



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

Figure and Describe	,	D. Labba
Financial Results		Rs. Lakhs
The Net Profit for the year, after deducting all charges, expenses and taxation but before extraordinary item amounts to		5835.31
•	••	3033.31
Adding thereto Profit brought forward from the		
previous year		6440.96
The amount available for disposal was		12276.27
Out of which the following appropriation has been made :		
General Reserve		600.00
Leaving a balance of		11676.27
Out of which your Board recommends		3613.25
Should be distributed as Dividend on the Ordinary Share Capital at the rate of Rs.20 per share and inclusive of Dividend Tax		
Leaving an undistributed amount of		8063.02
in the Profit and Loss Account to be carried forward to the following year.		

INDUSTRY STRUCTURE & DEVELOPMENT

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

Industry Issues

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

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

SEGMENT WISE PERFORMANCE

Your Company considers tobacco and related products as the primary segment

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

Market Scenario

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

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

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



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

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

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

Leaf Tobacco

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

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

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

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

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

PRODUCTION AND PLANT MODERNISATION

Primary Manufacturing Department (PMD)

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

Stem flattener has been installed in Stem Cutting Line to ensure better and consistent quality stem cutting. On line moisture meter at drier entry and new design weigh feeders have been installed in Lamina Drying Line to achieve accurate moisture control.

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

Secondary Manufacturing Department (SMD)

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

- One Molins MK9 MTF 5500 cpm Making machine has been installed
- Direct transportation of CFCs from SMD Packing lines to the warehouse on the Plains line
- One GD HRC (Half Round Corner) packer with \$90 Cig Reservoir & GD wrapper along with the Parceller has been installed. HRC Capacity increased by 100 Mnc/ month
- One GD 121 12000 Filter making Machine along with Filter Shooter installed

HUMAN RESOURCE DEVELOPMENT

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

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

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



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

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

ENVIRONMENT, HEALTH & SAFETY (EHS) AND COMMUNITY SERVICES

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

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

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

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

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

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

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

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

Statutory compliances are in place.

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

FINANCE

a. Profits

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

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

b. Treasury Operations

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

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

ENTERPRISE RESOURCE PLANNING (ERP)

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

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

FIXED DEPOSITS

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

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

RATING

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



UNCLAIMED DIVIDENDS

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

CORPORATE GOVERNANCE

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

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

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

INTERNAL CONTROL SYSTEMS

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

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

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

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

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

Risk Management

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

DIRECTORS

Directors retiring by rotation

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

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

Air Chief Marshal Latif was appointed a Director on the Board

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

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

b. Mr. Raymond S. Noronha

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



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

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

Directors' Resignation and Appointments

a. Mr. Jayampathi Divale Bandaranayake

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

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

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

b. Mr. V. Sekar

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

Mr. Sekar is a Chartered Accountant. He joined the General Insurance Industry in 1975 and has held various positions in the Oriental Insurance Co. Ltd. prior to his assignment as General Manager of United India Insurance Co. Ltd. He has rich experience of more than three decades in the Oriental

Insurance Co. Ltd. He is also a director on the board of United India Insurance Co. Ltd., Chennai.

c. Mr. T. Lakshmanan

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

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

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

DIRECTORS' RESPONSIBILITY STATEMENT

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

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



- 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;
- proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of your Company and for preventing and detecting fraud and other irregularities;
- 4. the Annual Accounts have been prepared on a going concern basis.

TAXATION

i. Income Tax

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

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

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

Further in connection with its divestment from the Foods Business

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

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

ii. Luxury Tax

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

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

iii. Entry Tax

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

iv. Value Added Tax

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

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

EXCISE

i. Gay Wrappers

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

ii. North-East

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

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

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

iii. Misclassification of Plain cigarettes

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

iv. Post Manufacturing Expenses

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

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

PUBLIC INTEREST LITIGATION

Smoking & Health

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



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

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

FINANCIAL SERVICES BUSINESS

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

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

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

By order dated 28th February, 2006, the Hon'ble A.P. High Court had directed investigation into the matter to find out the whereabouts of records and documents. Your Company along with ITC filed an Appeal against this order and the Division Bench was pleased to grant stay of the said Order. By its Order dated 10th July, 2007, the Division Bench was pleased to allow your Company's appeal and directed the Regional Director, Corporate Affairs, Chennai to conduct an investigation and submit a report showing who were the persons who promoted ITCATF and who were the persons responsible for running its affairs until its winding up. This investigation is still in progress.

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

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

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



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

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

COMPANY EMPLOYEES

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

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

AUDITORS

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

THE FUTURE

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

unprecedented challenges on your Company.

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

On behalf of the Board.

