



VST INDUSTRIES LIMITED

ANNUAL REPORT 2009-10





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BOARD OF DIRECTORS

Chairman

ABHIJIT BASU

Managing Director

RAYMOND S. NORONHA

Deputy Managing Director & Secretary

N. SAI SANKAR

Directors

PETER G. HENRIQUES (Appointed w.e.f. 15th April, 2010)

JAYAMPATHI DIVALE BANDARANAYAKE (Resigned w.e.f. 15th April, 2010)

AIR CHIEF MARSHAL IDRIS HASAN LATIF, P.V.S.M. (Retd.) (Resigned w.e.f. 16th April, 2010)

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, Punjagutta

Hyderabad - 500 034

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NOTICE OF MEETING

NOTICE IS HEREBY GIVEN THAT the Seventy Ninth Annual General Meeting of VST INDUSTRIES LIMITED will be held at Hotel Taj Krishna, Road No.1, Banjara Hills, Hyderabad - 500 034 on **Friday, 16th July, 2010 at 10.30 a.m.** for transacting the following business :

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2010, 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, 2010.
3. To appoint a director in place of Mr. Abhijit Basu, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a director in place of Mr. R.V.K.M. Suryarau, 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 (Registration Number: 301056E), 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.20,00,000 (Rupees Twenty 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. Peter G. Henriques who was appointed a Director of the Company with effect from 15th April, 2010 nominated by BAT group in place of Mr. Jayampathi Divale Bandaranayake and who vacates office at the ensuing Annual General Meeting under

Section 262 of the Companies Act, 1956 and Article 98 of the Articles of Association of the Company and in respect of whom the Company has received a notice in writing from a Member proposing his candidature for the office of the Director be and is hereby appointed as a Director of the Company whose period of office shall be liable to determination by the retirement of Directors by rotation."

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

"RESOLVED THAT in partial modification of the resolution(s) passed earlier in connection with the appointment and payment of remuneration, pursuant to the provisions of Sections 198, 309, 310 and 311 and other applicable provisions, if any, of the Companies Act, 1956 or any amendment or re-enactment thereof, consent be and is hereby accorded to the enhancement by revision in the terms of remuneration paid or payable to Mr. Raymond S. Noronha, Managing Director with effect from 1st October, 2009, as set out in the Explanatory Statement annexed to the notice convening this Meeting."

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

"RESOLVED THAT in partial modification of the resolution(s) passed earlier in connection with the appointment and payment of remuneration, pursuant to the provisions of Sections 198, 309, 310 and 311 and other applicable provisions, if any, of the Companies Act, 1956 or any amendment or re-enactment thereof, consent be and is hereby accorded to the enhancement by revision in the terms of remuneration paid or payable to Mr. N. Sai Sankar, Deputy Managing Director & Secretary of the Company with effect from 1st October, 2009, as set out in the Explanatory Statement annexed to the notice convening this Meeting."

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 in accordance with provisions of Sections 269, 309, 310, 311 and 314 read with Schedule XIII and other applicable provisions of the Companies Act, 1956, Mr. N. Sai Sankar be and is hereby re-appointed as Deputy Managing Director to hold the office of Deputy Managing Director & Secretary of the Company for a period of five years from 1st January, 2011 to 31st December, 2015 (both days inclusive), on the following remuneration:

- I. **Consolidated Salary:** At the rate of Rs.6,90,600 per month subject to such increases as the Board may determine from time to time during the tenure of office as Deputy Managing Director having regard to the annual performance of Mr. N. Sai Sankar and to cover the Consumer Price Index.
- II. **Performance Bonus:** Payable annually for each financial year ending 31st March, 2011 and thereafter, not exceeding 150% of the Consolidated Salary per annum after approval of the accounts as may be determined by the Board of Directors of the Company.

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

- a. Rent free furnished accommodation owned/leased/rented by the Company or housing allowance in lieu thereof, as per the Rules of the Company.

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

The aggregate of the remuneration and perquisites/benefits, including contribution towards Provident Fund, Superannuation Fund and Gratuity Fund, payable to Mr. N. Sai Sankar as such shall always be subject to the overall ceilings laid down in Sections 198 and 309 of the Companies Act, 1956 or any amendment or re-enactment thereof.

Minimum Remuneration: Notwithstanding anything to the contrary contained herein, where, in any financial year during the currency of the tenure of Mr. N. Sai Sankar as Deputy Managing Director and Secretary, the Company has no profits or its profits are inadequate, the Company will pay salary and perquisites to Mr. N. Sai Sankar upto the maximum limit specified under Section II of Part II of Schedule XIII to the Companies Act, 1956 as Minimum Remuneration.

Mr. N. Sai Sankar shall continue to hold office as Secretary in addition to the office of Deputy Managing Director without any additional remuneration other than what he is entitled to as a Deputy Managing Director on the aforesaid basis.



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 with Mr. N. Sai Sankar in connection with his re-appointment as the Deputy Managing Director and payment of aforesaid remuneration to him during his tenure of office as such."

The Register of Members of the Company will remain closed from 14th July, 2010 to 16th July, 2010 (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, Punjagutta, Hyderabad - 500 034, before the close of business on 13th July, 2010, 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, 2010 to those Members whose names appear in the Register of Members of the Company on 16th July, 2010 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, 2010, 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 15th day of April, 2010.
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 received at the Registered Office of the Company, duly completed and signed not less than forty-eight hours before the commencement of the Annual General Meeting i.e., by 10.30 a.m. on 14th July, 2010.**
2. In accordance with Section 173(2) of the Companies Act, 1956, an Explanatory Statement in respect of items 6 to 9 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, mandate/bank details before 14th July, 2010.
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 venue of the Meeting will be regulated by Attendance Slip, which is attached to the Annual Report. Members are requested to sign at the space provided on the Attendance 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 Ninth Annual General Meeting of the Company to be held at Hotel Taj Krishna, Road No. 1, Banjara Hills, Hyderabad - 500 034 on **Friday, 16th July, 2010.**

Item No. 6

Mr. Peter Garneau Henriques who was appointed as a Director of the Company on 15th April, 2010 to fill the casual vacancy caused by the resignation of Mr. Jayampathi Divale Bandaranayake in terms of Section 262 of the 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. Henriques as a Director at this Meeting having filed his consent with the Company to act as Director.

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

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

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

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



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

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

The Board commends this Resolution for your approval.

Item No. 7

The Board of Directors of your Company ('the Board') at its meeting held on 15th April, 2010, on the recommendation of the Committee of Directors, approved, subject to the approval of the Members, the following modification with effect from 1st October, 2009 until the expiry of their current term of office, in the terms of remuneration paid or payable to the following managerial personnel of your Company:

Managing Director	Consolidated Salary per month (Rs.)	Performance Bonus
Mr. Raymond S. Noronha	9,60,920	Not exceeding 150% of Consolidated Salary payable annually for each financial year after approval of accounts as may be determined by the Board of Directors of your Company

Consolidated Salary as stated above is subject to such increases as the Board may determine from time to time during the tenure of office as Managing Director having regard to the annual performance of Mr. Raymond S. Noronha and to cover the Consumer Price Index.

The Members had earlier approved the resolution for re-appointment of Mr. Raymond S. Noronha as the Managing Director of the Company, which were thereafter partially modified under separate resolutions passed on 16th July, 2009. All other existing terms of remuneration including perquisites as approved by the Members, remain unchanged.

Mr. Raymond S. Noronha is interested in this Resolution in so far as the same relates to variation in his remuneration. None of the other Directors of your Company is interested in this Resolution.

The Board commends this Resolution for your approval.

Item No. 8

The Board of Directors of your Company ('the Board') at its meeting held on 15th April, 2010, on the recommendation of the Committee of Directors, approved, subject to the approval of the Members, the following modification with effect from 1st October, 2009 until the expiry of their current term of office, in the terms of remuneration paid or payable to the following managerial personnel of your Company:

Deputy Managing Director	Consolidated Salary per month (Rs.)	Performance Bonus
Mr. N. Sai Sankar	6,00,000	Not exceeding 150% of Consolidated Salary, payable annually for each financial year after approval of accounts as may be determined by the Board of Directors of your Company

Consolidated Salary as stated above is subject to such increases as the Board may determine from time to time during the tenure of office as Deputy Managing Director having regard to the annual performance of Mr. N. Sai Sankar and to cover the Consumer Price Index.

The Members had earlier approved the resolutions for re-appointment of Mr. N. Sai Sankar as Wholetime Director on 28th July, 2005, which were thereafter partially modified under separate resolutions passed on 16th July, 2009. All other existing terms of remuneration including perquisites as approved by the Members, remain unchanged.

Mr. N. Sai Sankar is interested in this Resolution in so far as the same relates to variation in his remuneration. None of the other Directors of your Company is interested in this Resolution.

The Board commends this Resolution for your approval.

Item No. 9

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



At the Seventy Eighth Annual General Meeting of your Company held on 16th July, 2009, the Members approved the elevation and re-designation of Mr. N. Sai Sankar as Deputy Managing Director of the Company with effect from 1st February, 2009.

The Board of Directors at their meeting held on 15th April, 2010, have subject to the approval of the Members at the Seventy Ninth Annual General Meeting, re-appointed Mr. N. Sai Sankar as Deputy Managing Director to hold office as Deputy Managing Director and Secretary of the Company for a period of five years with effect from 1st January, 2011 to 31st December, 2015 (both days inclusive).

Mr. N. 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 about 29 years of experience in finance, accounting and secretarial field. Mr. N. Sai Sankar joined

the Company in 1995 and has made significant contributions during his association with the Company. 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. N. Sai Sankar is concerned or interested in this Resolution.

The Board commends this Resolution for your approval.

By Order of the Board
VST INDUSTRIES LIMITED

N. SAI SANKAR
Secretary

Dated this 15th day of April, 2010.
Azamabad, Hyderabad - 500 020,
Andhra Pradesh.



REPORT OF THE BOARD OF DIRECTORS & MANAGEMENT

DISCUSSION AND ANALYSIS FOR THE YEAR ENDED 31ST MARCH, 2010

VST Industries Limited

The Directors of your Company have pleasure in presenting their Annual Report and Accounts for the year ended 31st March, 2010.

Financial Results

	2009-10	2008-09
Revenue from Operations	112542	100474
Net Profit after Tax	6205	6182
Profit brought forward from previous year	8200	8063
Balance available for Appropriation	14405	14245
Amount transferred to General Reserves	625	625
Dividend proposed	4632	4632
Corporate Dividend Tax	770	788
Surplus carried in Profit and Loss Account	8378	8200

KEY RATIOS

Earnings Per Share (Rs.)	40.18	40.04
Dividend Per Share (Rs.)	30.00	30.00

The financial year 2009-2010 has been the best year of the decade in terms of all round growth including generation of record profits. You will also be pleased to note that it has been a decade of value creation for the shareholders as the Compounded Annual Growth Rate (CAGR) has been 8.8% in Earnings Per Share (EPS) and 40.5% in Dividends Per Share (DPS).

INDUSTRY STRUCTURE & DEVELOPMENT

The financial year 2009-2010 was a year of stability for your Company with marginal growth in its filter brands. Your Company has been able to recover substantial volumes in filter form after being subjected to steep increase in excise duties in February 2008. The industry grew marginally during the financial year ending March 2010 overcoming the negative growth registered in the previous year 2008-2009.

However, as was the scenario when Luxury Tax was in vogue, when different states to augment their resources would increase rates, the current scenario is

reminiscent of the past, this time the increase being in VAT rates across states. As many as 10 states have increased VAT rates from 1% to 7.5% during the current financial year over and above the base rate of 12.5%. The increase in VAT rates does create hindrances in the business as planning and distribution processes get affected severely, leading to profit erosion.

The Union Budget presented in February 2010, gave a further jolt as excise duties were increased by 18% for your Company. This is a steep increase and your Company had no alternative but to subject the brands to one more bout of price increases. Since the entire industry would increase prices, it would

be pertinent to state that volumes could get affected, which could impact profitability going forward.

In the financial year 2008-09, tobacco prices increased by an unprecedented 60-100%, however for the year gone by the prices increased in the 10-15% range. This increase is also higher when compared to a normal year.

Volatility in foreign exchange rates was witnessed throughout the year. Rupee ended under Rs.45 to a dollar when compared to Rs.52 per dollar as on 31st March, 2009. This has resulted in margin shrinkage besides making it challenging to manage forex transactions of your Company.

Another factor which your Company had to face was the frequent bandhs in Andhra Pradesh during the second half of the year due to the political instability witnessed in the State. Manufacturing and distribution were affected during this period albeit marginally.

Your Company in spite of all the above hurdles continued to grow with filter brands well entrenched in their respective markets. However, with the current price increases, one would have to watch for volume trends.

Industry Issues

The current year 2009-2010 was virtually a litigation free year with no major legal issue, except Public Interest Litigations which were filed by Students Association in Andhra Pradesh as well as one in Tamilnadu.

Graphic Health Warning was introduced on 31st May, 2009. As per the Rules, new warnings are expected on 31st May, 2010 as every twelve months new warnings have to be printed on the packs.



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.

Your Company's brands were relatively stable during 2009-2010. While the non-filter brands have been declining over the year, the performance of your filter brands was steady, with some brands gaining volumes.

Charms Virginia Filter and **Charms Smooth Virginia** were two brands which stood out improving their volume substantially. Your Company's more recent brand **Moments** was also able to build on its recent gains in new geographies.

Your Company's strategy of launching new brands in value-for-money segments would continue in markets which provide opportunities.

Market Scenario

During the year under review the cigarette volumes stood at 7511 mns, up by 4.5% when compared to 2008-09. The filter volumes stood at 94%. The value realizations were accordingly higher at Rs.959 crore, up from Rs.889 crore in the previous year.

Leaf Tobacco

It is a matter of satisfaction that your Company has recorded leaf export turnover of Rs.164 crore, which is 55% higher than in the year 2008-2009, 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. The volumes have now reached levels where with quality inputs the business can be improved further. Your Company completed four years of commercial operations, and expects further export growth after stabilizing of quality parameters. Establishment of markets with premium customers for Air Cured Burley in new areas apart from regular Air Cured Burley and Fire Cured tobacco exports, will ensure steady export growth in the years to come. Your Company continues to retain the premier status in Sun/Air/Fire cured tobacco exports. There is however increased incidence of freelancers getting into development areas due to spurt in demand for Sun/Air/Fire cured tobaccos.

It will be gratifying to learn that your Company's farmers continue to grow tobacco with lowest pesticide residue levels that are 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.

Your Company's Leaf Function continues to be certified by Registro Italiano Navale, Genova, Italy for SA8000.

PRODUCTION AND PLANT MODERNISATION

Primary Manufacturing Department

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

Cut Tobacco Stores box filler has been upgraded to ensure less degradation and achieve better tobacco filling.

Steam treated stem 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 modernisation plan of Secondary Manufacturing Department to improve productivity and quality, the following technology has been put in place:

- One Filter attachment unit-Max Unit has been attached to existing MK9 Plain maker 5500 cpm in KSFT format with RSFT Conversion Kit has been installed;
- One new GD packer 420 ppm with tray unloader and Coupon Unit was integrated with existing GD C600 wrapper and GD Pack B Parceller to improve productivity and quality;
- One new GD packer 360 ppm along with Coupon Unit was integrated with existing GD C600 wrapper and GD Pack B Parceller



in KSFT format productivity and quality;

- Two units of print registration system installed on GD packers one on Half Round Corner (HRC) and other on the square pack;
- Two laser units on packing machines were installed for on-line coding;
- Neo tech / seamless metallic pipes for pneumatic feeding of tobacco from the autofeeds to making machines have been done to reduce degradation of cut tobacco and also improving the filling power and density.

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 have been drawn up for key managers to shoulder higher responsibilities as well as to increase their job effectiveness.

A Voluntary Retirement Scheme was launched during the year and 108 workmen have opted for it. The Long Term Agreement which has become due from 1st August, 2009 is under negotiation.

As on 31st March, 2010, your Company had a strength of 967 employees, with 298 management staff and 669 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 been maintaining safety performance for the last 364 days without any accidents.

Gold Award for the year 2009 was given to your Company by Royal Society for Prevention of Accidents (RoSPA), U.K. for maintaining highest standards in Occupational, Health and Safety.

Accident Free Award was awarded to your Company from British American Tobacco on 5th April, 2009 for One Year Accident Free from 14th February, 2008 to 21st March, 2009.

Environment, Health and Safety (EHS) in day-to-day business operations is given very high priority by your Company. 324 employees and 51 contractors have undergone EHS and fire fighting training programme. Mock fire drills were also conducted for workers and management during the period to comply with the Company EHS guidelines. Involvement by workmen in quarterly EHS reviews along with staff members and periodical inspections have kept the performance monitoring on vigil. Quarterly and annual EHS audits of Company operations including leaf godowns was carried out to ensure compliance of EHS requirements and to measure the EHS progress. EHS Road Map rating for your Company was assessed at 3.54 against the scale of 4.0 for the year 2009-2010.

Your Company celebrated National Safety Day on 4th March, 2010 by conducting safety meetings inside factory and all contractors attended safety programme conducted by National Safety Council.

Surveillance Reviews of ISO 14001: 2004 & OHSAS 18001: 2007 for the year 2009 by Registro Italiano Navale India (RINA) revalidated your Company's certifications.

On the environmental side, as a responsible corporate your Company continues to put in sustained efforts in the upkeep and improvement of existing systems like scrubber, DRF systems, rain water harvesting pits, ETP with soil bio-technology and also in energy conservation installation of solar water heating panels for boiler feed water and for workers canteen boiler.

All statutory compliances are in place.

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

FINANCE

a. Profits

The Profit after Tax for the year at Rs.62.05 crore is the highest ever recorded by your Company in its history.

The continuous increase in taxation as well as cost of leaf tobacco has dented the margins over the last two years and it has been a challenging task to balance healthy cash flows with profitability growth.

