



# president's message

Dear Shareholder,

It gives me pleasure to report that your Company has registered a 11.5% growth from Rs. 1,431 crore last year to Rs. 1,596 crore this year. Net Profits grew from Rs. 59.76 crore to Rs. 88.9 crore. This success is the result of our commitment to consumer oriented initiatives, enhanced operational efficiencies, and adoption of internationally acclaimed business processes. What makes this success even bigger is that it has been achieved despite the severe regulatory environment and discriminatory taxation.

Living out of our Company's vision, to be a leading tobacco player in India and beyond, we have enhanced our tobacco portfolio; for cigar aficionado we launched Davidoff 'Good Life' range of Cigars; for discerning smokers, we launched India's first slim cigarette - Stellar and soon your company will foray into other tobacco products.

To take on the challenges of the future, the Company has taken many initiatives including restructuring besides continuous improvement in all its business processes and operating areas.

However, success imposes an even greater responsibility upon the Company as a responsible corporate citizen.

To ensure that the products are consumed in a most responsible manner, we have internally implemented WHITE - 'We Honour the Importance of Tobacco Etiquette', a first-of-its-kind initiative in India.

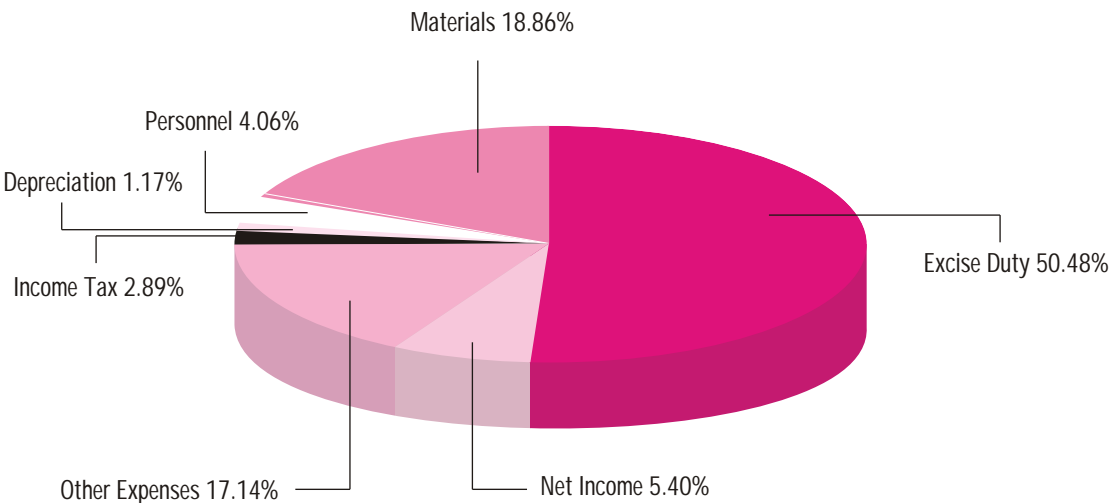
Over the years, Godfrey Phillips Bravery has also taken the form of a movement wherein initiatives like Blood Donation and Women Empowerment have been added to make a difference to society. The Blood Donation drive has been a huge success; having collected over 2,300 units of blood in a short span of 11 months. And, it's only the beginning.

As we move ahead, projects like these ensure that your Company looks beyond profits to embrace larger issues which help create a better world for a better tomorrow.

