Hon'ble High Court of Andhra Pradesh and consequently, a refund of Rs.1260.79 Lakhs (including an interest of Rs.545.51 Lakhs) was received from the excise department during the previous year ended 31st March, 2008. Considering various aspects involved, the said refund received has now been considered in the Profit and Loss Account.		
(III) Earnings Per Share		
Earnings Per Share is computed based on the following -		
a. Profit after Taxation (Rs. Lakhs)	6191.77	5847.73
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.	40.10	37.87
(IV) Related party transactions during the year		
1. Companies:		
Company having significant influence		
British American Tobacco Group		
Nature of transactions		
Sales - Goods	635.13	36.31
Other payments - Services etc.	0.77	0.89
- Dividends Paid	993.18	993.18
Outstanding as at the year end		
- Receivable	40.54	-
2. Remuneration to Key Managerial Personnel		
Mr. Raymond S. Noronha - Managing Director	294.43	219.65
Mr. N. Sai Sankar - Deputy Managing Director & Secretary	169.40	125.58
(Finance Director & Secretary until 31st January, 2009)		
(V) Segment Reporting		
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	89543.83	71186.24
b. Sales outside India	10929.87	6157.33
	<u>100473.70</u>	<u>77343.57</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.		



		2009		2008	
	Unit	Quantity	Rs. in Lakhs	Quantity	Rs. in Lakhs
20. Additional Information pursuant to the Provisions of Paragraphs 3, 4C and 4D of Part II of Schedule VI of the Companies Act, 1956					
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	25318		23872	
Actual Saleable Production (includes contract manufacture and manufactured for others)	Millions	7308		8799	
* 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	7188	88960.60	8844	71032.68
Unmanufactured Tobacco	Tonnes	9808	11231.16	7957	6139.15
Cut Tobacco	Tonnes	220	279.19	205	170.99
Others			2.75		0.75
			<u>100473.70</u>		<u>77343.57</u>
c. DETAILS OF STOCK-IN-TRADE					
i. Opening Stock					
Cigarettes	Millions	153	1479.58	221	1503.23
ii. Closing Stock					
Cigarettes	Millions	248	2648.99	153	1479.58
Stock Quantities exclude damaged stocks, samples, etc.					
d. DETAILS OF RAW MATERIALS CONSUMED					
Unmanufactured Tobacco	Tonnes	15295	12363.73	15844	8401.77
Board	Tonnes	1604	666.00	1982	671.74
Hinge Lid Packs	Millions	517	1324.77	214	938.52
Cigarette Paper	M.Metres	388722	273.99	541396	281.75
Foil	M.Metres	70206	371.13	24985	141.27
Filter Rods	Millions	1165	1097.04	644	557.68
Others			2289.27		2649.35
			<u>18385.93</u>		<u>13642.08</u>



				2009	2008
20. Additional Information (Contd.)					
e.	VALUE OF RAW MATERIALS, SPARE PARTS AND COMPONENTS CONSUMED	Rs.in Lakhs	%	Rs.in Lakhs	%
	Raw Materials				
	Imported	712.37	3.9	552.51	4.1
	Indigenous	17673.56	96.1	13089.57	95.9
		<u>18385.93</u>	<u>100.0</u>	<u>13642.08</u>	<u>100.0</u>
	Stores and Spare Parts				
	Imported	47.59	17.4	55.22	18.7
	Indigenous	226.28	82.6	239.76	81.3
		<u>273.87</u>	<u>100.0</u>	<u>294.98</u>	<u>100.0</u>
f.	EXPORTS AND IMPORTS				
	Export of goods (F.O.B. Value)	10841.50		6074.57	
	Imports (C.I.F. Value) (ON PAYMENT BASIS)				
	Raw Materials	627.10		515.82	
	Spare Parts	48.66		59.83	
	Capital Goods	1230.95		2571.36	
		<u>1906.71</u>		<u>3147.01</u>	
g.	EXPENDITURE IN FOREIGN CURRENCY (ON PAYMENT BASIS)				
	Miscellaneous - Travelling, Advertisement and Subscriptions etc.	106.71		127.38	
h.	DIVIDENDS PAID TO NON-RESIDENT SHAREHOLDERS IN FOREIGN CURRENCY FINAL		Rs.in Lakhs		Rs.in Lakhs
	Amount of dividend		993.18		993.18
	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)	31-03-2008		31-03-2007	
i.	COMPARATIVE FIGURES				
	The Comparative figures for the previous year have been re-arranged to conform with the revised presentation of the accounts.				
LALIT PUNJABI Partner Membership No. 48102 for and on behalf of LOVELOCK & LEWES Chartered Accountants Mumbai, 23rd April, 2009.		On behalf of the Board, A. BASU R. S. NORONHA N. SAI SANKAR Hyderabad, 23rd April, 2009.			
		Chairman Managing Director Deputy Managing Director & Secretary			