Your Company's focus of growing volumes continued during the year with moderate success as industry growth was tepid.

Your Company's focus on working



capital management and control has resulted in improvement of profitability. When compared to previous year, your Company's profits improved both in cigarettes and leaf tobacco operations.

b. Treasury Operations

Your Company continues to follow a conservative approach in deploying its temporary surplus funds. Unlike earlier years when fixed maturity plans (debt schemes) of reputed mutual fund houses were available offering attractive returns, these have become unattractive in view of the change in regulation. As a result, deployment of surplus funds is now being put in liquid schemes which offer minimal returns. A small portion which was deployed in earlier year in equity schemes of mutual funds is continued to be held.

The basic principles being adopted are Safety, Liquidity and Returns.

ENTERPRISE RESOURCE PLANNING (ERP)

Your Company was able to successfully manage the entire ERP system by developing an in-house team. All routine business issues as well as improvements in existing systems have been undertaken by the team. This team interacts with managers of the operating teams and works continuously to help improve the overall business processes. Your Company has also developed adequate skills to manage issues arising out of facilities management and networking which are the other limbs of the IT infrastructure.

FIXED DEPOSITS

Your Company has stopped accepting fresh deposits for several years now.

As on 31st March, 2010, your Company does not have any deposits for the purpose of its business. Unclaimed deposits amounting to Rs.8,000 is outstanding.

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 Members 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, 2003 remaining unpaid would be deposited by 28th August, 2010 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 Statutory 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.

The Ministry of Corporate Affairs has

released draft guidelines for voluntary compliance covering various aspects. Your Company has already implemented most of the items and plans to implement the balance provisions.

INTERNAL CONTROL SYSTEMS

Your Company remains committed to improve effectiveness of internal control systems and processes which would help in increasing the efficiency of operations and provide security of its assets.

The internal audit process in your Company 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 which identifies potential high risk areas and suggests steps to mitigate these risks. These are reviewed 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 which were dealt with by the Committee. The Statutory Auditors/Internal Auditors were invited to attend all the Audit Committee meetings and make presentations covering their observation on adequacy of internal controls and the steps required to bridge gaps, if any.

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

Internal control guidelines covering the entire business process have been put in place and are 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 which have been identified. A comprehensive note covering various aspects is reported to the Board every quarter.

DIRECTORS

Directors retiring by rotation

In accordance with Article 93 of the Articles of Association of your Company, Mr. Abhijit Basu and Mr. R.V.K.M. Suryarau retire from the Board and being eligible, offer themselves, for re-election. Your Board recommends their re-appointment.

a. Mr. Abhijit Basu

Mr. Abhijit Basu was re-appointed at the Annual General Meeting held on 18th July, 2007. He is now due to retire by rotation at the forthcoming Annual General Meeting and being eligible, offers himself for re-appointment.

b. Mr. R.V.K.M. Suryarau

Mr. R.V.K.M. Suryarau was re-appointed at the Annual General Meeting held on 18th July, 2007. He is now due to retire by rotation at the forthcoming Annual General Meeting and being eligible, offers himself for re-appointment.

Directors' Resignation / Appointment / Re-appointment

a. Mr. Peter G. Henriques

Mr. Peter G. Henriques is

nominated by British American Tobacco as a Director of your Company with effect from 15th April, 2010 in place of Mr. Jayampathi Divale Bandaranayake who had tendered his resignation. He holds office upto the date of the forthcoming Annual General Meeting. A notice has been received from a Member pursuant to Section 257 of the Companies Act, 1956 intimating the intention to propose a resolution for the appointment of Mr. Henriques as a Director of your Company.

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

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

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

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

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

The Board of Directors place on record their deep appreciation of the contribution made to your Company by Mr. Jayampathi Divale Bandaranayake.

b. Mr. N. Sai Sankar

At the Annual General Meeting held on 16th July, 2009, the Members approved the elevation of Mr. N. Sai Sankar as Deputy Managing Director of the Company with effect from 1st February, 2009. The term of office of Mr. N. Sai Sankar as Deputy Managing Director of your Company expires on 31st December, 2010.

The Board of Directors at their meeting held on 15th April, 2010 extended the term of office of Mr. N. Sai Sankar, Deputy Managing Director and Secretary of your Company by a further period of five years from 1st January, 2011 to 31st December, 2015 (both days inclusive).

Separate resolutions for the appointment of Mr. Peter G. Henriques



and re-appointment of Mr. N. Sai Sankar are being proposed for your approval.

DIRECTORS' RESPONSIBILITY STATEMENT

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

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

TAXATION

i. Income Tax

It may be recalled that your Company had diversified into Financial Services Business and Foods Business in the early nineties. Subsequently in the year 1998-99, your Company incurred a total loss of Rs.38.67 crore in the financial services business 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 file an appeal in the matter before the Hon'ble High Court of Andhra Pradesh, which is still pending.

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, the 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 Hon'ble 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 Hon'ble 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 judgement of the Hon'ble Supreme Court. The contempt case against the Managing Director of your Company was dismissed by the Hon'ble Supreme Court. As far as the case on the Company is concerned, there have been no further developments during the year.

iii. Entry Tax

As mentioned in last year's Report, several High Courts in the country including those of Andhra Pradesh, Kerala, Tamilnadu and Assam



have struck down the 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. Most of the appeals filed by the various states, and individual companies have been clubbed together. The Hon'ble 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 which are still pending adjudication.

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 Hon'ble Supreme Court.

In the meantime, the Hon'ble 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 Hon'ble 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 Hon'ble Supreme Court dated 19th September, 2005. The two contract manufacturers had filed Writ Petitions challenging the said demands in the Hon'ble 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 Hon'ble Supreme Court. By its Order dated 15th April, 2009 the Hon'ble Supreme Court has requested the Hon'ble High Court to dispose off

the Writ Petitions within a period of two months from the date of communication of the Order without giving unnecessary adjournments. The matter is pending in the Hon'ble Guwahati High Court.

iii. Misclassification of plain cigarettes

As mentioned in last year's Report, the Excise Department 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. Based on the representations made by your Company, an Order dated 7th September, 2009 was passed by the Commissioner of Central Excise whereby all further proceedings were dropped relying on the judgement dated 3rd September, 2008 of the Hon'ble Supreme Court which held that similar cigarettes made by another manufacturer are classifiable as plain cigarettes.

iv. Tobacco Refuse

Your Company has received show cause notices demanding recovery of duty on cut tobacco used in the manufacture of tobacco refuse



together with interest and penalty from January 2005 to 30th November, 2009 which are in various stages of adjudication. The total amount involved is approximately Rs.5.5 crore.

SERVICE TAX

Your Company has received show cause notices from the Excise Department seeking to deny CENVAT credit availed on service tax paid by various service providers on the ground that the same are not in relation to the manufacture of final products and they are pending adjudication at various levels. Total amount involved is approximately Rs.1.5 crore with equivalent penalty and interest thereon.

PUBLIC INTEREST LITIGATION (PIL)

- i. As mentioned in last year's Report, a PIL was filed in the Hon'ble Supreme Court by M/s. Narinder Sarma and Himanshu Sarma, Advocates, against various cigarette, 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. The Hon'ble Supreme Court by its judgement dated 21st July, 2009 dismissed the same on the ground that it is a 'fancy litigation.'
- ii. Another PIL filed in the Hon'ble Supreme Court by an NGO 'Health for Millions' seeking similar reliefs, including immediate implementation of COTPA, is still pending.

iii. A PIL has been filed by Mr. A. Sherfuddin in the Hon'ble Madras High Court against the Health Ministry and tobacco companies (including your Company) seeking various reliefs including printing of ingredients contained in cigarettes on packets and their ill effects so as to inform the public of the dangers of smoking, removal of all hoardings and other visible representations of the brands which is still pending.

iv. A PIL has been filed in the Hon'ble High Court of Andhra Pradesh by the Old Students' Association, PG College, Secunderabad against the Central Government and the tobacco companies (including your Company) seeking introduction of stronger pictorial warnings on both sides of the packets. Your Company has entered appearance in the Court.

FINANCIAL SERVICES BUSINESS

As mentioned in last year's Report the Company Petition filed by the Official Liquidator in the Hon'ble High Court of Andhra Pradesh seeking directions to some of the Ex-Directors of ITC Agro Tech Finance and Investments Limited (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 High Court of Andhra Pradesh had directed the Regional Director, Department of Corporate Affairs, Chennai to conduct an investigation and submit a report showing the persons who promoted ITCATF and the persons who were responsible in conducting its affairs until its winding up. A comprehensive report dated 19th May, 2008 was prepared and filed in the

Hon'ble High Court of Andhra Pradesh by the Regional Director in July 2008. All the matters are still pending final adjudication.

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

- i. Some of the provisions of COTPA 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 in-store advertising, prohibition of sale of cigarettes to persons below the age of 18 years.
- 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 (COTPR) 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 COTPR 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 Hon'ble Supreme Court seeking to transfer 31 pending Writ Petitions from various High Courts to the Hon'ble Supreme Court. On 18th November, 2008 all the Transfer Petitions were allowed and the Writ Petitions have thus been moved to the Hon'ble Supreme Court, for final adjudication.
- iv. Your Company had also filed a Writ Petition in the Hon'ble High Court of Andhra Pradesh challenging COTPR 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 Hon'ble Court.
- v. A ban on smoking in public places as envisaged under COTPA, 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 Hon'ble Delhi High Court and transferred to the Hon'ble Supreme Court, which came up for admission on 29th September, 2008. While the Hon'ble 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 of your Company.

AUDITORS

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

THE FUTURE

The steep increase of 18% in excise duties imposed by the Union Budget in February 2010 will definitely impact

your Company's volumes and its profitability.

The focus of your Company will continue to remain on cigarettes and tobacco. The strategy of offering "value for money" brands in both existing and new geographies which provide opportunities will continue.

The challenge to combat increased bout of taxation across various states would continue as would be the challenge when comprehensive Goods and Services Tax (GST) is introduced effective 1st April, 2011 as per current indication, since GST would lead to change in the operations structure.

Effective 1st June, 2010, new pictorial warnings would have to be displayed on the packs. Your Company along with the industry has sought additional time for implementation as fresh changes have been proposed only in March 2010 leaving the industry with limited time for changeovers.

Leaf tobacco exports which have grown into a sizeable business, would get focus and your Company's effort of expanding customer and geographical base will continue.

On behalf of the Board,

A. BASU
Chairman

Dated this 15th day of April, 2010.
Azamabad, Hyderabad - 500 020,
Andhra Pradesh.



ANNEXURE TO THE DIRECTORS' REPORT

Information under Section 217 (1) (e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, and forming part of the Directors' Report for the year ended 31st March, 2010.

A. CONSERVATION OF ENERGY

1. Energy conservation measures taken:
 - i. Variable frequency drive for dust removal fan (DRF)
 - ii. Installed and commissioned a 903 CFM screw compressor
 - iii. Reduced the generating pressure of the compressors from 5.8 Kg/Cm² to optimum level of 5.6 Kg/Cm²
 - iv. Solar water heating for canteen
 - v. Improved productivity: Balancing the making & packing capacity
 - vi. Awareness programme among employees towards energy conservation
 - vii. LED lighting
 - viii. Natural light in tobacco storage area
 - ix. Variable frequency drives (VFDs) for GD vacuum pump
2. Additional investments and proposals, if any, being implemented for reduction of consumption of energy:
 - i. LED lighting
 - ii. Natural light in PMD & canteen

- iii. Energy efficient fans for SMD DRF
- iv. VFDs for filter packing machines
- v. Awareness program among employees towards energy conservation
- vi. Audit by external party carried out for the assessment and further improvement
- vii. Effective monitoring of the energy consumption area wise

3. Impact of the measures at (1) and (2) 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 electrical energy consumption/m by 5%

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. Conducted Product Space Mapping (PSM) for RSFT & KSFT brands, utilized findings in development of new blends
- v. Introduced new technology at SMD to improve finished product quality consistency
- vi. Revamped quality management systems on shop floor
- vii. Introduced product traceability mechanism to trace back the product from market to machine
- viii. Tracked Retail Quality Index (RQI) and machine on line data and carried out quality based maintenance
- ix. Trained 544 workmen and gave inputs with respect to technical skills development and product quality awareness, evaluation and improvement

2. Benefits derived as a result of the above R&D:

- i. Launched new brands/variants in domestic market in KSFT & RSFT segments
- ii. Met export requirements from time to time
- iii. Improved product quality indices from 87.6 to 88.0
- iv. Revalidated ISO 17025 certification to R&D laboratory 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. Conduct PSM for KSFT & RSFT segments of brands and use findings for product development
- iii. Track RQI data and improve on quality parameters
- iv. To give further technical inputs to technical staff and workmen to improve product quality, utilization of tobacco and non tobacco materials

4. Expenditure on R&D Rs.Lakhs

a. Capital	12
b. Recurring	332
TOTAL	344
c. Total R&D expenditure as a percentage of:	
Gross Turnover	0.30%
Net Turnover	0.70%

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
- iii. Improved leaf growing technology for quality/farm yield improvement and minimizing TSNA levels. Creating awareness to minimize/eliminate NTRM (Non-tobacco related material)
- iv. To increase the exports further, tie up with merchant companies, production of low pesticide residue
- v. Upgradation of processing & manufacturing technology

2. Initiatives taken to increase exports and development of new export markets for products & services and export plans:

- i. Selection of tobacco, smoke analysis, on-line testing of cigarettes produced
- ii. Modernisation of process and technology to upgrade quality

3. Total Foreign Exchange:

Used:	Rs.Lakhs
Raw Materials :	450.4
Spare Parts :	108.3
Capital Goods :	2015.9
Overseas Travel, Advertisement & Subscriptions, etc. :	226.1
Dividends :	1489.8
	4290.5
Earned:	Rs.Lakhs
Cigarettes (CIF, C&F & FOB) :	8.9
Tobacco (CIF, C&F & FOB) :	15234.2
Cut Tobacco (CIF, C&F & FOB) :	338.8
	15581.9

On behalf of the Board,

A. BASU
ChairmanDated this 15th day of April, 2010.
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, 2010**

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	37	B.Com., M.B.A.	Vice President - Brands	12-03-2001	12	46,81,042	NFO Singapore
Dinesh Tandon	43	M.Sc., P.G.D.BM.	Zonal Manager - Marketing	01-02-2005	17	28,13,818	Balsara Home Products
Kalyan Basu	40	M.Sc., P.G.D.BM.	Zonal Manager - Marketing	15-09-2006	18	25,72,513	Hindustan Coca Cola
Dr. Lakshmi Narasaiah T.	44	M.Sc.(Ag.) Ph.D.	General Manager - Leaf	01-02-1994	16	28,55,377	-
Madhava Reddy Y.	57	B.Sc.(Ag.)	Vice President - Leaf	15-09-1976	33	62,72,817	-
Ramadhar Reddy B.	53	B.Com., M.B.A., Diploma in Labour Law	Vice President - HR	13-11-2000	30	45,78,709	Ballarpur Industries Ltd.
Raymond S. Noronha	59	B.A.(Hons.)	Managing Director	01-11-1998	36	3,26,98,154	British American Tobacco Co., Mauritius
Rohit Sahni	48	B.Sc.	Zonal Manager - Marketing	01-03-2006	22	29,15,915	Manager, Modern Trade-Dabur India Ltd.
Sai Sankar N.	52	B.Com.(Hons.), FCA, FICWA, FCS	Deputy Managing Director & Secretary	17-03-1995	29	1,93,06,736	Finance Manager, Palmtech India Ltd.
Sanjay Khanna	54	B.A., LL.B.	Corporate General Counsel	15-03-1983	29	30,75,464	Advocate in the office of Mr. K. Srinivasamurthy
Dr. Subba Rao M.	59	M.Sc., Ph.D.	Vice President - Technical	06-11-1984	33	68,95,485	Scientific Officer - Bhabha Atomic Research Centre, Mumbai.

Employed for part of the financial year

NIL

NOTES:

1. All appointments are 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 15th day of April, 2010.
Azamabad, Hyderabad - 500 020,
Andhra Pradesh.

A. BASU
Chairman



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, 2010, as stipulated in Clause 49 of the Listing Agreement of the said Company with stock exchanges in India.

The compliance of conditions of Corporate Governance is the responsibility of the Company's management. Our examination was carried out in accordance with the "Guidance Note on Certification of Corporate Governance (as stipulated in Clause 49 of the Listing Agreement)", issued by the Institute of Chartered Accountants of India and was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

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

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

For LOVELOCK & LEWES

Firm's Registration Number: 301056E

Chartered Accountants

N. K. VARADARAJAN

Partner

Membership No. 90196

Hyderabad, 15th April, 2010.



REPORT ON CORPORATE GOVERNANCE

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

1. COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE

Your Company is committed to the adoption of the best corporate governance practices and its adherence in the true spirit, at all times. Your Company also endeavours to ensure higher degree of transparency in its dealings and lays emphasis on accountability, integrity, regulatory compliance, improvement in quality of life and meeting social responsibility. Your Company believes that good corporate governance practices enable the management to direct and control the affairs of the Company in an efficient manner and to achieve its ultimate goal of maximising value for all its stakeholders.

2. I. Board of Directors

(A) Composition of Board

The Board of Directors of your Company has an optimum combination of Executive and Non-Executive Directors. As on 31st March, 2010, your Company's Board has nine Directors, out of whom seven Directors are Non-Executive Directors including the Chairman and the remaining two are Executive Directors.