K.K. Modi  
President

## FINANCIAL HIGHLIGHTS

### Revenue Distribution



### Financial Highlights

Rs. in lacs

	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01	1999-2000	1998-99	1997-98
CAPITAL EMPLOYED										
Net Fixed Assets	12655	12984	12920	8732	7413	7037	6987	6384	5155	2695
Investments	24627	21100	19916	14473	15636	12873	8080	7722	3968	3647
Working Capital	10962	9809	4513	6575	5429	8510	12041	8619	13069	10449
Deferred Tax Assets (net)	-	-	1576	1239	797	-	-	-	-	-
Total	48244	43893	38925	31019	29275	28420	27108	22725	22192	16791
FINANCED BY										
Shareholders' Funds	41815	36046	32701	28950	25966	24170	21597	18775	16239	13021
Borrowings	6073	7439	6224	2069	3309	4029	5511	3950	5953	3770
Deferred Tax Liabilities (net)	356	408	-	-	-	221	-	-	-	-
Total	48244	43893	38925	31019	29275	28420	27108	22725	22192	16791
OPERATING PERFORMANCE										
Gross Revenue	163277	145712	132538	120219	109639	96002	100439	109408	106249	102355
Excise Duty	82423	76176	61021	55769	52085	47049	44375	57193	55639	55996
Depreciation	1907	1837	1655	995	913	811	769	551	447	211
Profit Before Taxation	13523	9969	9995	7649	5690	7184	7237	6386	6808	5935
Profit After Taxation	8810	6013	6360	5218	3791	4780	4656	4210	4603	3885
Dividend	2600	2340	2288	1976	1768	1924	1664	1508	1248	1040
Corporate Dividend Tax	442	328	321	258	227	-	170	166	137	104
Retained Earnings	5768	3345	3751	2984	1796	2856	2822	2536	3218	2741
INVESTORS' DATA										
Earning Per Equity Share (Rs)	84.73	57.82	61.16	50.18	36.45	45.96	44.77	40.48	44.27	37.36
Dividend Per Equity Share (Rs)	25.00	22.50	22.00	19.00	17.00	18.50	16.00	14.50	12.00	10.00
Book Value Per Equity Share (Rs) @	399.84	344.37	312.20	276.12	247.43	230.15	205.42	178.27	153.89	122.94
Number of Shareholders	12740	11261	11719	12539	13068	13198	13797	14004	15557	16994

@ Excluding Revaluation Reserve

# DIRECTORS' REPORT

## DIRECTORS' REPORT & MANAGEMENT DISCUSSION AND ANALYSIS

Your Directors deem it a privilege to present the Annual Report and Accounts for the year ended March 31, 2007.

It is reassuring to be able to report a commendable growth during the year 2006-2007, even in the face of the roadblocks your company encounters, being particularly in an industry that remains increasingly bedevilled by the spectre of discriminatory taxation on the one hand, and increasingly crippling regulations in conducting its business, on the other.

As we take strides to attain greater heights of business, we remain alive to the imperatives of our responsibilities in equal measure.

As part of our continuing commitment to doing business with conscience, we have been able to integrate increasing shareholder value with ideals of addressing social issues encompassing a larger canvas of collaborative stakeholders' concerns. The launch of Godfrey Phillips WHITE (We Honour the Importance of Tobacco Etiquette) - a responsible smoking programme, the very first in India is yet another initiative in this direction. The campaign WHITE humbly seeks to address the concerns of non-smokers, while protecting the interest of those who have made an informed choice to smoke.

Godfrey Phillips Bravery - now in its 17th year, not only awards individuals for their selfless acts of physical bravery, but also for mental strengths of courage and conviction (mind of steel). Activities like Blood Donation Drive and Woman Empowerment through vocational training complement the Bravery initiatives.

### GENERAL ECONOMIC ENVIRONMENT

India's economy is witnessing robust growth. The real GDP is estimated to grow at 9.2 % in the year 2007-2008, surpassing the expectations on most counts, with the average GDP growth at 8.7% in the last three years.

Infact, considering any set of indices, the Indian economy has come of age and looks distinctly upbeat and confident. While the industrial sector growth at 10% is the highest in this decade, the services sector too continues to grow around eleven percent.

The Foreign Exchange reserves of the country have topped US\$ 200 billion: the exports were over US\$ 125 billion in the last fiscal year, with US\$ 160 billion as the target for the current year. The Sensex recently breached the 15,000 mark, FDI inflows touched US\$ 17 billion during the year 2006-2007, and is expected to grow to US\$ 30 billion mark in the current year.

Agriculture, which supports the livelihood of over 70% of the rural population, and contributes almost a quarter to the GDP, recorded a modest growth of 2.7% as against 6% last year, and continues to be an area of concern. There is no denying the fact that the growth, in order to be real and sustainable, has to be 'inclusive'.

### Tobacco Industry in India and its Potential:

Taxation:

As per the Tobacco Atlas, 2006, published by WHO, India has the lowest per capita consumption of cigarettes: 85 cigarettes per annum as compared to 2920 in Japan, 1886 in the USA, 488 in Nepal and 243 in Bangladesh. Cigarettes in India account for only 15% of the total tobacco consumption, and contribute over 85% of the total excise tax revenues. In the 2006-2007, the tobacco sector contributed over Rs. 9000 crore in excise duties, with cigarettes contributing an additional Rs. 450 crore in State Taxes.