A. BASU Chairman

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



ANNEXURE TO THE DIRECTORS' REPORT

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

A. CONSERVATION OF ENERGY

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

Achieved on account of the above:

i. Savings - 3.2% of electrical energy consumption

B. TECHNOLOGY ABSORPTION

Research & Development (R&D)

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

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

3. Future plan of action:

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

Expenditure on R&D Rs.Lakhs

a. Capital 15.46

b. Recurring 279.68
TOTAL 295.14

c. Total R&D expenditure as a percentage of:

Gross Turnover 0.38 %

Net Turnover 0.87 %

C. FOREIGN EXCHANGE EARNINGS AND OUTGO

- 1. Activities relating to exports:
 - 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)
- To increase the exports further, tie up with merchant companies, production of low pesticide residue
- v. Upgradation of processing & manufacturing technology
- Initiatives taken to increase exports and development of new export

markets for products & services and export plans:

- Selection of tobacco, smoke analysis, on-line testing of cigarettes produced
- ii. Modernisation of process and technology to upgrade quality
- Total Foreign Exchange: Rs.Lakhs Used:

Raw Materials : 515.82 Spare Parts : 59.83

Capital Goods : 2571.36

Overseas Travel, Advertisement &

Subscriptions, etc.: 127.38

Dividends : 993.18

4267.57

Earned:

Cigarettes

(CIF, C&F & FOB): 38.44

Tobacco

(CIF, C&F & FOB): 5955.25

Cut Tobacco

(CIF, C&F & FOB): 163.64

6157.33

On behalf of the Board,

A. BASU Chairman

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

Andhra Pradesh.

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ANNEXURE TO THE DIRECTORS' REPORT

Information under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the year ended 31st March, 2008

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

NOTES:

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

On behalf of the Board,

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

A. BASU Chairman



REPORT ON CORPORATE GOVERNANCE

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

1. COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE

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

2. I. BOARD OF DIRECTORS

(A) Composition of Board

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

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

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

Name of the Director	Position	Relationship with other Directors	No. of outside directorships held	No. of memberships/ chairmanships of board committees of other companies	
Mr. A. Basu	Chairman (Independent Non-Executive Director)	None	_	Nil	
Mr. Raymond S. Noronha	Managing Director	None	1	Nil	
Mr. J.D. Bandaranayake ¹	Non-Executive Director	None	8	Nil	
Air Chief Marshal I.H. Latif (Retd.)	Independent Non-Executive Director	None	_	Nil	
Mr. T. Lakshmanan²	Independent Non-Executive Director	None	_	Nil	
Mr. R.V.K.M. Suryarau	Independent Non-Executive Director	None	_	Nil	
Mr. N. Sai Sankar	Wholetime Director	None	1	Nil	
Mr. S. Thirumalai	Independent Non-Executive Director	None	_	Nil	
Mr. Andrew O'Regan ³	Non-Executive Director	None	7	Nil	
Mr. V.Sekar ⁴	Independent Non-Executive Director	None	1	Nil	

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

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

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

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



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

(B) Non-Executive Directors' compensation and disclosures

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

(C) Other provisions as to Board and Committees

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

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

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

¹ Appointed as Director on 29th October, 2007.

ii. Availability of information to the members of the Board

The information placed before the Board includes:

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

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

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

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

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

(D) Code of Conduct

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

II. Audit Committee

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

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

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

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

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

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



(C) Powers of Audit Committee

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

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

(D) Role of Audit Committee

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

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

(E) Review of information by Audit Committee

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

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



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

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

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

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

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

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

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

III. Subsidiary Company

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

IV. Disclosures

(A) Basis of related party transactions

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

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

(B) Disclosure of Accounting Treatment

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

(C) Board Disclosures

i. Risk Management

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



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

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

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

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

ii. Internal Control System

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

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

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

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

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

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

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

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

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

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



(E) Remuneration of Directors

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

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

Rupees

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

- ^ Rs.58,000 Commission paid to General Insurance Corporation of India represented by its Director, Mr. T. Lakshmanan as its nominee from 1st April, 2007 to 28th October, 2007. Rs.42,000 Commission paid to Mr. T. Lakshmanan from 29th October, 2007 to 31st March, 2008.
- Rs.1,00,000 Commission paid to British American Tobacco Company represented by its Directors Mr. Andrew O'Regan from 1st April, 2007 to 28th October, 2007 and Mr. J. D. Bandaranayake from 29th October, 2007 to 31st March, 2008.
- * Rs.42,000 Commission paid to United India Insurance Company Limited represented by its Director, Mr. V. Sekar from 29th October, 2007 to 31st March, 2008.

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

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

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

Criteria for making payments to Non-Executive Directors

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



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

Rupees

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

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

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

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

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

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

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

(F) Management

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

(G) Shareholders Information

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

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

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

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

Mr. Raymond S. Noronha

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

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