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

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

Name of the Director	Position	Relationship with other Directors	No. of outside directorships held	No. of memberships/chairmanships of board committees of other companies
Mr. A. Basu	Chairman - Independent Non-Executive Director	None	–	Nil
Mr. Raymond S. Noronha	Managing Director	None	1	Nil
Mr. J.D. Bandaranayake ¹	Non-Executive Director	None	8	Nil
Air Chief Marshal I.H. Latif, P.V.S.M. (Retd.)	Independent Non-Executive Director	None	–	Nil
Mr. T. Lakshmanan	Independent Non-Executive Director	None	–	Nil
Mr. R.V.K.M. Suryarau	Independent Non-Executive Director	None	–	Nil
Mr. N. Sai Sankar	Deputy Managing Director & Secretary	None	1	Nil
Mr. S. Thirumalai	Independent Non-Executive Director	None	–	Nil
Mr. Milind Anna Kharat ²	Independent Non-Executive Director	None	–	Nil

¹ Representing equity interest of promoter group - British American Tobacco, U.K.

² Representing equity interest of General Insurers' (Public Sector) Association of India



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

(B) Non-Executive Directors' compensation and disclosures

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

(C) Other provisions as to Board and Committees

- i. During the financial year ended 31st March, 2010, four meetings of the Board were held on 23rd April, 2009, 16th July, 2009, 16th October, 2009 and 13th January, 2010.

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

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

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

- Annual operating plans and budgets, capital budgets and any updates;
- Quarterly, half yearly and annual results of the Company;
- Minutes of meeting of Audit Committee and other committees;
- Information on recruitment and remuneration of senior officers just below the Board level;
- Contracts in which Directors are interested;
- Materially important show cause, demand, prosecution and penalty notices;
- Fatal or serious accidents, dangerous occurrences, any material effluent or pollution problems;
- Any materially relevant default in financial obligations to and by the Company or substantial non-payment for goods sold by the Company;
- Issue which involves possible public or product liability claims of a substantial nature;
- Any judgement or order which may have passed strictures on the conduct of the Company or taken an adverse view regarding another enterprise that can have negative implications on the Company;



- Significant development on the human resources and industrial relations front;
- Quarterly details of foreign exchange exposure and the steps taken by the management to limit the risks of adverse exchange rate movement;
- Non-compliance of any regulatory, statutory or listing requirements as well as shareholders services such as non-payment of dividend and delays in share transfer, if any; and
- Minutes of meetings of subsidiary company.

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

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

(D) Code of Conduct

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

II. Audit Committee

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

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

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

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

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

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

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



(C) Powers of Audit Committee

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

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

(D) Role of Audit Committee

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

- overseeing the Company's financial reporting process and disclosure of financial information to ensure that the financial statement is correct, sufficient and credible;
- recommending the appointment and removal of external auditor, fixation of audit fee and approval for payment for any other services;
- reviewing and discussing with the statutory auditor and the internal auditor about internal control systems;
- discussing with internal auditors any significant finding and follow-up thereon;
- reviewing major accounting policies and adoption of applicable accounting standards;
- reviewing, if necessary, the findings of any internal investigation by the internal auditors and reporting such matters to the Board;
- reviewing of compliance with listing agreement and various other legal requirements with respect to the financial statements and related party transactions;
- reviewing the quarterly, half yearly and annual financial statements before they are submitted to the Board of Directors for approval;
- reviewing significant financial reporting judgements contained in financial statements;
- reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems;
- monitoring and reviewing the effectiveness/adequacy of internal audit function;
- reviewing the Company's financial and risk management policies; and
- examining reasons for substantial default in the payment to depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors, if any.

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

(E) Review of information by Audit Committee

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

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



Relying on the review and discussions conducted with the management and the independent auditors, the Audit Committee believes that the Company's financial statements are fairly presented in conformity with generally accepted accounting principles in all material aspects. The Committee also reviewed the statement of related party transactions, submitted by the management and the same is disclosed in the financial statements for the year ended 31st March, 2010.

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

The financial statements prepared as per the generally accepted accounting principles in India, of the Company and its subsidiary for the financial year ended 31st March, 2010 be accepted by the Board as a true and fair statement of financial status of the Company.

The Committee has recommended to the Board the re-appointment of Lovelock & Lewes, Chartered Accountants, as the statutory auditors of the Company and the fees payable for the financial year ending 31st March, 2011. The necessary resolution for appointing them as auditors is placed before the Members of the Company.

The Committee also reviewed the appointment of Ernst & Young Private Limited as systems auditors to review various operations of the Company and determined and approved the fees payable to them for the financial year ending 31st March, 2011.

III. Subsidiary Company

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

IV. Disclosures

(A) Basis of related party transactions

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

The details of transactions with related parties were placed before the audit committee and the committee has reviewed the same for the year ended 31st March, 2010.

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

(B) Disclosure of Accounting Treatment

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

(C) Board Disclosures

i. Risk Management

Your Company has a comprehensive risk management policy.

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

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



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

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

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

ii. Internal Control Systems

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

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

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

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

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

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

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

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

(E) Remuneration of Directors

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


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

Rupees

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

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

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

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

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

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

Criteria for making payments to Non-Executive Directors

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

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

Rupees

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



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

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

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

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

Mr. A. Basu	900 equity shares of Rs.10 each
Mr. S. Thirumalai	25 equity shares of Rs.10 each

There are no convertible instruments issued by the Company and hence none held by the Non-Executive Directors during the year ended 31st March, 2010.

(F) Management

- The Management Discussion and Analysis is part of Directors' Report to the Members is provided elsewhere in the Annual Report
- For the year ended 31st March, 2010 your Company's Board has obtained declarations from the senior management relating to any material, financial and commercial transactions where they have personal interest that may have a potential conflict with the interests of the Company at large.

(G) Shareholders Information

- Details of Directors seeking re-election/appointment/re-appointment:

Mr. A. Basu

Mr. Abhijit Basu was appointed a Director on the Board of your Company with effect from 19th June, 1989. He was appointed under the provisions of Section 257 of the Companies Act, 1956 at the Annual General Meeting held on 20th July, 1990 and was last retired and re-appointed at the Annual General Meeting held on 18th July, 2007. Mr. Basu is now due to retire by rotation at the forthcoming Annual General Meeting and being eligible, offers himself for re-appointment.

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

Mr. R.V.K.M. Suryarau

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

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



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

Mr. N. Sai Sankar

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

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

Mr. Peter G Henriques

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

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

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

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

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

- ii. The quarterly results are sent to the stock exchanges on which the Company is listed so as to display the same on its own website. During the year, there were no presentations made by the Company to analysts. The Company has been having conference calls on financial results with investors/analysts.

iii. Shareholders Grievance Committee

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


Composition, name of Members and Chairman

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

Name and designation of Compliance Officer

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

Phone: +91 40 2761 0478

E-mail: saisankar@vstind.com

Meetings and attendance during the year

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

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

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

Nature of Complaints/queries	Received	Attended to
Non-receipt of share certificates - transfers	2	2
Transmission of shares	74	74
Non-receipt of dividend warrants	96	96
Non-receipt of Annual Report	6	6
Letters from stock exchanges/SEBI	2	2

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

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

v. CEO/CFO certification

The CEO/CFO certification for the year ended 31st March, 2010 has been enclosed at the end of this report. Similarly, the CEO/CFO also give quarterly certification on financial results while placing the quarterly financial results before the Board in terms of Clause 41 of the Listing Agreement entered into with the stock exchanges.

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

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

3. GENERAL BODY MEETINGS

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

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

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

Annual General Meeting held on 16th July, 2009

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

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

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

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

4. MEANS OF COMMUNICATION

- The quarterly, half yearly and annual results are published in Business Standard and in a vernacular newspaper i.e., Andhra Prabha. The results are also posted on the Company's website viz., www.vsthyd.com. 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***

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

Financial Calendar - 2010-2011 (Tentative)

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



Dates of Book Closure

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

Dividend Payment Date

Within 30 days from 16th July, 2010

Listing on Stock Exchanges with Stock Code

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

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

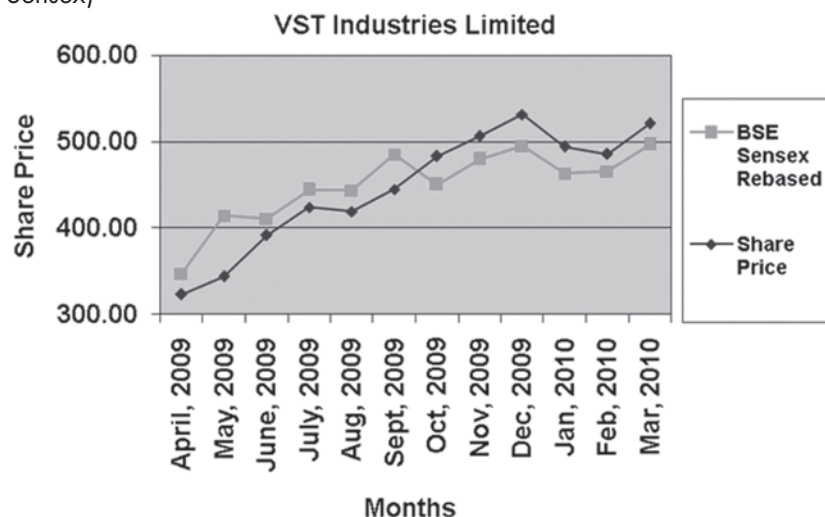
Market Price Data: High/Low during each month in the last financial year (2009-2010)

Rupees

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

Performance in comparison with BSE Sensex

(based on closing price/Sensex)





CONTACT INFORMATION

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

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

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

Registrar and Transfer Agents

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

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

Share Transfer System

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

Requests for dematerialisation of shares are processed and confirmation is given to the respective depositories i.e., National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) within 3 working days from the date of receipt of request. There are no pending share transfers as at 31st March, 2010.

Secretarial Audit

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

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

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

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

Distribution of shareholding as on 31st March, 2010

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

Dematerialisation of shares and liquidity

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

As at 31st March, 2010, 95,36,675 Equity Shares of the Company constituting 61.76% of Issued and Subscribed Capital, were held in depository mode. The processing activities with respect to the requests received for dematerialisation are generally completed within one working day. Under the depository system, the International Securities Identification Number (ISIN) allotted to the Company's shares is INE710A01016. The annual custodial fees for the financial year 2010-2011 has been paid to NSDL and CDSL, the depositories.

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



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

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

Plant Location

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

6. AUDITORS' CERTIFICATE ON CORPORATE GOVERNANCE

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

7. CORPORATE GOVERNANCE - VOLUNTARY GUIDELINES 2009

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



SHAREHOLDER REFERENCER

Pursuant to Section 205A(5) of the Companies Act, 1956, unclaimed dividends upto and including for the financial year 1994-1995 have been transferred to the General Revenue Account of the Central Government. Members who have not encashed their dividend warrant(s) relating to financial year(s) upto and including the financial year 1994-1995 are requested to claim the amounts from the Registrar of Companies, Andhra Pradesh, 2nd Floor, Kendriya Sadan, No. 3-5-998, Sultan Bazar, Hyderabad - 500 095 in the prescribed form, which can be furnished by the Company's Registrar on request. However, no claim shall lie either with the Company or Investor Education and Protection Fund (IEPF), in terms of Section 205C of Companies Act, 1956, in respect of the unclaimed dividend transferred to IEPF for the financial year 1995-1996 and thereafter. The dividend for the financial year 2001-2002 viz., Dividend No. 167 has been transferred to Investor Education and Protection Fund Account on 28th August, 2009.

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

Financial Year	Dividend No.	Date of Declaration	Amount of Dividend Rs.	Amount of Unpaid Dividend as on 31.03.2010 Rs.	Due for transfer to IEPF on
2002-2003	168	24.07.2003	8,49,30,560.00	12,38,219.00	28.08.2010
2003-2004	169	22.07.2004	9,26,51,520.00	13,84,458.00	26.08.2011
2004-2005	170	28.07.2005	19,30,24,000.00	25,39,333.00	30.08.2012
2005-2006	171	27.07.2006	19,30,24,000.00	28,93,764.00	31.08.2013
2006-2007	172	18.07.2007	30,88,38,400.00	41,94,960.00	23.08.2014
2007-2008	173	17.07.2008	30,88,38,400.00	41,38,060.00	22.08.2015
2008-2009	174	16.07.2009	46,32,57,600.00	65,33,472.61	21.08.2016

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

BANK DETAILS

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

- any change in their address/mandate/bank details; and
- particulars of their bank account - name of the bank, branch with complete address and account number which will be printed on the dividend warrants to prevent fraudulent encashment.

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

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



NATIONAL ELECTRONIC CLEARING SERVICE (NECS) FACILITY

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

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

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

DEPOSITORY SERVICES

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

National Securities Depository Limited

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

Central Depository Services (India) Limited

Phiroze Jeejeebhoy Towers
16th Floor, Dalal Street,
Mumbai - 400 001
Phone : +91 22 2272 3333 / 2272 3224
Fax : +91 22 2272 3199 / 2272 2072
e-mail : investors@cdslindia.com
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 Members which is mainly useful for Members holding the shares in single name. In cases where the shares are held in joint names, the nomination will be effective only in the event of the death of all the holders. Members are advised to avail of this facility by submitting the nomination in Form 2B which could be obtained from Registrars - Sathguru Management Consultants Private Limited at the address mentioned above.

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



Declaration on Code of Conduct

As provided under Clause 49 of the Listing Agreement with the stock exchanges, the Board Members and the senior management personnel have affirmed compliance with the Code of Conduct for the year ended 31st March, 2010.

For VST INDUSTRIES LIMITED

Hyderabad, 15th April, 2010

RAYMOND S. NORONHA
Managing Director

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

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

1. We have reviewed the Balance Sheet and Profit and Loss Account and all its schedules and notes on accounts as well as the Cash Flow Statements for the year ended 31st March, 2010.
2. To the best of our knowledge and belief,
 - i. these statements do not contain any untrue statement or omit any material fact or contain statements that might be misleading;
 - ii. the financial statements and other financial information included in this report present a true and fair view of the Company's affairs and are in compliance with existing accounting standards and applicable laws and regulations.
3. To the best of our knowledge and belief, there are no transactions entered into by the Company during the year which are fraudulent, illegal or violative of the Company's code of conduct.
4. We accept responsibility for establishing and maintaining internal controls for financial reporting. We have evaluated the effectiveness of internal

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

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

RAYMOND S. NORONHA
Managing Director

N. SAI SANKAR
Deputy Managing Director & Secretary

Hyderabad, 15th April, 2010



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, 2010, 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 (together the "Order") 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 Order.
 - (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, 2010, and taken on record by the Board of Directors, none of the Directors is disqualified as on 31st March, 2010, 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, 2010;
 - 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.
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, 2010, and taken on record by the Board of Directors, none of the Directors is disqualified as on 31st March, 2010, 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, 2010;
 - ii. in the case of the Profit and Loss Account, of the profit for the year ended on that date; and
 - iii. in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

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

N. K. VARADARAJAN
Partner

Hyderabad, 15th April, 2010. Membership No. 90196



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, 2010.]

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. 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. 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, employees' state insurance, 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	159.69	April 2002 to October 2009	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, 2010, and it has not incurred any cash losses in the financial year ended on that date or in the immediately preceding financial year.
11. According to the records of the company examined by us and the information and explanation given to us, the Company has not defaulted in repayment of dues to any financial institution or bank. The Company has not issued any debentures during the year.
12. The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
13. The provisions of any special statute applicable to chit fund/nidhi/mutual benefit fund/societies are not applicable to the Company.
14. In our opinion, the Company is not a dealer or trader in shares, securities, debentures and other investments.
15. 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.
16. The Company has not obtained any term loans.
17. 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.

18. 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.
19. The Company has not issued any debentures during the year.
20. The Company has not raised any money by public issues during the year.
21. 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.

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

N. K. VARADARAJAN
Partner

Hyderabad, 15th April, 2010. Membership No. 90196



BALANCE SHEET AS AT 31ST MARCH, 2010

VST Industries Limited

Rs. in Lakhs

	Schedule	2010	2009
I. SOURCES OF FUNDS			
1. Shareholders' Funds			
(a) Capital	1	1544.19	1544.19
(b) Reserves and Surplus	2	<u>23193.83</u>	<u>22401.10</u>
TOTAL		<u>24738.02</u>	<u>23945.29</u>
II. APPLICATION OF FUNDS			
1. Fixed Assets	3		
(a) Gross Block		27126.49	24921.29
(b) Less: Depreciation		<u>13867.29</u>	<u>12377.34</u>
(c) Net Block		<u>13259.20</u>	<u>12543.95</u>
(d) Capital Work-in-Progress		<u>680.79</u>	<u>541.96</u>
		13939.99	13085.91
2. Investments	4	19030.82	19296.06
3. Deferred Tax - Net	5	1252.92	852.47
4. Current Assets, Loans and Advances			
(a) Inventories	6	17907.55	13426.25
(b) Sundry Debtors	7	1450.95	488.53
(c) Cash and Bank Balances	8	637.04	1370.13
(d) Other Current Assets	9	16.11	49.64
(e) Loans and Advances	10	<u>1455.10</u>	<u>1295.04</u>
		<u>21466.75</u>	<u>16629.59</u>
Less: Current Liabilities and Provisions			
(a) Liabilities	11	25550.47	20498.86
(b) Provisions	12	<u>5401.99</u>	<u>5419.88</u>
		<u>30952.46</u>	<u>25918.74</u>
Net Current Assets		<u>(9485.71)</u>	<u>(9289.15)</u>
TOTAL		<u>24738.02</u>	<u>23945.29</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.

For LOVELOCK & LEWES
Firm Registration No. 301056E
Chartered Accountants

N.K. VARADARAJAN
Partner
Membership No. 90196

Hyderabad, 15th April, 2010.

On behalf of the Board,

A. BASU

Chairman

R. S. NORONHA

Managing Director

N. SAI SANKAR

Deputy Managing
Director & Secretary

Hyderabad, 15th April, 2010.



PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2010

VST Industries Limited

Rs. in Lakhs

	Schedule	2010	2009
I. Income			
Sales (Gross)		112541.66	100473.70
Less: Excise Duty		65325.25	62366.03
Sales (Net)		47216.41	38107.67
Other Income	15	3325.81	693.80
		<u>50542.22</u>	<u>38801.47</u>
II. Expenditure			
Raw Materials, Purchases and Stock-in-Trade	16	26184.46	18092.81
Manufacturing, Selling, Distribution and Administration Expenses, etc.	17	12776.12	11752.91
Depreciation		1786.51	1581.99
		<u>40747.09</u>	<u>31427.71</u>
III. Profit before Taxation and Exceptional Item		9795.13	7373.76
IV. Exceptional Item - (Refer note (II) on Schedule 19)		(1241.00)	1260.79
V. Profit before Taxation		8554.13	8634.55
Fringe Benefit Tax		—	96.53
Taxation	18	2349.06	2355.68
VI. Profit after Taxation		6205.07	6182.34
Balance Brought Forward		8200.48	8063.02
VII. Profit available for Appropriation		<u>14405.55</u>	<u>14245.36</u>
VIII. Appropriations			
Transfer to General Reserve		625.00	625.00
Dividends on			
Ordinary Shares - Final (Proposed)		4632.58	4632.58
Dividend Tax thereon		769.41	787.30
		<u>6026.99</u>	<u>6044.88</u>
IX. Balance Carried Forward		<u>8378.56</u>	<u>8200.48</u>
Basic and diluted Earnings Per Share (Face Value Rs.10 each) - Rs.		40.18	40.04
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.

For LOVELOCK & LEWES
Firm Registration No. 301056E
Chartered Accountants

N.K. VARADARAJAN
Partner
Membership No. 90196

Hyderabad, 15th April, 2010.

On behalf of the Board,

A. BASU

Chairman

R. S. NORONHA

Managing Director

N. SAI SANKAR

Deputy Managing
Director & Secretary

Hyderabad, 15th April, 2010.



CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2010

VST Industries Limited

Rs. in Lakhs

	2010	2009
A. Cash flow from operating activities		
Net Profit Before Taxation	8554.13	8634.55
Adjustments:		
Depreciation (Net)	1786.51	1581.99
Liabilities no longer required written back	(324.71)	(27.25)
(Profit)/Loss on Sale of Fixed Assets (Net)	(11.02)	0.95
Unrealised (Gain)/Loss on exchange (Net)	(442.00)	170.00
Interest Income on Loans and Deposits etc. (Gross)	(232.98)	(116.42)
Interest Paid	2.73	12.87
Income from Long Term Investments	(2.41)	(1.84)
Income from Current Investments	(323.98)	(679.95)
(Profit)/Loss on sale of Investments (Net)	(1312.46)	(1212.16)
Operating Profit before Working Capital changes	7693.81	8362.74
Adjustments for:		
Trade and Other Receivables	(1006.58)	52.62
Inventories	(4481.30)	(5816.56)
Trade and Other Payables	5914.72	1570.17
Cash generated from operations	8120.65	4168.97
Direct Taxes Paid	(2865.40)	(2093.31)
Net cash from operating activities	5255.25	2075.66
B. Cash flow from investing activities		
Purchase of Fixed Assets	(2716.03)	(2508.77)
Sale of Fixed Assets	11.10	1.92
Purchase of Investments	(189719.01)	(163985.15)
Sale/Redemption of Investments	191296.71	168235.16
Income from Long Term Investments	2.41	1.84
Income from Current Investments	323.98	679.95
Interest Income on Loans and Deposits etc. (Gross)	266.51	87.90
Net cash used in investing activities	(534.33)	2512.85
C. Cash flow from financing activities		
Finance lease payments	(31.40)	(50.13)
Interest - Others	(2.73)	(12.87)
Dividend paid	(5419.88)	(3613.25)
Net cash used in financing activities	(5454.01)	(3676.25)
Net Increase/(Decrease) in cash and cash equivalents	(733.09)	912.26
Opening cash and cash equivalents	1370.13	457.87
Closing cash and cash equivalents	637.04	1370.13

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

For LOVELOCK & LEWES
Firm Registration No. 301056E
Chartered Accountants

N.K. VARADARAJAN
Partner
Membership No. 90196

Hyderabad, 15th April, 2010.

On behalf of the Board,

A. BASU

Chairman

R. S. NORONHA

Managing Director

N. SAI SANKAR

Deputy Managing
Director & Secretary

Hyderabad, 15th April, 2010.



SCHEDULES TO THE BALANCE SHEET

VST Industries Limited

Rs. in Lakhs

	2010	2009
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	12791.09	12166.09
Add- Transfer from Profit and Loss Account	<u>625.00</u>	<u>625.00</u>
	13416.09	12791.09
REVALUATION RESERVE		
As at the commencement of the year	409.53	419.90
Transfer to Profit and Loss Account		
- Depreciation (Refer note V on Schedule 3)	<u>10.35</u>	<u>10.37</u>
	399.18	409.53
PROFIT AND LOSS ACCOUNT - BALANCE	<u>8378.56</u>	<u>8200.48</u>
	<u>23193.83</u>	<u>22401.10</u>



Rs. in Lakhs

	Goodwill & Trade Marks	Land Freehold	Buildings Freehold	Leasehold Property	Plant & Machinery	Furniture & Fixtures	Leasehold Equipment	Motor Vehicles	Total 2010	Total 2009
3. Fixed Assets										
COST/REVALUATION										
As at 1st April, 2009	5.81	328.12	922.12	1233.78	21219.40	680.98	224.13	306.95	24921.29	23058.25
Additions	–	–	–	–	2397.19	155.01	–	25.00	2577.20	2253.64
	5.81	328.12	922.12	1233.78	23616.59	835.99	224.13	331.95	27498.49	25311.89
Disposals	–	–	–	–	2.04	121.20	224.13	24.63	372.00	390.60
	–	–	–	–	–	–	–	–	–	–
GROSS BLOCK										
As at 31st March, 2010	5.81	328.12	922.12	1233.78	23614.55	714.79	–	307.32	27126.49	24921.29
DEPRECIATION/ADJUSTMENTS										
As at 1st April, 2009	5.81	–	291.42	1051.32	10240.16	491.87	146.46	150.30	12377.34	11172.72
For the year	–	–	32.85	26.88	1547.67	116.91	12.67	59.88	1796.86	1592.36
	5.81	–	324.27	1078.20	11787.83	608.78	159.13	210.18	14174.20	12765.08
Adjustment on Disposals	–	–	–	–	2.04	121.11	159.13	24.63	306.91	387.74
	–	–	–	–	–	–	–	–	–	–
Depreciation as at 31st March, 2010	5.81	–	324.27	1078.20	11785.79	487.67	–	185.55	13867.29	12377.34
NET BLOCK										
As at 31st March, 2010	–	328.12	597.85	155.58	11828.76	227.12	–	121.77	13259.20	12543.95
Capital Work-in-Progress	–	–	–	–	–	–	–	–	680.79	541.96
Per Balance Sheet 31st March, 2010	–	328.12	597.85	155.58	11828.76	227.12	–	121.77	13939.99	13085.91
Per Balance Sheet 31st March, 2009	–	328.12	630.70	182.46	10979.24	189.11	77.67	156.65	13085.91	

NOTES:

- (I) Leasehold property include Buildings on Leasehold Land cost Rs.575.24 Lakhs (2009 - Rs.575.24 Lakhs), Depreciation Rs.471.44 Lakhs (2009 - Rs.450.80 Lakhs).
- (II) Deeds of conveyance are to be executed for Land Freehold Rs.0.83 Lakhs (2009 - Rs. 0.83 Lakhs), Building Freehold Rs.11.28 Lakhs (2009 - Rs.11.28 Lakhs)
- (III) Furniture & Fixtures as at year end include, computer software cost Rs.55.35 Lakhs (2009 - Rs.169.72 Lakhs), Depreciation Rs.37.07 Lakhs (2009 - Rs.137.13 Lakhs)
- (IV) Leasehold Equipment represents computers and related assets acquired under finance lease. During the year ended 31st March, 2010 the said Lease agreement was pre-closed.
- (V) Depreciation for the year ended 31st March, 2010 of Rs.1796.86 Lakhs (2009 - Rs.1592.36 Lakhs) includes Rs.10.35 Lakhs (2009 - Rs.10.37 Lakhs) transferred from Revaluation Reserve.
- (VI) Capital Work-in-Progress includes Capital Advances of Rs.662.34 Lakhs (2009 - Rs.492.97 Lakhs) which are Unsecured and Considered Good.



Rs. in Lakhs

	2010	2009
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.42.21 Lakhs, (Previous Year - Rs.21.77 Lakhs)]	<u>0.13</u>	<u>0.13</u>
UNQUOTED		
Government/Trust Securities National Savings Certificate cost Rs.500 (Previous Year - Rs.500) Lodged with Government Authority		
Subsidiary Company		
VST Distribution, Storage & Leasing Company Private Limited 50,000 Equity Shares of Rs.10 each fully paid up	<u>5.00</u>	<u>5.00</u>
	<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 Equity Linked Redeemable Non-Convertible Debentures Series - 390 of Rs.1,00,000 each fully paid up - Sold 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 500 6.85% Tax Free Bonds - Series II of Rs.1,00,000 each fully paid up	1000.00 500.00	1000.00 500.00
Unit Trust of India 50,025 6.60 % Tax free ARS Bonds of Rs.100 each fully paid up - Sold during the year	—	51.32
Birla Sun Life Savings Fund Institutional - Growth 60,11,892 units of Rs.10 each fully paid up	1000.00	1000.00
HDFC Floating Rate Income Fund - LTP - Growth 1,62,83,204 (2009 - 67,93,617) units of Rs.10 each fully paid up (94,89,587 units Purchased during the year)	2500.00	1000.00
ICICI Prudential Flexible Income Plan Premium - Growth 15,04,591 (2009 - 9,20,596) units of Rs.100 each fully paid up (5,83,995 units Purchased during the year)	2500.00	1500.00
Kotak Liquid (Institutional Premium) - Growth 70,49,353 units of Rs.10 each fully paid up	1000.00	1000.00



Rs. in Lakhs

	2010	2009
4. Investments (Contd.)		
Reliance Medium Term Fund - Retail Plan - Growth Option 55,05,032 units of Rs.10 each fully paid up	1000.00	1000.00
Reliance Regular Savings Fund - Debt Plan - Institutional Growth Plan 41,56,967 units of Rs.10 each fully paid up - Purchased during the year	500.00	—
Sundaram BNP Paribas Energy Opportunities Fund - Growth 10,00,000 units of Rs.10 each fully paid up	100.00	100.00
Tata Floater Fund - Growth 1,49,31,549 (2009 - 76,48,652) units of Rs.10 each fully paid up (72,82,897 units Purchased during the year)	2000.00	1000.00
Birla Sun Life FTP - Institutional - Series AD - Growth 50,00,000 units of Rs.10 each fully paid up - Sold during the year	—	500.00
Birla Sun Life FTP - Institutional - Series AM - Growth 50,00,000 units of Rs.10 each fully paid up - Sold during the year	—	500.00
Birla Sun Life FTP - Institutional Series BD - Growth 1,00,00,000 units of Rs.10 each fully paid up - Sold during the year	—	1000.00
DSP Black Rock FMP 12.5M Series I - Institutional Growth 50,00,000 units of Rs.10 each fully paid up - Sold during the year	—	500.00
DWS Fixed Term Fund Series 46 - Institutional Growth 50,00,000 units of Rs.10 each fully paid up - Sold during the year	—	500.00
HDFC FMP 13M March 2008 (VII) (2) - Wholesale Plan Growth 1,00,00,000 units of Rs.10 each fully paid up - Sold during the year	—	1000.00
HSBC Fixed Term Series - 44 Institutional - Growth 1,00,00,000 units of Rs.10 each fully paid up - Sold during the year	—	1000.00
HSBC Fixed Term Series 57 Institutional Growth - Tenure 370 days 50,00,000 units of Rs.10 each fully paid up - Sold during the year	—	500.00
HSBC Ultra Short Term Bond Fund - Institutional Plus - Growth 59,29,826 units of Rs.10 each fully paid up - Sold during the year	—	615.00
ICICI Prudential FMP Series 43 - 13 Months Plan D Retail Growth 1,00,00,000 units of Rs.10 each fully paid up - Sold during the year	—	1000.00
IDFC Fixed Maturity Plan - Yearly Series 19 - Plan B - Growth 50,00,000 units of Rs.10 each fully paid up - Sold during the year	—	500.00
IDFC Enterprise Equity Fund - Growth 10,00,000 units of Rs.10 each fully paid up - Sold during the year	—	100.00
Kotak FMP 14M Series 4 - Institutional - Growth 50,00,000 units of Rs.10 each fully paid up - Sold during the year	—	500.00
Morgan Stanley Equity Fund - Growth 4,34,882 units of Rs.10 each fully paid up - Sold during the year	—	199.23



Rs. in Lakhs

	2010	2009
4. Investments (Contd.)		
Reliance Fixed Horizon Fund IV - Series 6 - Institutional Growth Plan 50,00,000 units of Rs.10 each fully paid up - Sold during the year	—	500.00
Reliance Fixed Horizon Fund - VII - Series 4 - Institutional Growth Plan 50,00,000 units of Rs.10 each fully paid up - Sold during the year	—	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 - Sold during the year	—	500.00
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>12325.38</u>	<u>19290.93</u>
Current Investment - At lower of cost and fair value Other than Trade and Unquoted		
Birla Sun Life Savings Fund - Institutional Plan - Daily Dividend Reinvestment 49,96,602 units of Rs.10 each fully paid up - Purchased during the year	500.00	—
Birla Sun Life Dynamic Bond Fund - Retail Plan - Monthly Dividend Payout 96,09,563 units of Rs.10 each fully paid up - Purchased during the year	1000.00	—
HDFC CMF - Treasury Advantage Plan - Wholesale - Daily Dividend Reinvestment 49,84,299 units of Rs.1,000 each fully paid up - Purchased during the year	500.00	—
ICICI Prudential Flexible Income Plan Premium - Daily Dividend Reinvestment 4,72,880 units of Rs.100 each fully paid up - Purchased during the year	500.00	—
IDFC Money Manager Fund - Investment Plan - Institutional Plan B - Daily Dividend Reinvestment 99,86,202 units of Rs.10 each fully paid up - Purchased during the year	1000.12	—
Reliance Monthly Interval Fund - Series II - Institutional Dividend Plan 1,49,94,452 units of Rs.10 each fully paid up - Purchased during the year	1500.00	—
Religare Ultra Short Term Fund - Institutional Plan - Daily Dividend Reinvestment 49,94,095 units of Rs.10 each fully paid up - Purchased during the year	500.19	—
UTI Treasury Advantage Fund - Series II - Institutional Plan (Daily Dividend Option) - Reinvestment 1,19,974 units of Rs.1,000 each fully paid up - Purchased during the year	1200.00	—
	<u>6700.31</u>	<u>—</u>
Aggregate amount of unquoted investments	19030.69	19295.93
TOTAL	<u>19030.82</u>	<u>19296.06</u>



4. Investments (Contd.)

Note:

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

UTI Liquid Cash Plan Institutional - Daily Dividend Option - Reinvestment 13,39,218 units of Rs.1,000 each

UTI Treasury Advantage Fund - Institutional Plan (Daily Dividend Option) - Reinvestment 20,13,273 units of Rs.1,000 each

HDFC Cash Management Fund - Treasury Advantage Plan - Wholesale - Daily Dividend Reinvestment 8,81,37,636 units of Rs.10 each

HDFC CMF - Call Plan - Daily Dividend Reinvestment 1,43,87,453 units of Rs.10 each

HDFC Liquid Fund Premium Plan - Daily Dividend Reinvestment 4,38,49,521 units of Rs.10 each

HDFC Index Fund - Sensex Plan - Growth 40,330 units of Rs.100 each

HDFC Index Fund - Nifty Plan (Post Addendum) 4,73,134 units of Rs.10 each

ICICI Prudential Institutional Liquid Plan - Super Institutional Daily Dividend 4,01,34,365 units of Rs.100 each

ICICI Prudential - Flexible Income Plan Premium Dividend - Daily 4,24,61,842 units of Rs.10 each

ICICI Prudential - Flexible Income Plan Premium Dividend - Daily 54,75,486 units of Rs.100 each

Reliance Medium Term Fund - Daily Dividend Plan 9,72,23,951 units of Rs.10 each

Reliance Liquidity Fund - Daily Dividend Reinvestment Option 15,55,28,631 units of Rs.10 each

Tata Liquid Super High Investment Fund - Daily Dividend 27,72,778 units of Rs.1,000 each

Tata Floater Fund - Daily Dividend 17,55,47,775 units of Rs.10 each

Religare Liquid Fund - Institutional Daily Dividend - 2,32,27,677 units of Rs.10 each

Religare Ultra Short Term Fund - Institutional Daily Dividend - 2,24,22,781 units of Rs.10 each

Birla Sun Life Savings Fund - Institutional Daily Dividend - Reinvestment 11,86,03,657 units of Rs.10 each

Birla Sun Life Cash Plus - Institutional Premium Daily Dividend - Reinvestment 14,03,44,312 units of Rs.10 each