On Cigarettes six percent excise duty was levied second year in a row. Additionally, discounting the Task Force on Indirect Taxes Report (December 2002), which recommended the continuation of AED and exclusion of cigarettes from Value Added Tax (VAT), effective April 1st 2007, VAT has been levied by the States at a rate of 12.5% on the invoice price, with no reduction or set-off of other State level Sales Tax in lieu of VAT. The resultant impact of a 6% increase in excise and a 12.5% VAT is equivalent to around 30% increase in tax incidence on cigarettes. This is despite the fact that the incidence of excise duty in India is as high as 50% of the product price, which is even higher than in China (40%).

### Regulatory Environment

Besides mandatory licensing, punitive ad-valorem taxation, cigarette industry operates in an inequitable regulatory environment.

By way of setting the ground for a new amendment to The Cigarettes and Other Tobacco Products Act 2003 (COTPA), the Union Cabinet has given its approval for promulgation of ordinance, making the depiction of the skull and cross bones in packaging of all tobacco products as optional.

As a responsible corporate citizen, your company has been abiding by the law, in letter and in spirit, and will continue to fulfil its commitment as a responsible tobacco manufacturer.

### Maximizing Potential of Tobacco Sector

In a country like India, where the livelihood of 38 million people is linked to tobacco, and where tobacco contributes over Rs. 9,450 crore in taxes, only a cohesive strategy can help maximize the economic value of tobacco, ensuring optimal returns for the farmers and farm workers. Keeping in mind, India's unique and fragmented pattern of tobacco consumption, this can be achieved through: a) Farmers and initiatives to improve productivity; b) an equitable Tobacco

Taxation Policy and c) preventing small Units from misusing the provisions of ID&R Act, 1951.

Tobacco provides direct and indirect employment to 38 million people, around 75% of whom are in the agricultural sector. Although India grows 10% of the world's tobacco, its share of the US\$ 6.3 billion global tobacco leaf exports is a mere 3.5%. This is mainly due to the fact that the exportable variety of tobacco - FCV (Flue Cured Virginia), accounts for only 35% of the total Indian production of tobacco. If India can align its production pattern to favour FCV variety and manages to garner a proportionate share of the export trade, it can clock a turnover of Rs. 2,800 crore - thrice the present levels.

To achieve this, a strong and stable domestic base market is essential, as it will encourage farmers to grow better quality and higher-revenue yielding varieties, and also protect them against fluctuations in International demand. Modernization of tobacco consumption and production patterns in India - i.e. moving from traditional tobaccos to cigarette tobaccos - would enable India to emulate the performance of Brazil, which with similar production base, currently earns US\$ 1.7 billion from exports of tobacco and tobacco products (Source: The Tobacco Institute of India).

Total exports of tobacco products stand at Rs. 14,134 million in FY2006, accounting for 0.3% of India's total exports. While in absolute numbers, the exports of tobacco have increased marginally, in comparative terms to the total exports, tobacco has a declining share. This is primarily due to the sharp decline in the export share of unmanufactured tobacco and lower consumption in the developed world. However, the overall scenario for tobacco exports looks promising keeping in view the shift in the U.S. from tobacco farming, withdrawal of subsidies from tobacco plantation in European countries and the political instability in Zimbabwe collectively offering a very high potential for exports of tobacco from India provided we come up with higher qualities and better flavourful varieties of tobacco.

Indian FCV tobacco is amongst the cheapest in the world market. Further, by virtue of absence of any governmental protection for this crop, unlike in many tobacco-producing countries, Indian FCV tobacco requires an edge in the competitive export market. Indian FCV tobacco is the least protected and therefore, needs more favourable terms of trade. India has yet to make its presence felt in the exports market for cigarettes, even though its volume has increased in absolute terms from Rs. 565 million in FY2001 to Rs. 1,552 million in FY2006. The tobacco-related export basket remains dominated by unmanufactured tobacco and all efforts should be made by the Government and the exporters to secure removal of restrictions on export of Indian tobaccos to the U.S.A..

### SEGMENTWISE PERFORMANCE IN 2006-2007

Cigarettes

During the year under review there was an overall improvement in sales volume of the Company's cigarette brands compared to that in the previous year. In value terms the domestic cigarette sales were higher at Rs. 1460 crore compared to Rs. 1324 crore in the previous year giving an increase of 10%. Cigarette exports were higher at Rs. 11.49 crore compared to Rs. 8.55 crore in the previous year registering a significant increase of 34%.