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, 2009

VST Industries Limited

Rs. in Lakhs

	2009	2008
A. Cash flow from operating activities		
Net Profit Before Taxation	8649.82	8625.46
Adjustments:		
Depreciation (Net)	1590.59	1380.52
(Profit)/Loss on Sale of Fixed Assets (Net)	0.95	2.57
Unrealised (Gain)/Loss on exchange (Net)	170.00	57.13
Interest Income on Loans and Deposits etc. (Gross)	(132.26)	(225.99)
Interest Paid	12.87	12.85
Income from Long term Investments	(1.89)	(62.26)
Income from Current Investments	(687.14)	(460.49)
(Profit)/Loss on Sale of Investments (Net)	(1212.16)	(743.27)
Operating Profit before Working Capital changes	8390.78	8586.52
Adjustments for:		
Trade and Other Receivables	52.62	(106.66)
Inventories	(5816.56)	(1809.73)
Trade and Other Payables	1542.83	3380.02
Cash generated from operations	4169.67	10050.15
Direct Taxes paid	(2007.66)	(3222.59)
Net cash from operating activities	2162.01	6827.56
B. Cash flow from investing activities		
Purchase of Fixed Assets	(2508.77)	(3820.96)
Sale of Fixed Assets	1.92	8.48
Purchase of Investments	(164414.41)	(151299.66)
Sale/Redemption of Investments	168549.36	148130.94
Income from Long Term Investments	1.89	62.26
Income from Current Investments	687.14	460.49
Interest Income on Loans and Deposits etc. (Gross)	103.74	329.93
Net cash used in investing activities	2420.87	(6128.52)
C. Cash flow from financing activities		
Finance lease payments	(50.13)	(55.78)
Interest - Others	(12.87)	(12.85)
Dividends paid	(3613.25)	(3613.25)
Net cash used in financing activities	(3676.25)	(3681.88)
Net Increase/(Decrease) in cash and cash equivalents	906.63	(2982.84)
Opening cash and cash equivalents	464.00	3446.84
Closing cash and cash equivalents	1370.63	464.00



- 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.

LALIT PUNJABI
Partner
Membership No. 48102
for and on behalf of
LOVELOCK & LEWES
Chartered Accountants
Mumbai, 23rd April, 2009.

On behalf of the Board,

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

Hyderabad, 23rd April, 2009.