Rs. in Lakhs

	2010	2009
5. Deferred Tax - Net		
Deferred tax asset		
On employees' separation and retirement	444.67	172.66
On State and Central Taxes etc.	1975.12	1771.46
On other timing differences	30.98	30.27
	<u>2450.77</u>	<u>1974.39</u>
Deferred tax liability		
On fiscal allowances on fixed assets	1197.85	1121.92
	<u>1252.92</u>	<u>852.47</u>
6. Inventories		
Stores and Spare Parts - At cost or below	59.31	63.04
Raw Materials - At cost or below	14760.41	10528.59
Stock-in-Trade		
Finished Goods - At cost or net realisable value whichever is lower	2776.94	2648.99
Work-in-Process - At cost or net realisable value whichever is lower	310.89	185.63
	<u>17907.55</u>	<u>13426.25</u>
7. Sundry Debtors		
(Unsecured, Considered Good)		
Debts outstanding for a period exceeding six months	3.02	8.30
Other Debts	1447.93	480.23
	<u>1450.95</u>	<u>488.53</u>
8. Cash and Bank Balances		
Cash including Cheques on hand	1.29	2.90
With Scheduled Banks		
- On Unclaimed Ordinary Dividend Account	229.22	185.73
- On Preference Share Redemption Account	0.18	0.18
- On Current Accounts	392.21	192.21
- On Term Deposits	14.14	989.11
[Includes towards Margin Money Rs.13.32 Lakhs (2009 - Rs.13.34 Lakhs)]		
	<u>637.04</u>	<u>1370.13</u>
9. Other Current Assets		
(Unsecured, Considered Good)		
Interest accrued on Loans, Deposits and Investments	16.11	49.64
	<u>16.11</u>	<u>49.64</u>



Rs. in Lakhs

	2010	2009
10. Loans and Advances (Considered Good)		
Secured - Loans	99.25	113.69
Unsecured - Loans	36.99	33.02
- Advances recoverable in cash or in kind or for value to be received	961.66	883.87
- Balances with Excise Authorities	115.57	138.73
- Deposits	24.22	24.22
- Taxation (net of provisions)	217.41	101.51
	<u>1455.10</u>	<u>1295.04</u>
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	<u>16132.95</u>	<u>16172.73</u>
	16132.95	16172.73
Advances from Customers	9164.19	4116.83
Unpaid/Unclaimed Dividends	229.22	185.73
Unclaimed/Unencashed Matured Deposits	0.08	0.08
Interest on Matured Deposits	—	0.03
Preference Share Redemption Account	0.18	0.18
Security Deposits	2.55	1.50
Other Liabilities	<u>21.30</u>	<u>21.78</u>
	<u>25550.47</u>	<u>20498.86</u>
There is no amount due and outstanding to be credited to Investor Education and Protection Fund.		
12. Provisions		
Proposed Dividend including Tax thereon	<u>5401.99</u>	<u>5419.88</u>
	<u>5401.99</u>	<u>5419.88</u>
13. Capital Expenditure Commitments (not provided for)	<u>3478.20</u>	<u>1717.80</u>
14. Notes to Balance Sheet		
I Contingent Liabilities		
Claims against the Company not acknowledged as debts Rs.267.19 Lakhs (2009 - Rs.242.62 Lakhs).		
These Comprise -		
a. Tax demands disputed by the Company relating to disallowances/additions of fiscal benefits, pending at various stages of appeal, aggregating to Rs.149.00 Lakhs (2009 - Rs.Nil).		
b. Land disputes representing claims towards land grabbing cases pending before Hon'ble Special Court aggregating to Rs.103.16 Lakhs (2009 - Rs.227.59 Lakhs).		
c. Other matters relating to labour cases etc. aggregating to Rs.15.03 Lakhs (2009 - Rs.15.03 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	31.03.2010			31.03.2009		
	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
Later than one year and not later than five years	—	—	—	54.77	5.98	48.79
Total	—	—	—*	110.68	14.27	96.40*

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

During the year ended 31st March, 2010, the said lease agreement was pre-closed.

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: In Lakhs

		31.03.2010		31.03.2009	
Currency Pair	Currency	Buy	Sell	Buy	Sell
USD/INR	INR	—	4453.12	—	3197.35
EUR/USD	USD	6.87	—	—	—

- 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

		31.03.2010		31.03.2009	
Currency Pair	Currency	Buy	Sell	Buy	Sell
USD/INR	INR	—	1429.66	3066.19	461.45

IV Micro and small scale business entities

There are no Micro and Small Enterprises, to whom the Company owes dues, which are outstanding as at 31st March, 2010. 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.100.64 Lakhs (2009- Rs.93.57 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 Defined Benefit Plans as required under the Standard:

Rs. in Lakhs

	Gratuity		Pension		Leave Encashment	
	31.03.2010	31.03.2009	31.03.2010	31.03.2009	31.03.2010	31.03.2009
Projected benefit obligation at the beginning of the year	1686.45	1414.45	144.70	127.00	391.81	396.22
Current Service Cost	131.04	118.13	8.83	8.27	78.61	41.51
Interest cost	116.07	97.14	9.92	8.76	22.98	31.03
Actuarial (Gain)/Loss	106.88	110.07	(9.35)	4.50	169.29	(60.15)
Less: Benefits Paid	56.65	53.34	5.85	3.83	127.09	16.80
Projected benefit obligation at the end of the year	1983.79	1686.45	148.25	144.70	535.60	391.81
Amounts recognised in the Balance Sheet						
Projected benefit obligation at the end of the year	1983.79	1686.45	148.25	144.70	535.60	391.81
Fair value of plan assets at end of the year	1946.34	1686.45	157.27	149.86	522.48	445.21
Asset/(Liability) recognised in the Balance Sheet	(37.45)	—	9.02	5.16	(13.12)	53.40
Cost of Retirement and Other Benefits for the year						
Current Service cost	131.04	118.13	8.83	8.27	78.61	41.51
Interest Cost	116.07	97.14	9.92	8.76	22.97	31.03
Expected return on plan assets	(150.13)	(134.93)	—	(13.15)	(39.61)	(38.25)
Net actuarial (Gain)/Loss recognised in the year	106.88	110.07	(9.35)	4.50	169.29	(60.15)
Net Cost recognised in the Profit and Loss Account	203.86	190.41	9.40	8.38	231.26	(25.86)
Assumptions						
Discount Rate (%)	7.00	7.00	7.00	7.00	7.00	7.00
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

	2010	2009
15. Other Income		
Miscellaneous Income	403.02	217.56
Liabilities no longer required written back	324.71	27.25
Gain/(Loss) on Exchange	726.25	(1561.38)
Income from Long Term Investments - Other than Trade (Gross)	2.41	1.84
Income from Current Investments - Other than Trade (Gross)	323.98	679.95
Profit/(Loss) on sale of Long Term Investments (Net)	1299.66	1158.75
Profit/(Loss) on sale of Current Investments (Net)	12.80	53.41
Interest on Loans and Deposits etc. (Gross)	232.98	116.42
	<u>3325.81</u>	<u>693.80</u>
Interest on Loans and Deposits etc. is stated at Gross.		
The amount of Income Tax deducted is Rs.10.61 Lakhs (2009 - Rs.8.18 Lakhs).		
16. Raw Materials, Purchases and Stock-in-Trade		
a. Raw Materials Consumed*		
Opening Stock	10528.59	5955.48
Purchases	<u>30576.39</u>	<u>22959.04</u>
	41104.98	28914.52
Less: Closing Stock	<u>14760.41</u>	<u>10528.59</u>
	26344.57	18385.93
b. (Increase)/Decrease in Stock-in-Trade		
Opening Stock		
- Cigarettes	2648.99	1479.58
Closing Stock		
- Cigarettes	<u>2776.94</u>	<u>2648.99</u>
	(127.95)	(1169.41)
c. Increase/(Decrease) in Excise Duties on Stock-in-Trade	93.10	941.71
d. (Increase)/Decrease in Work-in-Process		
Opening	185.63	120.21
Closing	<u>310.89</u>	<u>185.63</u>
	<u>(125.26)</u>	<u>(65.42)</u>
	<u>26184.46</u>	<u>18092.81</u>
* Includes 11,902 Tonnes (2009 - 9,808 Tonnes) of unmanufactured tobacco etc. sold - Value Rs.13474.22 Lakhs (2009 - Rs.8052.07 Lakhs).		



Rs. in Lakhs

	2010	2009
17. Manufacturing, Selling, Distribution and Administration Expenses, etc.		
Salaries, Wages and Bonus	4818.44	4035.08
Contributions to Provident, Gratuity and Other Retiral Funds	485.01	464.04
Workmen and Staff Welfare Expenses	<u>410.08</u>	<u>389.59</u>
	5713.53	4888.71
Insurance	87.51	90.86
Consumption of Stores and Spare Parts	331.19	273.87
Power and Fuel	216.57	219.93
Rent	179.72	139.08
Repairs - Buildings	27.44	22.60
- Machinery	46.94	37.22
- Others	19.22	16.98
Rates and Taxes	896.85	858.81
Excise Duty on Samples	69.44	60.32
Outward Freight	956.06	894.84
Advertising	969.50	1116.37
Distribution Expenses	1619.37	1418.94
Miscellaneous	1621.79	1673.24
(Profit)/Loss on Fixed Assets sold and discarded (Net)	(11.02)	0.95
Interest - Others	2.73	12.87
Payment to Auditors - Audit Fee	18.00	16.00
- Reimbursement of Expenses	0.33	0.05
- Fees for certificates etc.	6.26	6.02
Directors' Fees	<u>5.19</u>	<u>6.00</u>
	12776.62	11753.66
Less: Recovery of Costs	<u>0.50</u>	<u>0.75</u>
	<u>12776.12</u>	<u>11752.91</u>
R&D Expenses included above	332.20	233.37
18. Taxation		
Taxation - Current	2749.51	2305.00
- Prior Years	-	(20.61)
Deferred Tax	<u>(400.45)</u>	<u>71.29</u>
	<u>2349.06</u>	<u>2355.68</u>



Rs. in Lakhs

	2010	2009
19. Notes to Profit and Loss Account		
(I) Directors' Remuneration		
Remuneration	267.27	228.86
Performance Linked Bonus	202.29*	200.83
Commission to Non Wholetime Directors	25.00	20.00
Other Benefits	50.49	34.14
Directors' Fees	5.19	6.00
	<u>550.24</u>	<u>489.83</u>
*Includes Rs.67.43 Lakhs - subject to shareholders approval.		
Computation of Net Profit in accordance with Section 198 of the Companies Act, 1956:		
Profit before Taxation	8554.13	8634.55
Add: Depreciation as per Profit and Loss Account	1786.51	1581.99
Managerial Remuneration as above	550.24	489.83
(Profit)/Loss on sale of assets (Net)	(11.02)	0.95
Wealth Tax	40.00	40.00
	<u>2365.73</u>	<u>2112.77</u>
	10919.86	10747.32
Less: Depreciation (Section 350)	1786.51	1581.99
(Profit)/Loss on sale of assets - Net (Section 350)	(11.02)	0.95
	<u>9144.37</u>	<u>9164.38</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	91.44	91.64
Restricted to	25.00	20.00
(II) Exceptional items comprise of:		
a. Expense incurred under Voluntary Retirement Scheme for employees	(1241.00)	—
b. The Post Manufacturing Expenses dispute relates to excise duty payable on clearances from the factory between 1st March, 1975 to 28th February, 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 (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 was considered in the Profit and Loss Account.	—	1260.79
TOTAL	<u>(1241.00)</u>	<u>1260.79</u>
(III) Earnings Per Share		
Earnings Per Share is computed based on the following -		
a. Profit after Taxation (Rs.Lakhs)	6205.07	6182.34
b. Weighted average number of equity shares	1,54,41,920	1,54,41,920
c. Basic and diluted Earnings Per Share		
(Face Value Per Share - Rs.10) Rs.	40.18	40.04



Rs. in Lakhs

	2010	2009
19. Notes to Profit and Loss Account (Contd.)		
(IV) Related party transactions during the year		
1. Companies:		
a. Subsidiary Company where control exists		
VST Distribution, Storage & Leasing Company Private Limited		
Nature of transactions		
Receipts - Secondment/Service Charges	0.50	0.75
b. Company having significant influence		
British American Tobacco Group		
Nature of transactions		
Sales - Goods	1650.05	635.13
Other receipts - Services etc.	58.82	—
Other payments - Services etc.	2.27	0.77
- Dividend Paid	1489.77	993.18
Outstanding as at the year end		
- Receivable	102.12	40.54
2. Remuneration to Key Managerial Personnel		
Mr. Raymond S. Noronha - Managing Director	326.98	294.43
Mr. N. Sai Sankar - Deputy Managing Director & Secretary	193.07	169.40
(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	96959.71	89543.83
b. Sales outside India	15581.95	10929.87
	<u>112541.66</u>	<u>100473.70</u>
The entire activity pertaining to sales outside India is carried out from India, hence all segment assets are considered entirely to be in India.		



	Unit	Quantity	2010 Rs. in Lakhs	Quantity	2009 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	23976		25318	
Actual Saleable Production (includes contract manufacture and manufactured for others)	Millions	7488		7308	
* 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	7511	95932.76	7188	88960.60
Unmanufactured Tobacco	Tonnes	11902	16259.69	9808	11231.16
Cut Tobacco	Tonnes	257	338.84	220	279.19
Others			10.37		2.75
			<u>112541.66</u>		<u>100473.70</u>
c. DETAILS OF STOCK-IN-TRADE					
i. Opening Stock					
Cigarettes	Millions	248	2648.99	153	1479.58
ii. Closing Stock					
Cigarettes	Millions	224	2776.94	248	2648.99
Stock quantities exclude damaged stocks, samples, etc.					



	Unit	Quantity	2010 Rs. in Lakhs	2009 Quantity	2009 Rs. in Lakhs
20. Additional Information (Contd.)					
d. DETAILS OF RAW MATERIALS CONSUMED					
Unmanufactured Tobacco	Tonnes	17487	19248.98	15295	12363.73
Board	Tonnes	1854	828.25	1604	666.00
Hinge Lid Packs	Millions	296	1236.48	517	1324.77
Cigarette Paper	M.Meters	385686	290.26	388722	273.99
Foil	M.Meters	33883	215.35	70206	371.13
Filter Rods	Millions	1202	1315.63	1165	1097.04
Others			3209.62		2289.27
			<u>26344.57</u>		<u>18385.93</u>
e. VALUE OF RAW MATERIALS, SPARE PARTS AND COMPONENTS CONSUMED					
			Rs. in Lakhs		Rs. in Lakhs
			%		%
Raw Materials					
Imported		583.14	2.2	712.37	3.9
Indigenous		25761.43	97.8	17673.56	96.1
		<u>26344.57</u>	<u>100.0</u>	<u>18385.93</u>	<u>100.0</u>
Stores and Spare Parts					
Imported		79.83	24.1	47.59	17.4
Indigenous		251.36	75.9	226.28	82.6
		<u>331.19</u>	<u>100.0</u>	<u>273.87</u>	<u>100.0</u>
f. EXPORTS AND IMPORTS					
Export of goods (F.O.B. Value)		15498.86		10841.50	
Imports (C.I.F. Value) (On payment basis)					
Raw Materials		450.40		627.10	
Spare Parts		108.26		48.66	
Capital Goods		2015.92		1230.95	
		<u>2574.58</u>		<u>1906.71</u>	
g. EXPENDITURE IN FOREIGN CURRENCY (On payment basis)					
Miscellaneous - Travelling, Advertisement and Subscriptions etc.		226.11		106.71	



Rs. in Lakhs

	2010	2009
20. Additional Information (Contd.)		
h. DIVIDENDS PAID TO NON-RESIDENT SHAREHOLDERS IN FOREIGN CURRENCY FINAL		
Amount of dividend	1489.77	993.18
Number of Non-Resident Shareholders	3	3
Number of Shares held	49,65,902	49,65,902
The year to which the Dividend relate (year ended)	31-03-2009	31-03-2008
i. COMPARATIVE FIGURES		
The comparative figures for the previous year have been re-arranged to conform with the revised presentation of the accounts.		
For LOVELOCK & LEWES Firm Registration No. 301056E Chartered Accountants	On behalf of the Board, A. BASU	Chairman
N.K. VARADARAJAN Partner Membership No. 90196	R. S. NORONHA	Managing Director
Hyderabad, 15th April, 2010.	N. SAI SANKAR	Deputy Managing Director & Secretary
	Hyderabad, 15th April, 2010.	



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.

EMPLOYEE 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. Gains and losses resulting from the settlement of such transactions and from translation of monetary assets and liabilities denominated in foreign currencies are recognised in the Profit and Loss Account.

Forward exchange contracts outstanding as at the period end on account of firm commitment/highly probable forecast transaction are marked to market and the resultant gain/loss is dealt in the Profit and Loss Account.

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.





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, 2010	50,000	(4.18)	9.42
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>On behalf of the Board,</p> <p>A. BASU Chairman</p> <p>R.S. NORONHA Managing Director</p> <p>N. SAI SANKAR Deputy Managing Director & Secretary</p> <p>Dated this 15th day of April, 2010. Azamabad, Hyderabad - 500 020, Andhra Pradesh.</p>				

Report of the Directors for the year ended 31st March, 2010

The Directors of your Company have pleasure in presenting their Annual Report and Accounts for the year ended 31st March, 2010.

Financial Results

Rs.

The Net Profit/(Loss) for the year, after deducting all charges and expenses and taxation amounts to (4,17,942)

Adding thereto profit brought forward from the previous year 2,45,79,111

Leaving an undistributed amount of in the Profit and Loss Account to be carried forward to the following year. 2,41,61,169

OPERATIONS

During the year, the Company was engaged in distribution of mutual funds and other businesses.

The Company has earned brokerage income of Rs.0.23 lakhs during the year.

Net profit/(loss) accordingly was at Rs.(4.18) lakhs as compared to Rs.9.42 lakhs for the year 2008-09.

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

There are no particulars to be furnished under Section 271 (1) (e) of the Companies Act, 1956 read with 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/loss 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. Anish Gupta 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, 14th April, 2010.

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, 2010, 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, 2010, and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31st March, 2010 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, 2010;
 - ii. in the case of the Profit and Loss Account, of the loss for the year ended on that date; and
 - iii. in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For M. BHASKARA RAO & CO.
Chartered Accountants
Firm Registration No. 000459S

V. RAGHUNANDAN
Membership No. 26255
Partner

New Delhi, 14th April, 2010.