The Company launched two new brands 'Stellar' and 'Champ' in the domestic market and a few others in the export markets.

In the first quarter of the current financial year the domestic cigarette sales were higher at Rs. 379 crore as against Rs. 361 crore in the corresponding quarter last year.

Tea

During the year under review the domestic tea sales were higher at 3560 tonnes valued at Rs. 47.46 crore compared to 3050 tonnes valued at Rs. 39.26 crore in the previous year. The Company thus registered an increase of 17% (way ahead the Industry growth of 12%) in volumes and 21% in terms of value for the year under report compared to that in the previous year.

The process of integration of tea distribution with that of cigarette distribution started a year ago and has been bringing in better result in terms of distribution and sales and your Directors are confident of achieving higher turnover of tea in future.

Tea City, a diversified offering under the Godfrey Phillips banner, has seen a progression in all spheres including dynamic marketing initiatives, packaging makeovers, effective Sales & distribution, technology and product up-gradations, to define a more contemporary culture and mission for Tea City.

During the year the volume growth has been garnered through brand introduction in modern formats and increased contributions from newly entered states of Andhra Pradesh, Rajasthan and Madhya Pradesh.

This year, Symphony, a premium offering from Tea City has seen a complete launch in Delhi. Symphony with a more contemporary and premium look has created a hi-decilb impact. Apart from prominent brand visibility, customized Symphony experiences were shared with consumers to publicize the new Symphony launch.

During the first quarter of the current financial year the Company has been able to achieve tea sales in the domestic market of Rs. 10.69 crore as compared to Rs. 9.69 crore during the corresponding quarter last year.

# DIRECTORS' REPORT

## Exports

The following table shows the status of exports for different products during the year under report :

Commodity/Product	2006 - 2007 Value (Rs. in crore)	2005 - 2006 Value (Rs. in crore)
Tobacco and tobacco products	75.64	55.43
Tea	4.10	5.96

The shareholders would be pleased to notice from the figures as above, significant improvement in the Company's performance during the year under review compared to the previous year. The head 'Tobacco and tobacco products' as above includes raw tobacco, cut tobacco and cigarettes. While cigarette exports in terms of value were higher by 34% the cut tobacco exports were significantly higher by 716% compared to that in the previous year. The Company's exports of cut tobacco now goes to many countries.

The expansion of distribution of the Company's own brand 'Force 10' in West Africa has given encouraging results. The Company's brand 'Originals International' was successfully launched in November 2006. Test marketing of 'Ultima' brand has been completed with encouraging results in the COMESA region. The Company successfully opened new export markets in South East Asia and Middle East for supply of cut tobacco and cigarettes.

However, the decline in unmanufactured tobacco exports has been primarily due to lack of sufficient orders from one of the long associated merchant companies. The Company is making all out efforts to increase direct exports through development of a wider customer base. Business relations are being established in Philippines and Brazil besides appointment of agents in many countries including Netherlands and Philippines. With these measures, the company is confident of achieving higher tobacco export sales in the coming years.

During the first quarter of the current financial year ended 30th June, 2007 the performance of the major business segments was as hereunder :

Commodity/ Product	Value (Rs. in crore)
Tobacco and tobacco products	15.65
Tea	0.81

Cigar

During the year under review, sales were higher by 44% at Rs. 3.31 crore as against Rs. 2.29 crore for the previous year. The increased sales led to our market share going up to 65%.

The Company continues to expand the cigar portfolio both in machine made and hand rolled segments. Cigars from Altadis USA are gaining popularity and all the brands, Phillies, Hav-A-Tampa, Don Diego, Santa Damiana and Flor De Copan have shown robust growth, with flavoured cigars growing in demand.

In keeping with the increasing demand of hand-rolled and machine made cigars, the Company successfully concluded an exclusive distribution agreement with Oettinger Davidoff International of Switzerland, and launched the premium range of Davidoff - The Good Life cigars, Millennium Blend Robusto Tubes, Davidoff - Tubo no. 2, Special R, world famous Grand Cru series, Exquisitos, Demitasse, and cigarillos. These fine quality cigars have been introduced in Delhi, Mumbai, Bangalore, Hyderabad, Chennai, Jaipur, Udaipur, Jodhpur and Cochin, and receiving enthusiastic response from the cigar aficionados.

With the growth in its portfolio, the Company is presently distributing cigars in 55 cities.