Operating Results 2000 - 2009

Rs. in Lakhs

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
GROSS INCOME	74769	75578	68457	66937	64062	69460	73650	73944	78712	102312
EXCISE & CUSTOMS DUTIES	43159	43127	40176	38598	34416	37317	40411	38903	43347	62366
OPERATING PROFIT	3837	3865	6655	7325	7359	10178	11940	9474	9781	10112
DEPRECIATION	616	502	546	809	879	951	1024	1148	1372	1582
INTEREST	1383	359	272	(237)	(106)	(54)	(274)	(150)	(197)	(104)
PROFIT BEFORE TAX	1838	3004	5837	6753	6586	9281	11190	8476	8606	8634
PROFIT AFTER TAX	1570	2750	3698	3824	2857	5402	7221	5509	5835	6182
PROFIT / (LOSS) AFTER TAX & EXTRAORDINARY ITEM	1570	2750	3698	3824	2857	5402	4310	5509	5835	6182
DIVIDENDS ^	277	509	722	958	1045	2203*	2201	3613	3613	5420
EARNINGS IN FOREIGN EXCHANGE (FOB VALUE)	3889	2016	2645	3275	4793	5259	4527	4690	6075	10842

Sources and Application of Funds 2000 - 2009

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
SOURCES										
EQUITY CAPITAL	1544	1544	1544	1544	1544	1544	1544	1544	1544	1544
PREFERENCE CAPITAL	3647@	3769@	-	-	-	-	-	-	-	-
RESERVES	2505	4719	7719	10569	12359	15544	17633	19479	21649	22401
BORROWINGS	4050@	4764@	1803	1199	598	-	-	-	-	-
NET CAPITAL EMPLOYED	11746	14796	11066	13312	14501	17088	19177	21023	23193	23945
APPLICATION										
GROSS FIXED ASSETS	8813	9052	10124	11859	13862	15360	17768	19551	23345	25463
DEPRECIATION	5262	5699	5992	6711	7290	7983	8865	9843	11173	12377
NET FIXED ASSETS	3551	3353	4132	5148	6572	7377	8903	9708	12172	13086
NET CURRENT ASSETS (INCL. INVESTMENTS & MISC. EXP.)	8195	11443	6934	8164	7929	9711	10274	11315	11021	10859
NET ASSETS EMPLOYED	11746	14796	11066	13312	14501	17088	19177	21023	23193	23945

Performance Ratios 2000 - 2009

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
DIVIDEND RATE ON EQUITY CAPITAL (%)	10	25	45	55	60	125*	125	200	200	300
EARNINGS PER SHARE (Rs.)										
- BEFORE EXTRAORDINARY ITEM	9.6	17.3	23.8	24.8	18.5	35.0	46.8	35.7	37.8	40.04
- AFTER EXTRAORDINARY ITEM	9.6	17.3	23.8	24.8	18.5	35.0	27.9	35.7	37.8	40.04
RETURN ON NET CAPITAL EMPLOYED (%)										
- BEFORE EXTRAORDINARY ITEM	13.4	18.6	33.4	28.7	19.7	31.6	37.7	26.2	25.2	25.8
- AFTER EXTRAORDINARY ITEM	13.4	18.6	33.4	28.7	19.7	31.6	22.5	26.2	25.2	25.8
RETURN ON NET WORTH (%)										
- BEFORE EXTRAORDINARY ITEM	20.4	27.4	39.9	31.6	20.5	31.6	37.7	26.2	25.2	25.8
- AFTER EXTRAORDINARY ITEM	20.4	27.4	39.9	31.6	20.5	31.6	22.5	26.2	25.2	25.8
DEBT/EQUITY (%)	52.5	47.5	19.5	9.9	4.3	-	-	-	-	-
INTEREST COVER (Times)	2.3	9.4	22.5	-	-	-	-	-	-	-

^ 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.

Notes
For your use

Notes

For your use

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 Member/proxy for the registered Member of the Company.

I hereby record my presence at the SEVENTY EIGHTH ANNUAL GENERAL MEETING of the Company at Hotel Taj Krishna, Road No.1, Banjara Hills, Hyderabad - 500 034 on Thursday, 16th July, 2009 at 10.30 a.m.

Member's/Proxy's Signature

NOTE: Please fill this admission slip and hand it over at the venue 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 EIGHTH ANNUAL GENERAL MEETING of the Company to be held at 10.30 a.m. on Thursday, 16th July, 2009, or at any adjournment thereof.

Signed this _____ day _____ 2009.

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