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 Sections 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, 2010 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, 2010 which has not been deposited on account of dispute except the following:

Name of the statute	Nature of dues	Amount Rs. in Lakhs	Period to which the amount relates	Forum where the dispute is pending
Income Tax Act, 1961	Income Tax dues (due to disallowance of claims)	420 (Excluding interest)	Assessment year 1999-2000	Hon'ble High Court of Andhra Pradesh

VST DISTRIBUTION, STORAGE & LEASING COMPANY PRIVATE LIMITED

10. The Company has neither accumulated losses as on 31st March, 2010 nor has it incurred cash losses during the financial year ended on that date or in the immediately preceding financial year.
11. The Company has not defaulted in repayment of dues to financial institutions and banks or debenture holders as at the balance sheet date.
12. In our opinion and according to the information and explanations given to us, the Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
13. In our opinion, the Company is not a Chit Fund or a Nidhi or Mutual Benefit Fund/Society. Therefore, the provisions of Clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 as amended are not applicable to the Company.
14. In our opinion and according to the information and explanations given to us, the Company does not deal or trade in shares, securities, debentures and other investments. Therefore, the provisions of Clause 4(xiv) of the Companies (Auditor's Report) Order, 2003 as amended are not applicable to the Company.
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 M. BHASKARA RAO & CO.
Chartered Accountants
Firm Registration No. 000459S

V. RAGHUNANDAN
Membership No. 26255
Partner

New Delhi, 14th April, 2010.

BALANCE SHEET AS AT 31ST MARCH, 2010

Rupees

	Schedule	2010	2009
I. SOURCES OF FUNDS			
1. Shareholders' Funds			
(a) Capital	1	5,00,000	5,00,000
(b) Reserves and Surplus	2	2,91,05,863	2,95,23,805
TOTAL		<u>2,96,05,863</u>	<u>3,00,23,805</u>
II. APPLICATION OF FUNDS			
1. Fixed Assets	3		
(a) Gross Block		1,72,00,000	1,72,00,000
(b) Less: Depreciation		44,83,975	36,23,975
(c) Net Block		<u>1,27,16,025</u>	<u>1,35,76,025</u>
2. Investments	4	1,14,48,854	1,15,11,985
3. Deferred Tax Asset (Net)		27,681	(29,70,130)
4. Current Assets, Loans and Advances			
(a) Cash and Bank Balances	5	53,270	49,910
(b) Loans and Advances	6	53,76,579	78,76,418
		<u>54,29,849</u>	<u>79,26,328</u>
Less: Current Liabilities	7	16,546	20,403
		<u>16,546</u>	<u>20,403</u>
Net Current Assets		54,13,303	79,05,925
TOTAL		<u>2,96,05,863</u>	<u>3,00,23,805</u>
Notes on Accounts	8		
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. Chartered Accountants		SANJAY KHANNA	Director
V. RAGHUNANDAN Partner		ANISH GUPTA	Director
New Delhi, 14th April, 2010.		Hyderabad, 14th April, 2010.	

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2010

Rupees

	Schedule	2010	2009
I. Income			
Brokerage Income		22,822	1,29,889
Other Income		41,414	60,040
Income from Long Term Investments - Trade		5,000	5,000
Income from Current Investments		4,61,869	7,18,660
Interest Received - Gross [Including Others Rs.Nil (2009 - Rs.15,84,882)]		–	15,84,882
		<u>5,31,105</u>	<u>24,98,471</u>
II. Expenditure			
Rates & Taxes		6,180	13,205
Depreciation/Amortisation		8,60,000	8,60,000
Miscellaneous Expenses		78,288	86,120
Payment to Auditors - Audit Fee		10,000	10,000
- Fees for Certificates etc.		–	2,247
		<u>9,54,468</u>	<u>9,71,572</u>
III. Profit before Taxation		(4,23,363)	15,26,899
Income Tax Expense [Including Prior year tax - Rs.14,29,956 (2009 - Rs.2,47,109)],		(5,421)	5,84,462
[Deferred tax Rs.(14,35,377) (2009 - Rs.2,37,353)]			
IV. Profit after Taxation		(4,17,942)	9,42,437
V. Profit Brought Forward		2,45,79,111	2,36,36,674
VI. Balance Carried to Balance Sheet		<u>2,41,61,169</u>	<u>2,45,79,111</u>
Basic and diluted Earnings Per Share (Face Value Rs.10 each) - Rs.		(8.36)	18.85
Notes on Accounts	8		
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.		On behalf of the Board,	
For M. BHASKARA RAO & CO. Chartered Accountants		SANJAY KHANNA	Director
V. RAGHUNANDAN Partner		ANISH GUPTA	Director
New Delhi, 14th April, 2010.		Hyderabad, 14th April, 2010.	

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2010

Rupees

	2010	2009
A. Cash flow from operating activities		
Net Profit before Tax	(4,23,363)	15,26,899
Adjustments:		
Depreciation/Amortisation	8,60,000	8,60,000
Income from Long Term Investments	(5,000)	(5,000)
Income from Current Investments	(4,61,869)	(7,18,660)
Interest (Net)	–	(15,84,882)
Operating Profit before Working Capital changes	(30,232)	78,357
Adjustments for:		
Trade and Other Payables	(3,857)	(9,597)
Cash generated from operations	<u>(34,089)</u>	<u>68,760</u>
Direct Taxes Paid	<u>(4,92,551)</u>	<u>85,65,401</u>
Net Cash from Operating Activities	<u>(5,26,640)</u>	<u>86,34,161</u>
B. Cash flow from investing activities		
Purchase of Investments	(1,04,61,869)	(4,29,25,666)
Sale of Investments	1,05,25,000	3,14,19,901
Income from Long term Investments	5,000	5,000
Income from Current Investments	4,61,869	7,18,660
Net Cash used for investing activities	5,30,000	(1,07,82,105)
C. Cash flow from financing activities		
Interest (Net)	–	15,84,882
Net cash from financing activities	–	15,84,882
Net Increase/(Decrease) in cash and cash equivalent	3,360	(5,63,062)
Opening cash and cash equivalents	49,910	6,12,972
Closing cash and cash equivalents	<u>53,270</u>	<u>49,910</u>

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

On behalf of the Board,

For M. BHASKARA RAO & CO.
Chartered Accountants

SANJAY KHANNA Director

V. RAGHUNANDAN
Partner
New Delhi, 14th April, 2010.

ANISH GUPTA Director

Hyderabad, 14th April, 2010.

SCHEDULES

Rupees

	2010	2009
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	<u>5,00,000</u>	<u>5,00,000</u>
The entire Equity Share Capital is held by the holding company, VST INDUSTRIES LIMITED, and its nominees.		
2. Reserves and Surplus		
Capital Redemption Reserve	25,000	25,000
General Reserve	49,19,694	49,19,694
Profit and Loss Account - Balance	2,41,61,169	2,45,79,111
	<u>2,91,05,863</u>	<u>2,95,23,805</u>
3. Fixed Assets		
Time Share Rights		
COST		
As at 1st April, 2009	1,72,00,000	1,72,00,000
GROSS BLOCK		
As at 31st March, 2010	<u>1,72,00,000</u>	<u>1,72,00,000</u>
DEPRECIATION/AMORTISATION		
As at 1st April, 2009	-	27,63,975
For the year	8,60,000	8,60,000
DEPRECIATION/AMORTISATION		
As at 31st March, 2010	<u>44,83,975</u>	<u>36,23,975</u>
NET BLOCK		
As at 31st March, 2010	<u>1,27,16,025</u>	<u>1,35,76,025</u>

SCHEDULES

Rupees

	2010	2009
4. 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.4,08,221 (2009 - Rs.1,49,154)]		
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 Monthly Interval Fund - Series II - Institutional Dividend Plan	1,00,00,000	—
9,99,630.137 units of Rs.10 each - Purchased during the year		
Reliance Medium Term Fund - Daily Dividend Plan	14,42,634	1,15,05,765
84,386.787 (2009 - 6,73,028.851) units of Rs.10 each		
	<u>1,14,48,854</u>	<u>1,15,11,985</u>
Note: Details of investments purchased and sold during the year in addition to above - NIL		
5. Cash and Bank Balances		
With Scheduled Banks - On Current Account	53,270	49,910
	<u>53,270</u>	<u>49,910</u>
6. 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)	53,56,579	78,56,418
	<u>53,76,579</u>	<u>78,76,418</u>
7. Current Liabilities		
a. Sundry Creditors (Other than small scale industrial undertakings)	11,030	11,030
b. Other Liabilities	5,516	9,373
	<u>16,546</u>	<u>20,403</u>

8. 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.4,20,00,000 (2009 - Rs.63,74,138)

During the financial year 1998-99, the Company had received Financial Assets worth of Rs.1,200 Lakhs against a future liability of Rs.5,200 Lakhs. This was settled on 31st March, 1999 for an immediate payment of Rs.1,250 Lakhs. The settlement was not accepted during the assessment proceedings and accordingly disallowed by the Income Tax Authorities. On appeal before the CIT(A), the matter was held in favour of the Company. However, the Income Tax Tribunal while holding the matter against the Company held that the ratification of the said settlement agreement by the Board did not relate to 31st March, 1999 and consequently the liability to pay Rs.1,250 Lakhs did not arise in the financial year 1998-99 and therefore not allowable as a deduction for the year. The tax liability on this is Rs.420 Lakhs apart from interest.

The Company has preferred an appeal against the above order before the Hon'ble High Court of Andhra Pradesh.

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.27,681 (2009 - Rs.55,362)

Deferred tax liability: On fiscal allowances on fixed assets Rs.Nil (2009 - Rs.30,25,492)

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
	2010	2009
E. Earnings Per Share		
Earnings Per Share is computed based on the following:		
a. Profit After Taxation	(4,17,942)	9,42,437
b. Weighted average number of Equity Shares	50,000	50,000
c. Basic and diluted Earnings Per Share (Face Value Per Share - Rs.10)	(8.36)	18.85
F. Related Party Transactions		
Holding Company: VST Industries Limited		
Nature of Transactions		
Payments - Service/Secondment Charges	50,000	75,000
G. The comparative figures for the previous year have been regrouped wherever considered necessary.		
For M. BHASKARA RAO & CO. Chartered Accountants	On behalf of the Board,	
V. RAGHUNANDAN Partner	SANJAY KHANNA Director	
New Delhi, 14th April, 2010.	ANISH GUPTA Director	
	Hyderabad, 14th April, 2010.	

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I. Registration Details			
Registration No.	<input type="text" value="3156"/>	State Code	<input type="text" value="01"/>
Corporate Identification No.	<input type="text" value="U52520AP1981PTC003156"/>		
Balance Sheet Date	<input type="text" value="31"/>	<input type="text" value="03"/>	<input type="text" value="2010"/>
	Date	Month	Year
II. Capital raised during the year (Amount in Rs. Thousands)			
Public Issue	<input type="text" value="NIL"/>	Rights Issue	<input type="text" value="NIL"/>
Bonus Issue	<input type="text" value="NIL"/>	Private Placement	<input type="text" value="NIL"/>
III. Position of Mobilisation and Deployment of Funds (Amount in Rs. Thousands)			
Total Liabilities	<input type="text" value="29606"/>	Total Assets	<input type="text" value="29606"/>
Sources of Funds			
Paid-up Capital	<input type="text" value="500"/>	Reserves & Surplus	<input type="text" value="29106"/>
Secured Loans	<input type="text" value="NIL"/>	Unsecured Loans	<input type="text" value="NIL"/>
Application of Funds			
Net Fixed Assets	<input type="text" value="12716"/>	Investments	<input type="text" value="11449"/>
Deferred Tax Assets	<input type="text" value="28"/>	Net Current Assets	<input type="text" value="5413"/>
Miscellaneous Expenditure	<input type="text" value="NIL"/>	Accumulated Losses	<input type="text" value="NIL"/>
IV. Performance of Company (Amount in Rs. Thousands)			
Turnover	<input type="text" value="531"/>	Total Expenditure	<input type="text" value="954"/>
Profit/Loss before Tax	<input type="text" value="423"/>	Profit/Loss after Tax	<input type="text" value="418"/>
Earnings of Share Rs.	<input type="text" value="-8.36"/>	Dividend rate %	<input type="text" value="NIL"/>
On year end of Capital		Recommended	
V. Generic Names of Principal Products/Services of the Company (as per monetary terms)			
Item Code No. (ITC CODE)	<input type="text" value="NOT APPLICABLE"/>		
Service Description	<input type="text" value="BROKING"/>		

On behalf of the Board,

SANJAY KHANNA Director

ANISH GUPTA Director

Hyderabad, 14th April, 2010.



CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH, 2010

VST Industries Limited

Rs. in Lakhs

	Schedule	2010	2009
I. SOURCES OF FUNDS			
1. Shareholders' Funds			
(a) Capital	1	1544.19	1544.19
(b) Reserves and Surplus	2	<u>23484.89</u>	<u>22696.34</u>
TOTAL		<u>25029.08</u>	<u>24240.53</u>
II. APPLICATION OF FUNDS			
1. Fixed Assets	3		
(a) Gross Block		27298.49	25093.29
(b) Less: Depreciation		<u>13912.13</u>	<u>12413.58</u>
(c) Net Block		13386.36	12679.71
(d) Capital Work-in-Progress		<u>680.79</u>	<u>541.96</u>
2. Investments	4	19140.31	19406.18
3. Deferred Tax - Net	5	1253.20	822.77
4. Current Assets, Loans and Advances			
(a) Inventories	6	17907.55	13426.25
(b) Sundry Debtors	7	1450.95	488.53
(c) Cash and Bank Balances	8	637.57	1370.63
(d) Other Current Assets	9	16.11	49.64
(e) Loans and Advances	10	<u>1508.87</u>	<u>1373.80</u>
		<u>21521.05</u>	<u>16708.85</u>
Less: Current Liabilities and Provisions			
(a) Liabilities	11	25550.64	20499.06
(b) Provisions	12	<u>5401.99</u>	<u>5419.88</u>
		<u>30952.63</u>	<u>25918.94</u>
Net Current Assets		<u>(9431.58)</u>	<u>(9210.09)</u>
TOTAL		<u>25029.08</u>	<u>24240.53</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.

For LOVELOCK & LEWES
Firm Registration No. 301056E
Chartered Accountants

N.K. VARADARAJAN
Partner
Membership No. 90196
Hyderabad, 15th April, 2010.

On behalf of the Board,

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

Hyderabad, 15th April, 2010.



CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2010

VST Industries Limited

Rs. in Lakhs

	Schedule	2010	2009
I. Income			
Sales (Gross)		112541.66	100473.70
Less: Excise Duty		<u>65325.25</u>	<u>62366.03</u>
Sales (Net)		47216.41	38107.67
Brokerage Income		0.23	1.30
Other Income	15	<u>3330.89</u>	<u>717.48</u>
		<u>50547.53</u>	<u>38826.45</u>
II. Expenditure			
Raw Materials, Purchases and Stock-in-Trade	16	26184.46	18092.81
Manufacturing, Selling, Distribution and Administration Expenses, etc.	17	12777.06	11754.02
Depreciation		<u>1795.11</u>	<u>1590.59</u>
		<u>40756.63</u>	<u>31437.42</u>
III. Profit before Taxation and Exceptional Item		9790.90	7389.03
IV. Exceptional Item - (Refer note (II) on Schedule 19)		<u>(1241.00)</u>	<u>1260.79</u>
V. Profit before Taxation		8549.90	8649.82
Fringe Benefit Tax		—	96.53
Taxation	18	<u>2349.01</u>	<u>2361.52</u>
VI. Profit after Taxation		6200.89	6191.77
Balance Brought Forward		8374.42	8227.53
VII. Profit available for Appropriation		<u>14575.31</u>	<u>14419.30</u>
VIII. Appropriations			
Transfer to General Reserve		625.00	625.00
Dividends on			
Ordinary Shares - Final (Proposed)		4632.58	4632.58
Dividend Tax thereon		<u>769.41</u>	<u>787.30</u>
		<u>6026.99</u>	<u>6044.88</u>
IX. Balance Carried Forward		<u>8548.32</u>	<u>8374.42</u>
Basic and diluted Earnings Per Share (Face Value Rs.10 each) - Rs.		40.16	40.10
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.		On behalf of the Board,	
For LOVELOCK & LEWES		A. BASU	Chairman
Firm Registration No. 301056E		R. S. NORONHA	Managing Director
Chartered Accountants		N. SAI SANKAR	Deputy Managing Director & Secretary
N.K. VARADARAJAN		Hyderabad, 15th April, 2010.	
Partner			
Membership No. 90196			
Hyderabad, 15th April, 2010.			



CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2010

VST Industries Limited

Rs. in Lakhs

	2010	2009
A. Cash flow from operating activities		
Net Profit Before Taxation	8549.90	8649.82
Adjustments:		
Depreciation (Net)	1795.11	1590.59
Liabilities no longer required written back	(324.71)	(27.25)
(Profit)/Loss on Sale of Fixed Assets (Net)	(11.02)	0.95
Unrealised (Gain)/Loss on exchange (Net)	(442.00)	170.00
Interest Income on Loans and Deposits etc. (Gross)	(232.98)	(132.26)
Interest Paid	2.73	12.87
Income from Long term Investments	(2.46)	(1.89)
Income from Current Investments	(328.60)	(687.14)
(Profit)/Loss on Sale of Investments (Net)	(1312.46)	(1212.16)
Operating Profit before Working Capital changes	7693.51	8363.53
Adjustments for:		
Trade and Other Receivables	(1006.58)	52.62
Inventories	(4481.30)	(5816.56)
Trade and Other Payables	5914.68	1570.08
Cash generated from operations	8120.31	4169.67
Direct Taxes paid	(2870.33)	(2007.66)
Net cash from operating activities	5249.98	2162.01
B. Cash flow from investing activities		
Purchase of Fixed Assets	(2716.03)	(2508.77)
Sale of Fixed Assets	11.10	1.92
Purchase of Investments	(189823.63)	(164414.41)
Sale/Redemption of Investments	191401.96	168549.36
Income from Long Term Investments	2.46	1.89
Income from Current Investments	328.60	687.14
Interest Income on Loans and Deposits etc. (Gross)	266.51	103.74
Net cash used in investing activities	(529.03)	2420.87
C. Cash flow from financing activities		
Finance lease payments	(31.40)	(50.13)
Interest - Others	(2.73)	(12.87)
Dividend paid	(5419.88)	(3613.25)
Net cash used in financing activities	(5454.01)	(3676.25)
Net Increase/(Decrease) in cash and cash equivalents	(733.06)	906.63
Opening cash and cash equivalents	1370.63	464.00
Closing cash and cash equivalents	637.57	1370.63

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

For LOVELOCK & LEWES
Firm Registration No. 301056E
Chartered Accountants

N.K. VARADARAJAN
Partner
Membership No. 90196
Hyderabad, 15th April, 2010.