Godfrey Phillips has also opened a cigar shop in the Park Plaza in Gurgaon which stocks cigars and cigar accessories manufactured and supplied by different companies associated with the Company. The shop clientele has been growing and the initiative by the Company has been appreciated by the consumers.

Our efforts to distribute cigars in the Horeca and Modern Trade are helping us to create the awareness and right image, resulting in improved sales of these aspirational life style brands.

### TREASURY OPERATIONS

The Company has been deploying its surplus funds, generated on an ongoing basis, primarily in debt oriented schemes of different reputed mutual funds. Since the pure debt funds are exposed to the interest rate volatility prevailing in market, for quite sometime now the Company has been investing further surplus funds in Fixed Maturity Plans offered by different mutual funds. As on 31st March, 2007 out of total investments of Rs. 246 crore, an aggregate amount of Rs. 144 crores stood invested in Fixed Maturity Plans of different mutual funds.

As in previous years the Company continued to invest its temporary surplus funds in liquid/short term schemes of different mutual funds.

During the year under report the Company also invested a small part of its long term surpluses in some of the equity schemes offered by the mutual fund houses. The Board of Directors felt that the Company could take advantage of the equity market by way of a limited exposure with the objective to obtain higher overall returns on its investments.

The Company booked an aggregate amount of profit of Rs. 22.30 crore on sale/redemption of long as well as short term investments in mutual funds during the year under review.

## FINANCIAL PERFORMANCE

FINANCIAL RESULTS	2006-2007 Rs. in lac	2005-2006 Rs. in lac
Gross Profit	15188.87	10942.26
Less: Depreciation	1906.58	1837.20
Profit before taxation and exceptional items	13282.29	9105.06
Add: Exceptional items (Refer Note 14 to accounts)	240.59	864.30
Profit before taxation	13522.88	9969.36
Less: Provision for Taxation	- current - deferred tax - fringe benefit tax	4071.00 (52.52) 693.98
		1307.35 1984.30 664.75
Profit after tax for the year	8810.42	6012.96
Profit Brought Forward	23009.36	21064.27
	31819.78	27077.23
Appropriations		
Proposed Dividend	2599.70	2339.72
Corporate Dividend Tax	441.82	328.15
Transfer to General Reserve	1500.00	1400.00
Surplus carried to Balance Sheet	27278.26	23009.36
	31819.78	27077.23

The overall sales turnover comprising of cigarettes, tobacco, cigar and tea was higher at Rs. 1597 crore as against Rs. 1432 crore in the previous year, registering an increase of more than 11%. After providing for the taxation, the net profit of the Company was higher at Rs. 88.10 crore as against Rs. 60.13 crore in the previous year.

### DIVIDEND

Keeping in view the Company's improved overall performance for the year under report the Board of Directors of the Company are pleased to recommend a higher dividend of Rs. 25.00 per share as against Rs. 22.50 per share paid for the previous year.

### INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

Your Company has an adequate system of internal control commensurate with the size of the Company and the nature of its business which ensures that transactions are recorded, authorised and reported correctly apart from safeguarding its assets against loss from wastage, unauthorised use and disposition.

The internal control system is supplemented by well documented policies, guidelines and procedures, an extensive programme of internal audit by a firm of chartered accountants and management reviews is in place.

### HUMAN RESOURCE DEVELOPMENT

A summary of few significant developments through various initiatives implemented and planned are as under:

- The Company has done a restructuring of management hierarchy to meet industrial challenges of Manpower engagement and managing the employee aspirations of Career enhancement and development. The new structure offers a concise set of broad-bands that allows flexibility of inter-band reporting and a framework for upward career movement.
- The new compensation structure provides greater flexibility to Managers to plan their emoluments and tax management as per their needs.
- Potential Assessment System has been introduced as an initiative towards mapping and developing the potential of Managers. The system enables the Company to identify budding potential with-in and across cross-functions and helps to create a resource inventory useful to meet the future needs of the Company.

### CORPORATE DEVELOPMENT AND INFORMATION TECHNOLOGY

Some of the key initiatives taken by the Corporate Development and Information Technology Department during the year under report may be summarized as under :

- The Oracle E-Business Suite was selected for implementation of Enterprise Resource Planning (ERP) in the Company.
- Sales analysis tools using Business Intelligence for deeper analysis and productivity savings of the sales team was implemented.
- Tools for workflow management was implemented in Research & Development, Sales and Finance functions of the Company.

It is hoped that the initiatives/measures taken as above would help the Company to increase its quality, productivity and efficiency besides enlarging the portfolio of tobacco products.



# DIRECTORS' REPORT

## CONSERVATION OF ENERGY

During the year under report, the measures initiated/implemented by the Company for conservation of energy included the following main items :

1. Fitted energy efficient motor for WV60 vacuum pump and Variable Frequency Drive (VFD) for fan motor of cigarette making machines resulting in saving of Rs. 1.1 lac per annum.
2. As a part of Six Sigma initiative, a Black Belt project was taken up for energy conservation measures. This would result in saving of Rs. 4.5 lac per annum on completion of the various improvement measures.

## TECHNOLOGICAL ABSORPTION, ADOPTION AND INNOVATION

The measures initiated/implemented during the year under report are :

1. State of art Hinge Lid Packer (HLP) machine for 20s King Size cigarette packer was installed and commissioned, which helped in improving productivity and quality of cigarette packs for domestic and export markets.
2. Set up In-house conversion of existing cigarette making and packing machines, on Slim cigarettes facilitating the introduction of brand 'Stellar' in the domestic market.
3. In-house development, installation and commissioning of BOPP print registration system on packing machines facilitating value addition to our consumer.
4. New Generation Quantum Programming Logic Control (PLC) was introduced in Primary Manufacturing Department to improve processing parameters and consistency.

Research & Development

### New Development

1. Development of new products with special emphasis to create differentiation.
2. Development of several brands/blends both Virginia as well as US Blended type.

### Benefits derived as a result of this Development

1. Launched new brands in domestic and export markets.
2. Differentiated and value added products in the domestic market.

### Future Plan of Action

1. Intensifying research work differentiated on cigarettes with various benefits. Enlarging focus on development of value added and differentiated products for meeting the changing needs of the domestic and international consumers.
2. Development of low tar and nicotine delivery products.
3. Up-gradation of analytical facility to meet future challenges.

## FOREIGN EXCHANGE EARNINGS AND OUTGO

The earnings in foreign exchange during the year under report by way of exports and other income amounted to Rs. 80.62 crore (previous year Rs. 61.87 crore) as against the foreign exchange outgo on imports, dividends and other expenditure aggregating to Rs. 43.08 crore (previous year Rs. 35.23 crore).

## FIXED DEPOSITS

At the end of the financial year, the balance on account of Fixed Deposits accepted from the Public and Members stood at Rs. 1,27,000/- which included 11 deposits totaling Rs. 1,27,000/- not claimed on due dates. Out of these, the amount of 1 deposit of Rs. 6000/- was transferred to the credit of Investor Education and Protection Fund and 1 deposit of Rs. 10,000/- has since been repaid, leaving a balance of Rs. 1,11,000/- comprising of 9 deposits awaiting claims from the concerned depositors.

Presently the Company is neither accepting fresh deposits nor renewing the existing ones as it is no longer economical for the Company to raise moneys through this mode of finance.

## DIRECTORS

Mr. R.A. Shah, Mr. O.P. Vaish and Mr. Anup N. Kothari, Directors, will retire by rotation at the forthcoming Annual General Meeting and, being eligible, have offered themselves for re-election.

## DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirement under Section 217(2AA) of the Companies Act, 1956 with respect to Directors' Responsibilities Statement, it is hereby confirmed :

- (i) That in the preparation of the Annual Accounts for the financial year ended March 31, 2007, the applicable Accounting Standards had been followed;
- (ii) That the directors had selected such Accounting Policies and applied them consistently and made judgements and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for the year under review;
- (iii) That the directors had taken proper and sufficient care 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;
- (iv) That the directors had prepared the accounts for the financial year ended March 31, 2007 on a 'going concern' basis.

## CORPORATE GOVERNANCE

The Company is committed to maximise the value of its stakeholders by adopting the principles of good Corporate Governance in line with the provisions of law and in particular those stipulated in the Listing Agreement with the stock exchanges. It encourages wide participation from all stakeholders. Its objective and that of its management and employees is to manufacture and market the Company's products in a way so as to create value that can be sustained over the long term for consumers, shareholders, employees, business partners and the national economy in general. Constant innovation in its operations across all the locations of the Company is an ongoing effort so as to obtain higher efficiencies.

A certificate from 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 enclosed.