On behalf of the Board,

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

Hyderabad, 15th April, 2010.



SCHEDULES TO THE CONSOLIDATED BALANCE SHEET

VST Industries Limited

Rs. in Lakhs

	2010	2009
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	12912.14	12287.14
Add - Transfer from Profit and Loss Account	<u>625.00</u>	<u>625.00</u>
	13537.14	12912.14
REVALUATION RESERVE		
As at the commencement of the year	409.53	419.90
Transfer to Profit and Loss Account		
- Depreciation (Refer note V on Schedule 3)	<u>10.35</u>	<u>10.37</u>
	399.18	409.53
PROFIT AND LOSS ACCOUNT - BALANCE	<u>8548.32</u>	<u>8374.42</u>
	<u>23484.89</u>	<u>22696.34</u>



Rs. in Lakhs

	Goodwill & Trade Marks	Time Share Rights	Land Freehold	Buildings Freehold	Leasehold Property	Plant & Machinery	Furniture & Fixtures	Leasehold Equipment	Motor Vehicles	Total 2010	Total 2009
3. Fixed Assets											
COST/REVALUATION											
As at 1st April, 2009	5.81	172.00	328.12	922.12	1233.78	21219.40	680.98	224.13	306.95	25093.29	23230.25
Additions	–	–	–	–	–	2397.19	155.01	–	25.00	2577.20	2253.64
	5.81	172.00	328.12	922.12	1233.78	23616.59	835.99	224.13	331.95	27670.49	25483.89
Disposals	–	–	–	–	–	2.04	121.20	224.13	24.63	372.00	390.60
	5.81	172.00	328.12	922.12	1233.78	23614.55	714.79	–	307.32	27298.49	25093.29
GROSS BLOCK											
As at 31st March, 2010	5.81	172.00	328.12	922.12	1233.78	23614.55	714.79	–	307.32	27298.49	25093.29
DEPRECIATION/ ADJUSTMENTS											
As at 1st April, 2009	5.81	36.24	–	291.42	1051.32	10240.16	491.87	146.46	150.30	12413.58	11200.36
For the year	–	8.60	–	32.85	26.88	1547.67	116.91	12.67	59.88	1805.46	1600.96
	5.81	44.84	–	324.27	1078.20	11787.83	608.78	159.13	210.18	14219.04	12801.32
Adjustment on Disposals	–	–	–	–	–	2.04	121.11	159.13	24.63	306.91	387.74
	5.81	44.84	–	324.27	1078.20	11785.79	487.67	–	185.55	13912.13	12413.58
NET BLOCK											
As at 31st March, 2010	–	127.16	328.12	597.85	155.58	11828.76	227.12	–	121.77	13386.36	12679.71
Capital Work-in-Progress	–	–	–	–	–	–	–	–	–	680.79	541.96
Per Balance Sheet 31st March, 2010	–	127.16	328.12	597.85	155.58	11828.76	227.12	–	121.77	14067.15	13221.67
Per Balance Sheet 31st March, 2009	–	135.76	328.12	630.70	182.46	10979.24	189.11	77.67	156.65	13221.67	

NOTES:

- (I) Leasehold property include Buildings on Leasehold Land cost Rs.575.24 Lakhs (2009 - Rs.575.24 lakhs), Depreciation Rs.471.44 Lakhs (2009 - Rs.450.80 Lakhs).
- (II) Deeds of conveyance are to be executed for Land Freehold Rs.0.83 Lakhs (2009 - Rs.0.83 Lakhs), Buildings Freehold Rs.11.28 Lakhs (2009 - Rs.11.28 Lakhs)
- (III) Furniture & Fixtures as at year end include, computer software cost Rs.55.35 Lakhs (2009 - Rs.169.72 Lakhs), Depreciation Rs.37.07 Lakhs (2009 - Rs.137.13 Lakhs)
- (IV) Leasehold Equipment represents computers and related assets acquired under finance lease. During the year ended 31st March, 2010 the said lease agreement was pre-closed.
- (V) Depreciation for the year ended 31st March, 2010 of Rs.1805.46 Lakhs (2009 - Rs.1600.96 Lakhs) includes Rs.10.35 Lakhs (2009 - Rs.10.37 Lakhs) transferred from Revaluation Reserve.
- (VI) Capital Work-in-Progress includes Capital Advances Rs.662.34 Lakhs (2009 - Rs.492.97 Lakhs) which are Unsecured and Considered Good.
- (VII) The unexpired amortisation period for Time Share Rights is 15 years.



Rs. in Lakhs

	2010	2009
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.46.29 Lakhs, (Previous Year - Rs.23.26 Lakhs)].	<u>0.19</u>	<u>0.19</u>
UNQUOTED		
Government/Trust Securities National Savings Certificate cost Rs.500 (Previous Year - Rs.500) Lodged with Government Authority		
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 Equity Linked Redeemable Non-Convertible Debentures Series - 390 of Rs.1,00,000 each fully paid up - Sold 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	1000.00	1000.00
500 6.85% Tax Free Bonds -Series II of Rs.1,00,000 each fully paid up	500.00	500.00
Unit Trust of India 50,025 6.60% Tax free ARS Bonds of Rs.100 each fully paid up - Sold during the year	—	51.32
Birla Sun Life Savings Fund Institutional - Growth 60,11,892 units of Rs.10 each fully paid up	1000.00	1000.00
HDFC Floating Rate Income Fund - LTP - Growth 1,62,83,204 (2009 - 67,93,617) units of Rs.10 each fully paid up (94,89,587 units Purchased during the year)	2500.00	1000.00
ICICI Prudential Flexible Income Plan Premium - Growth 15,04,591 (2009 - 9,20,596) units of Rs.100 each fully paid up (5,83,995 units Purchased during the year)	2500.00	1500.00
Kotak Liquid (Institutional Premium) - Growth 70,49,353 units of Rs.10 each fully paid up	1000.00	1000.00



Rs. in Lakhs

	2010	2009
4. Investments (Contd.)		
Reliance Medium Term Fund - Retail Plan - Growth Option 55,05,032 units of Rs.10 each fully paid up	1000.00	1000.00
Reliance Regular Savings Fund - Debt Plan - Institutional Growth Plan 41,56,967 units of Rs.10 each fully paid up - Purchased during the year	500.00	—
Sundaram BNP Paribas Energy Opportunities Fund - Growth 10,00,000 units of Rs.10 each fully paid up	100.00	100.00
Tata Floater Fund - Growth 149,31,549 (2009 - 76,48,652) units of Rs.10 each fully paid up (72,82,897 units Purchased during the year)	2000.00	1000.00
Birla Sun Life FTP - Institutional - Series AD - Growth 50,00,000 units of Rs.10 each fully paid up - Sold during the year	—	500.00
Birla Sun Life FTP - Institutional - Series AM - Growth 50,00,000 units of Rs.10 each fully paid up - Sold during the year	—	500.00
Birla Sun Life FTP - Institutional Series BD - Growth 1,00,00,000 units of Rs.10 each fully paid up - Sold during the year	—	1000.00
DSP Black Rock FMP 12.5M Series I - Institutional Growth 50,00,000 units of Rs.10 each fully paid up - Sold during the year	—	500.00
DWS Fixed Term Fund Series 46 - Institutional Growth 50,00,000 units of Rs.10 each fully paid up - Sold during the year	—	500.00
HDFC FMP 13M March 2008 (VII) (2) - Wholesale Plan Growth 1,00,00,000 units of Rs.10 each fully paid up - Sold during the year	—	1000.00
HSBC Fixed Term Series - 44 Institutional - Growth 1,00,00,000 units of Rs.10 each fully paid up - Sold during the year	—	1000.00
HSBC Fixed Term Series 57 Institutional Growth - Tenure 370 days 50,00,000 units of Rs.10 each fully paid up - Sold during the year	—	500.00
HSBC Ultra Short Term Bond Fund - Institutional Plus - Growth 59,29,826 units of Rs.10 each fully paid up - Sold during the year	—	615.00
ICICI Prudential FMP Series 43-13 Months Plan D Retail Growth 1,00,00,000 units of Rs.10 each fully paid up - Sold during the year	—	1000.00
IDFC Fixed Maturity Plan - Yearly Series 19 - Plan B - Growth 50,00,000 units of Rs.10 each fully paid up - Sold during the year	—	500.00
IDFC Enterprise Equity Fund - Growth 10,00,000 units of Rs.10 each fully paid up - Sold during the year	—	100.00
Kotak FMP 14M Series 4 - Institutional - Growth 50,00,000 units of Rs.10 each fully paid up - Sold during the year	—	500.00
Morgan Stanley Equity Fund - Growth 4,34,882 units of Rs.10 each fully paid up - Sold during the year	—	199.23
Reliance Fixed Horizon Fund IV - Series 6 - Institutional Growth Plan 50,00,000 units of Rs.10 each fully paid up - Sold during the year	—	500.00
Reliance Fixed Horizon Fund - VII - Series 4 - Institutional Growth Plan 50,00,000 units of Rs.10 each fully paid up - Sold during the year	—	500.00



Rs. in Lakhs

	2010	2009
4. Investments (Contd.)		
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 - Sold during the year	—	500.00
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>12325.38</u>	<u>19290.93</u>
Current Investment - At lower of cost and fair value Other than Trade and Unquoted		
Birla Sun Life Savings Fund - Institutional Plan - Daily Dividend Reinvestment 49,96,602 units of Rs.10 each fully paid up - Purchased during the year	500.00	—
Birla Sun Life Dynamic Bond Fund - Retail Plan - Monthly Dividend Payout 96,09,563 units of Rs.10 each fully paid up - Purchased during the year	1000.00	—
HDFC CMF - Treasury Advantage Plan - Wholesale - Daily Dividend Reinvestment 49,84,299 units of Rs.1,000 each fully paid up - Purchased during the year	500.00	—
ICICI Prudential Flexible Income Plan Premium - Daily Dividend Reinvestment 4,72,880 units of Rs.100 each fully paid up - Purchased during the year	500.00	—
IDFC Money Manager Fund - Investment Plan - Institutional Plan B - Daily Dividend Reinvestment 99,86,202 units of Rs.10 each fully paid up - Purchased during the year	1000.12	—
Reliance Monthly Interval Fund - Series II - Institutional Dividend Plan 1,49,94,452 units of Rs.10 each fully paid up - Purchased during the year	1500.00	—
Religare Ultra Short Term Fund - Institutional Plan - Daily Dividend Reinvestment 49,94,095 units of Rs.10 each fully paid up - Purchased during the year	500.19	—
UTI Treasury Advantage Fund - Series II - Institutional Plan (Daily Dividend Option) - Reinvestment 1,19,974 units of Rs.1,000 each fully paid up - Purchased during the year	1200.00	—
Reliance Medium Term Fund - Daily Dividend Plan 84,386.787 (2009 - 6,73,028.851) units of Rs.10 each fully paid up	14.43	115.06
Reliance Monthly Interval Fund - Series II - Institutional Dividend Plan 9,99,630.137 units of Rs.10 each fully paid up - Purchased during the year	100.00	—
	<u>6814.74</u>	<u>115.06</u>
Aggregate amount of unquoted investments	19140.12	19405.99
TOTAL	<u>19140.31</u>	<u>19406.18</u>



4. Investments (Contd.)

Note:

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

UTI Liquid Cash plan Institutional - Daily Dividend option - Reinvestment 13,39,218 units of Rs.1,000 each

UTI Treasury Advantage Fund - Institutional Plan (Daily Dividend Option) - Reinvestment 20,13,273 units of Rs.1,000 each

HDFC Cash Management Fund - Treasury Advantage Plan - Wholesale - Daily Dividend Reinvestment 8,81,37,636 units of Rs.10 each

HDFC CMF - Call Plan - Daily Dividend Reinvestment 1,43,87,453 units of Rs.10 each

HDFC Liquid Fund Premium Plan - Daily Dividend Reinvestment 4,38,49,521 units of Rs.10 each

HDFC Index Fund - Sensex Plan - Growth 40,330 units of Rs.100 each

HDFC Index Fund - Nifty Plan (Post Addendum) 4,73,134 units of Rs.10 each

ICICI Prudential Institutional Liquid Plan - Super Institutional Daily Dividend 4,01,34,365 units of Rs.100 each

ICICI Prudential - Flexible Income Plan Premium Dividend - Daily 4,24,61,842 units of Rs. 10 each

ICICI Prudential - Flexible Income Plan Premium Dividend - Daily 54,75,486 units of Rs. 100 each

Reliance Medium Term Fund - Daily Dividend Plan 9,72,23,951 units of Rs.10 each

Reliance Liquidity Fund - Daily Dividend Reinvestment Option 15,55,28,631 units of Rs.10 each

Tata Liquid Super High Investment Fund - Daily Dividend 27,72,778 units of Rs.1,000 each

Tata Floater Fund - Daily Dividend 17,55,47,775 units of Rs. 10 each

Religare Liquid Fund - Institutional Daily Dividend - 2,32,27,677 units of Rs.10 each

Religare Ultra Short Term Fund - Institutional Daily Dividend - 2,24,22,781 units of Rs.10 each

Birla Sun Life Savings Fund - Institutional Daily Dividend - Reinvestment 11,86,03,657 units of Rs.10 each

Birla Sun Life Cash Plus - Institutional Premium Daily Dividend - Reinvestment 14,03,44,312 units of Rs.10 each



Rs. in Lakhs

	2010	2009
5. Deferred Tax - Net		
Deferred tax asset		
On employees' separation and retirement	444.67	172.66
On State and Central Taxes etc.	1975.12	1771.46
On other timing differences	31.26	30.82
	<u>2451.05</u>	<u>1974.94</u>
Deferred tax liability		
On fiscal allowances on fixed assets	1197.85	1152.17
	<u>1253.20</u>	<u>822.77</u>
6. Inventories		
Stores and Spare Parts - At cost or below	59.31	63.04
Raw Materials - At cost or below	14760.41	10528.59
Stock-in-Trade		
Finished Goods - At cost or net realisable value whichever is lower	2776.94	2648.99
Work-in-Process - At cost or net realisable value whichever is lower	310.89	185.63
	<u>17907.55</u>	<u>13426.25</u>
7. Sundry Debtors (Unsecured, Considered Good)		
Debts outstanding for a period exceeding six months	3.02	8.30
Other Debts	1447.93	480.23
	<u>1450.95</u>	<u>488.53</u>
8. Cash and Bank Balances		
Cash including Cheques on hand	1.29	2.90
With Scheduled Banks		
- On Unclaimed Ordinary Dividend Account	229.22	185.73
- On Preference Share Redemption Account	0.18	0.18
- On Current Accounts	392.74	192.71
- On Term Deposits	14.14	989.11
[Includes towards Margin Money Rs.13.32 Lakhs (2009 - Rs.13.34 Lakhs)]		
	<u>637.57</u>	<u>1370.63</u>
9. Other Current Assets (Unsecured, Considered Good)		
Interest accrued on Loans, Deposits and Investments	16.11	49.64
	<u>16.11</u>	<u>49.64</u>



Rs. in Lakhs

	2010	2009
10. Loans and Advances (Considered Good)		
Secured - Loans	99.25	113.69
Unsecured - Loans	36.99	33.02
- Advances recoverable in cash or in kind or for value to be received	961.86	884.07
- Balances with Excise Authorities	115.57	138.73
- Deposits	24.22	24.22
- Taxation (net of provisions)	270.98	180.07
	<u>1508.87</u>	<u>1373.80</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	16133.06	16172.84
	<u>16133.06</u>	<u>16172.84</u>
Advances from Customers	9164.19	4116.83
Unpaid/Unclaimed Dividends	229.22	185.73
Unclaimed/Unencashed Matured Deposits	0.08	0.08
Interest on Matured Deposits	-	0.03
Preference Share Redemption Account	0.18	0.18
Security Deposits	2.55	1.50
Other Liabilities	21.36	21.87
	<u>25550.64</u>	<u>20499.06</u>
There is no amount due and outstanding to be credited to Investor Education and Protection Fund.		
12. Provisions		
Proposed Dividend including Tax thereon	5401.99	5419.88
	<u>5401.99</u>	<u>5419.88</u>
13. Capital Expenditure Commitments (not provided for)	<u>3478.20</u>	<u>1717.80</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.687.19 Lakhs (2009 - Rs.306.42 Lakhs). These comprise -		
a. Tax demands disputed by the Company relating to disallowances/additions of fiscal benefits, pending at various stages of appeal, aggregating to Rs.569.00 Lakhs (2009 - Rs.63.74 Lakhs).		
b. Land disputes representing claims towards land grabbing cases pending before Hon'ble Special Court aggregating to Rs.103.16 Lakhs (2009 - Rs.227.59 Lakhs).		
c. Other matters relating to labour cases etc. aggregating to Rs.15.03 Lakhs (2009 - Rs.15.03 Lakhs).		