A certificate from Mr. K.K. Modi, Managing Director as the Chief Executive Officer (CEO) and Mr. R.N. Agarwal, Executive Vice President - Finance as the Chief Financial Officer in relation to the financial statements for the year ended March 31, 2007 along with a declaration of compliance with the code of business conduct of the Company by the Directors and the members of the senior management team of the Company during that year from the CEO were submitted to the Board in compliance with the requirement under clause 49 of the Listing Agreement with the stock exchanges and the same were taken note of.

## CONSOLIDATED FINANCIAL STATEMENTS

In accordance with Accounting Standard 21 - Consolidated Financial Statements, Group Accounts form part of this Report & Accounts. These Group accounts have been prepared on the basis of audited financial statements received from the Subsidiary Companies and an Associate Company, as approved by their respective Boards.

## AUDITORS

A.F. Ferguson & Co., Chartered Accountants, the retiring Auditors, have offered themselves for re-appointment as Auditors for the Head Office as well as branch offices at Ahmedabad, Mumbai, Kolkata, Ghaziabad, Guntur, Hyderabad, New Delhi and Chandigarh.

## SUBSIDIARY COMPANIES

The Reports and Accounts of the subsidiary companies are annexed to this Report along with the statement pursuant to Section 212 of the Companies Act, 1956. However, in the context of mandatory requirement to present consolidated accounts, which provides members with a consolidated position of the Company including subsidiaries, at the first instance, members are being provided with the Report and Accounts of the Company treating these as abridged accounts as contemplated by Section 219 of the Companies Act, 1956. Members desirous of receiving the full Report and Accounts including the Report and Accounts of the subsidiaries will be provided the same on receipt of a written request from them. This will help save considerable cost involved in printing and mailing of the Report and Accounts.

## GENERAL

As required by the provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, the names and other particulars of employees are set out in the annexure to the Directors' Report. However, as per the provisions of Section 219(1)(b)(iv) of the Act, the Report and Accounts are being sent to all shareholders of the Company excluding the aforesaid information. Any shareholder interested in obtaining such particulars may write to the Company Secretary.

## EMPLOYEES

The relations with the employees of the Company continue to be cordial and the Directors wish to record their appreciation of their dedicated services at all levels of operations in the Company.

## CONCLUSION

Your Directors look forward to the future with confidence and optimism.

Respectfully submitted  
on behalf of the Board

Mumbai  
Dated : July 31, 2007

R.A. SHAH  
CHAIRMAN

## BOARD OF DIRECTORS

- R.A. Shah - Chairman
- K.K. Modi - President
- L.K. Modi - Executive Director
- Samir Kumar Modi - Executive Director
- Lalit Bhasin
- Anup N. Kothari
- C.M. Maniar
- O.P. Vaish
- S.V. Shanbhag - Whole-time Director

## COMPANY SECRETARY

R. Joshi

## AUDITORS

A.F. Ferguson & Co.

## INTERNAL AUDITORS

Lodha & Co.

## SOLICITORS

Crawford Bayley & Co.

## BANKERS

- State Bank of India
- Bank of Baroda
- Bank of India
- Citibank N.A.
- State Bank of Hyderabad
- State Bank of Travancore
- The Hongkong and Shanghai Banking Corporation
- Union Bank of India

## REGISTRARS AND TRANSFER AGENT

Sharepro Services (India) Pvt. Ltd.  
Satam Estate, 3rd Floor  
(Above Bank of Baroda)  
Cardinal Gracious Road,  
Chakala, Andheri (E)  
Mumbai - 400099

## CORPORATE OFFICE

49, Community Centre, Friends Colony  
New Delhi - 110025

## OTHER OFFICES

Ahmedabad, Chandigarh, Ghaziabad, Hyderabad,  
Kolkata, Mumbai, New Delhi

## LEAF DIVISION

Guntur (Andhra Pradesh)

## REGISTERED OFFICE

Chakala, Andheri (E), Mumbai - 400099

## GODFREY PHILLIPS INDIA LIMITED

### Report on Corporate Governance for the year ended March 31, 2007

The Directors present the Company's Report on Corporate Governance

#### 1. THE COMPANY'S GOVERNANCE PHILOSOPHY

GPI's Corporate Governance initiatives are devised for achieving basic objective of wealth creation for the benefit of all its stakeholders namely the shareholders, employees, business associates and the society at large. The Company believes in giving its executives ample freedom to operate and secure the Company's target by putting in best of their efforts.