**14. Notes to Consolidated Balance Sheet (Contd.)****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	31.03.2010			31.03.2009		
	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
Later than one year and not later than five years	—	—	—	54.77	5.98	48.79
Total	—	—	—*	110.68	14.27	96.40*

* Represents installments due under the finance lease arrangement, included under Sundry Creditors (Schedule 11). During the year ended 31st March, 2010, the said lease agreement was pre-closed.

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:

In Lakhs

		31.03.2010		31.03.2009	
Currency Pair	Currency	Buy	Sell	Buy	Sell
USD/INR	INR	—	4453.12	—	3197.35
EUR/USD	USD	6.87	—	—	—

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

		31.03.2010		31.03.2009	
Currency Pair	Currency	Buy	Sell	Buy	Sell
USD/INR	INR	—	1429.66	3066.19	461.45

V. Micro and Small scale business entities

There are no Micro and Small Enterprises, to whom the Company owes dues, which are outstanding as at 31st March, 2010. 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.100.64 Lakhs (2009 - Rs.93.57 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 Defined Benefit Plans as required under the Standard:

Rs. in Lakhs

	Gratuity		Pension		Leave Encashment	
	31.03.2010	31.03.2009	31.03.2010	31.03.2009	31.03.2010	31.03.2009
Projected benefit obligation at the beginning of the year	1686.45	1414.45	144.70	127.00	391.81	396.22
Current Service Cost	131.04	118.13	8.83	8.27	78.61	41.51
Interest Cost	116.07	97.14	9.92	8.76	22.98	31.03
Actuarial (Gain)/Loss	106.88	110.07	(9.35)	4.50	169.29	(60.15)
Less: Benefits Paid	56.65	53.34	5.85	3.83	127.09	16.80
Projected benefit obligation at the end of the year	1983.79	1686.45	148.25	144.70	535.60	391.81
Amounts recognised in the Balance Sheet						
Projected benefit obligation at the end of the year	1983.79	1686.45	148.25	144.70	535.60	391.81
Fair value of plan assets at end of the year	1946.34	1686.45	157.27	149.86	522.48	445.21
Asset/(Liability) recognised in the Balance Sheet	(37.45)	—	9.02	5.16	(13.12)	53.40
Cost of Retirement and Other Benefits for the year						
Current Service cost	131.04	118.13	8.83	8.27	78.61	41.51
Interest Cost	116.07	97.14	9.92	8.76	22.98	31.03
Expected return on plan assets	(150.13)	(134.93)	—	(13.15)	(39.61)	(38.25)
Net actuarial (Gain)/Loss recognised in the year	106.88	110.07	(9.35)	4.50	169.29	(60.15)
Net Cost recognised in the Profit and Loss Account	203.86	190.41	9.40	8.38	231.27	(25.86)
Assumptions						
Discount Rate (%)	7.00	7.00	7.00	7.00	7.00	7.00
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

	2010	2009
15. Other Income		
Miscellaneous Income	403.43	218.16
Liabilities no longer required written back	324.71	27.25
Gain/(Loss) on Exchange	726.25	(1561.38)
Income from Long Term Investments - Other than Trade (Gross)	2.46	1.89
Income from Current Investments - Other than Trade (Gross)	328.60	687.14
Profit/(Loss) on sale of Long Term Investments (Net)	1299.66	1158.75
Profit/(Loss) on sale of Current Investments (Net)	12.80	53.41
Interest on Loans and Deposits etc. (Gross)	232.98	132.26
	<u>3330.89</u>	<u>717.48</u>
Interest on Loans and Deposits etc. is stated at Gross.		
The amount of Income Tax deducted is Rs.10.61 Lakhs (2009 - Rs.8.18 Lakhs)		
16. Raw Materials, Purchases and Stock-in-Trade		
a. Raw Materials Consumed*		
Opening Stock	10528.59	5955.48
Purchases	30576.39	22959.04
	<u>41104.98</u>	<u>28914.52</u>
Less: Closing Stock	<u>14760.41</u>	<u>10528.59</u>
	26344.57	18385.93
b. (Increase)/Decrease in Stock-in-Trade		
Opening Stock		
- Cigarettes	2648.99	1479.58
Closing Stock		
- Cigarettes	<u>2776.94</u>	<u>2648.99</u>
	(127.95)	(1169.41)
c. Increase/(Decrease) in Excise Duties on Stock-in-Trade	93.10	941.71
d. (Increase)/Decrease in Work-in-Process		
Opening	185.63	120.21
Closing	<u>310.89</u>	<u>185.63</u>
	(125.26)	(65.42)
	<u>26184.46</u>	<u>18092.81</u>
* Includes 11,902 Tonnes (2009 - 9,808 Tonnes) of unmanufactured tobacco etc. sold - Value Rs.13474.22 Lakhs (2009 - Rs.8052.07 Lakhs).		



Rs. in Lakhs

	2010	2009
17. Manufacturing, Selling, Distribution and Administration Expenses etc.		
Salaries, Wages and Bonus	4818.44	4035.08
Contributions to Provident, Gratuity and Other Retiral Funds	485.01	464.04
Workmen and Staff Welfare Expenses	410.08	389.59
Insurance	5713.53	4888.71
Consumption of Stores and Spare Parts	87.51	90.86
Power and Fuel	331.19	273.87
Rent	216.57	219.93
Repairs - Buildings	179.72	139.08
- Machinery	27.44	22.60
- Others	46.94	37.22
Rates and Taxes	19.22	16.98
Excise Duty on Samples	896.91	858.94
Outward Freight	69.44	60.32
Advertising	956.06	894.84
Distribution Expenses	969.50	1116.37
Miscellaneous	1619.37	1418.94
(Profit)/Loss on Fixed Assets sold and discarded (Net)	1622.07	1673.35
Interest - Others	(11.02)	0.95
Payment to Auditors - Audit Fee	2.73	12.87
- Reimbursement of Expenses	18.10	16.10
- Fees for certificates etc.	0.33	0.05
Directors' Fees	6.26	6.04
	5.19	6.00
	<u>12777.06</u>	<u>11754.02</u>
R&D Expenses included above	<u>332.20</u>	<u>233.37</u>
18. Taxation		
Taxation - Current	2749.51	2306.00
- Prior Years	14.30	(18.14)
Deferred Tax	(414.80)	73.66
	<u>2349.01</u>	<u>2361.52</u>



Rs. in Lakhs

	2010	2009
19. Notes to Consolidated Profit and Loss Account		
(I) Directors' Remuneration		
Remuneration	267.27	228.86
Performance Linked Bonus	202.29*	200.83
Commission to Non Wholetime Directors	25.00	20.00
Other Benefits	50.49	34.14
Directors' Fees	5.19	6.00
	<u>550.24</u>	<u>489.83</u>
* Includes Rs.67.43 Lakhs - subject to shareholders approval.		
(II) Exceptional items comprise of:		
a. Expense incurred under Voluntary Retirement Scheme for employees	(1241.00)	—
b. The Post Manufacturing Expenses dispute relates to excise duty payable on clearances from the factory between 1st March, 1975 to 28th February, 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 (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 was considered in the Profit and Loss Account.	—	1260.79
TOTAL	<u>(1241.00)</u>	<u>1260.79</u>
(III) Earnings Per Share		
Earnings Per Share is computed based on the following -		
a. Profit after Taxation (Rs. Lakhs)	6200.89	6191.77
b. Weighted average number of equity shares	1,54,41,920	1,54,41,920
c. Basic and diluted Earnings Per Share		
(Face Value Per Share - Rs.10) Rs.	40.16	40.10
(IV) Related party transactions during the year		
1. Companies:		
Company having significant influence		
British American Tobacco Group		
Nature of transactions		
Sales - Goods	1650.05	635.13
Other receipts - Services etc.	58.82	—
Other payments - Services etc.	2.27	0.77
- Dividend Paid	1489.77	993.18
Outstanding as at the year end		
- Receivable	102.12	40.54
2. Remuneration to Key Managerial Personnel		
Mr. Raymond S. Noronha - Managing Director	326.98	294.43
Mr. N. Sai Sankar - Deputy Managing Director & Secretary	193.07	169.40
(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	96959.71	89543.83
b. Sales outside India	<u>15581.95</u>	<u>10929.87</u>
	<u>112541.66</u>	<u>100473.70</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.		



		2010		2009	
		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	23976			25318
Actual Saleable Production (includes contract manufacture and manufactured for others)	Millions	7488			7308
*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	7511	95932.76		7188 88960.60
Unmanufactured Tobacco	Tonnes	11902	16259.69		9808 11231.16
Cut Tobacco	Tonnes	257	338.84		220 279.19
Others			10.37		2.75
			<u>112541.66</u>		<u>100473.70</u>
c. DETAILS OF STOCK-IN-TRADE					
i. Opening Stock					
Cigarettes	Millions	248	2648.99		153 1479.58
ii. Closing Stock					
Cigarettes	Millions	224	2776.94		248 2648.99
Stock Quantities exclude damaged stocks, samples, etc.					
d. DETAILS OF RAW MATERIALS CONSUMED					
Unmanufactured Tobacco	Tonnes	17487	19248.98		15295 12363.73
Board	Tonnes	1854	828.25		1604 666.00
Hinge Lid Packs	Millions	296	1236.48		517 1324.77
Cigarette Paper	M.Meters	385686	290.26		388722 273.99
Foil	M.Meters	33883	215.35		70206 371.13
Filter Rods	Millions	1202	1315.63		1165 1097.04
Others			3209.62		2289.27
			<u>26344.57</u>		<u>18385.93</u>



	2010		2009	
20. Additional Information (Contd.)				
e. VALUE OF RAW MATERIALS, SPARE PARTS AND COMPONENTS CONSUMED	Rs.in Lakhs	%	Rs.in Lakhs	%
Raw Materials				
Imported	583.14	2.2	712.37	3.9
Indigenous	25761.43	97.8	17673.56	96.1
	<u>26344.57</u>	<u>100.0</u>	<u>18385.93</u>	<u>100.0</u>
Stores and Spare Parts				
Imported	79.83	24.1	47.59	17.4
Indigenous	251.36	75.9	226.28	82.6
	<u>331.19</u>	<u>100.0</u>	<u>273.87</u>	<u>100.0</u>
f. EXPORTS AND IMPORTS				
Export of goods (F.O.B. Value)	15498.86		10841.50	
Imports (C.I.F. Value) (On payment basis)				
Raw Materials	450.40		627.10	
Spare Parts	108.26		48.66	
Capital Goods	2015.92		1230.95	
	<u>2574.58</u>		<u>1906.71</u>	
g. EXPENDITURE IN FOREIGN CURRENCY (On payment basis)				
Miscellaneous - Travelling, Advertisement and Subscriptions etc.	226.11		106.71	
h. DIVIDEND PAID TO NON-RESIDENT SHAREHOLDERS IN FOREIGN CURRENCY	Rs.in Lakhs		Rs.in Lakhs	
FINAL				
Amount of dividend	1489.77		993.18	
Number of Non-Resident Shareholders	3		3	
Number of Shares held	49,65,902		49,65,902	
The year to which the Dividend relate (year ended)	31-03-2009		31-03-2008	
i. COMPARATIVE FIGURES				
The comparative figures for the previous year have been re-arranged to conform with the revised presentation of the accounts.				
On behalf of the Board,				
For LOVELOCK & LEWES	A. BASU		Chairman	
Firm Registration No. 301056E	R. S. NORONHA		Managing Director	
Chartered Accountants	N. SAI SANKAR		Deputy Managing Director & Secretary	
N.K. VARADARAJAN				
Partner				
Membership No. 90196				
Hyderabad, 15th April, 2010.				



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.

EMPLOYEE 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. Gains and losses resulting from the settlement of such transactions and from translation of monetary assets and liabilities denominated in foreign currencies are recognised in the Profit and Loss Account.

Forward exchange contracts outstanding as at the period end on account of firm commitment/highly probable forecast transaction are marked to market and the resultant gain/loss is dealt in the Profit and Loss Account.

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.



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") and its subsidiary; hereinafter referred to as the "Group" (refer Note 1 on Schedule 14 to the attached Consolidated Financial Statements) as at 31st March, 2010, 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. 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. We did not audit the financial statements of the subsidiary included in the Consolidated Financial Statements, which constitute total assets of Rs.296.22 Lakhs and net assets of Rs.296.06 Lakhs as at 31st March, 2010, total revenue of Rs.5.31 Lakhs, net loss of Rs.4.18 Lakhs and net cash flows amounting to Rs.0.03 Lakhs for the year ended. The financial statement of the subsidiary and other financial information have been audited by other auditor whose report has been furnished to us, and our opinion on the Consolidated Financial Statements to the extent they have been derived from such financial statements is based solely on the report of such 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 (AS) 21 - Consolidated Financial Statements notified under sub-section 3C of Section 211 of the Companies Act, 1956.
5. Based on our audit and on consideration of report of other auditor on separate financial statements and on the other financial information of the component of the Group as referred to above, and to the best of our information and according to the explanations given to us, in our opinion, 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, 2010;
 - (b) in the case of the Consolidated Profit and Loss Account, of the profit of the Group for the year ended on that date; and
 - (c) in the case of the Consolidated Cash Flow Statement, of the cash flows of the Group for the year ended on that date.

For LOVELOCK & LEWES
Firm Registration No. 301056E
Chartered Accountants

N.K. VARADARAJAN
Partner
Membership No. 90196

Hyderabad, 15th April, 2010.



Operating Results 2001-2010

Rs. in Lakhs

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
GROSS INCOME	75578	68457	66937	64062	69460	73650	73944	78712	102312	115635
EXCISE & CUSTOMS DUTIES	43127	40176	38598	34416	37317	40411	38903	43347	62366	65325
OPERATING PROFIT	3865	6655	7325	7359	10178	11940	9474	9781	10112	10111
DEPRECIATION	502	546	809	879	951	1024	1148	1372	1582	1787
INTEREST	359	272	(237)	(106)	(54)	(274)	(150)	(197)	(104)	(230)
PROFIT BEFORE TAX & EXTRAORDINARY ITEM	3004	5837	6753	6586	9281	11190	8476	8606	8634	8554
PROFIT AFTER TAX & EXTRAORDINARY ITEM	2750	3698	3824	2857	5402	4310	5509	5835	6182	6205
DIVIDENDS [^]	509	722	958	1045	2203*	2201	3613	3613	5420	5402
EARNINGS IN FOREIGN EXCHANGE (FOB VALUE)	2016	2645	3275	4793	5259	4527	4690	6075	10842	15499

Sources and Application of Funds 2001-2010

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
SOURCES										
EQUITY CAPITAL	1544	1544	1544	1544	1544	1544	1544	1544	1544	1544
PREFERENCE CAPITAL	3769@	-	-	-	-	-	-	-	-	-
RESERVES	4719	7719	10569	12359	15544	17633	19479	21649	22401	23194
BORROWINGS	4764@	1803	1199	598	-	-	-	-	-	-
NET CAPITAL EMPLOYED	14796	11066	13312	14501	17088	19177	21023	23193	23945	24738
APPLICATION										
GROSS FIXED ASSETS	9052	10124	11859	13862	15360	17768	19551	23345	25463	27807
DEPRECIATION ACCUMULATED	5699	5992	6711	7290	7983	8865	9843	11173	12377	13867
NET FIXED ASSETS	3353	4132	5148	6572	7377	8903	9708	12172	13086	13940
NET CURRENT ASSETS (INCL. INVESTMENTS & DEFERRED TAX)	11443	6934	8164	7929	9711	10274	11315	11021	10859	10798
NET ASSETS EMPLOYED	14796	11066	13312	14501	17088	19177	21023	23193	23945	24738

Performance Ratios 2001-2010

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
DIVIDEND RATE ON EQUITY CAPITAL (%)	25	45	55	60	125*	125	200	200	300	300
EARNINGS PER SHARE (Rs.)	17.3	23.8	24.8	18.5	35.0	27.9	35.7	37.8	40.04	40.18
RETURN ON NET CAPITAL EMPLOYED (%)	18.6	33.4	28.7	19.7	31.6	22.5	26.2	25.2	25.8	25.1
RETURN ON NET WORTH (%)	27.4	39.9	31.6	20.5	31.6	22.5	26.2	25.2	25.8	25.1
DEBT/EQUITY (%)	47.5	19.5	9.9	4.3	-	-	-	-	-	-
INTEREST COVER (Times)	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

ATTENDANCE SLIP**VST INDUSTRIES LIMITED**

Registered Office: AZAMABAD, HYDERABAD - 500 020.

DP ID

Client ID/
Folio No.

No. of Shares

NAME & ADDRESS OF THE REGISTERED SHAREHOLDER

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

I hereby record my presence at the 79th ANNUAL GENERAL MEETING of the Company held on **Friday, July 16, 2010 at 10.30 a.m.** at Hotel Taj Krishna, Road No.1, Banjara Hills, Hyderabad - 500 034._____
SIGNATURE OF MEMBER/PROXY**Note: Please complete this and hand it over at the entrance of the hall.****FORM OF PROXY****VST INDUSTRIES LIMITED**

Registered Office: AZAMABAD, HYDERABAD - 500 020.

DP ID

Client ID/
Folio No.

No. of Shares

NAME & ADDRESS OF THE REGISTERED SHAREHOLDER

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/her _____
of _____ in the district of _____
as my / our proxy to vote for me / us on my / our behalf at the 79TH ANNUAL GENERAL MEETING of the Company to be held
on **Friday July 16, 2010 at 10.30 a.m.** and at any adjournment thereof.

Signed this _____ day of _____ 2010.

Signature

Affix a
15 paise
Revenue
Stamp**NOTE: This form of proxy in order to be effective should be duly completed and deposited at the Registered Office of the Company, not less than 48 hours before the commencement of the meeting.**



VST Industries Limited