The Board of Directors is primarily responsible for protecting and enhancing shareholders' value besides fulfilling the Company's obligations towards other stakeholders. The role of the Board of Directors is to provide strategic superintendence over the Company's management. The day to day management of the Company is vested in the managerial personnel and sufficient authority is delegated at different operating levels. Delegation of authority in the operating people helps generation of creativity and innovation. This also helps in harnessing potential of employees to the best advantage of the Company.

#### 2. BOARD OF DIRECTORS

##### i) Composition

The Board of Directors of the Company consists of executive and non-executive directors and more than half of the Board comprises of non-executive directors. The non-executive directors are independent professionals drawn from amongst persons with experience in business/law/finance. At present the total strength of the Board of Directors is nine out of which five are non-executive Directors. The Chairman of the Board is a non-executive director and the minimum requirement of one-third of the Board consisting of independent directors is duly complied with. The non-executive directors of the Company have already submitted their declarations affirming their status as independent directors as on March 31, 2007.

##### ii) Attendance at the Board Meetings and the last Annual General Meeting, directorships and memberships/chairmanships of Board Committees of other Companies

Director	Executive/Non-Executive Independence	No. of Board Meetings attended	Attendance at last AGM	Membership/chairmanship of Board of other Companies* as at March 31, 2007	Membership/Chairmanship of other Board Committees# as at March 31, 2007
Mr. R. A. Shah	Non-Executive & Independent	6	Yes	13 (includes 2 as Chairman and 1 as Vice-Chairman)	8 (includes 5 as Chairman)
Mr. K.K. Modi	Executive	5	Yes	12	2 (includes 1 as Chairman)
Mr. S.V. Shanbhag	Executive	5	Yes	4	None
Mr. Lalit Bhasin	Non-Executive & Independent	3	No	9	4
Mr. Anup N. Kothari	Non-Executive & Independent	6	Yes	2	None
Mr. Lalit Kumar Modi	Executive	3	Yes	9	1 (as Chairman)
Mr. C.M. Maniar	Non-Executive & Independent	5	Yes	10	9 (includes 1 as Chairman)
Mr. O.P. Vaish	Non-Executive & Independent	6	Yes	4	1
Mr. Samir Kumar Modi	Executive	4	Yes	9	1

\* Excludes directorships in private limited companies, foreign companies, alternate directorships and also memberships of Managing Committees of various chambers/bodies.

# Represents memberships/chairmanships of Audit Committee and Shareholders/Investors Grievances Committee (excluding private companies).

##### iii) Board Meetings held during the year

During the year 2006-07, six Board Meetings were held on the following dates:

May 15, 2006, June 30, 2006, July 29, 2006, September 8, 2006, October 25, 2006 and January 30, 2007. The meeting held on January 30, 2007 was adjourned and held on February 2, 2007 to transact the remaining items of the business.

In addition to the regular business items, other information as applicable pursuant to the requirements under the Listing Agreement with the Stock Exchanges were placed before the Board.

##### iv) The details of pecuniary relationship or transactions of the non-executive directors vis-a-vis the Company are given below:

Name of the director	Amount involved (Rs. in lacs)	Nature of transaction
1. Mr. R.A. Shah & Mr. C.M. Maniar (Senior Partners of Crawford Bayley & Co.)	11.29	Payment for professional services to Crawford Bayley & Co.
2. Mr. Lalit Bhasin (Proprietor of Bhasin & Co.)	2.28	Payment for professional services to Bhasin & Co
3. Mr. O.P. Vaish (Relatives of Mr. Vaish are partners in Vaish Associates)	11.09	Payment for professional services to Vaish Associates

##### v) Brief resume, experience and other directorships/board committee memberships

As per the Articles of Association of the Company, one-third of the total strength of the Board (i.e. three directors at present namely Mr. R.A. Shah, Mr. Anup N. Kothari & Mr. O.P. Vaish) shall retire by rotation at the forthcoming Annual General Meeting of the Company and being eligible shall be re-appointed subject to shareholders' approval.

## GODFREY PHILLIPS INDIA LIMITED

Name of the Director	Mr. R. A. Shah
Qualifications	
Experience	<ul style="list-style-type: none"> <li>- He is a Solicitor and Senior Partner of Messrs Crawford Bayley &amp; Co.</li> <li>- Specialises in a broad spectrum of Corporate Laws in general with special focus on Foreign Investments, Joint Ventures, Technology and Licence Agreement, Intellectual Property Rights, Mergers and Acquisitions, Industrial Licensing, Anti Trust and Competition Law.</li> <li>- Member of the Managing Committee of Bombay Chamber of Commerce.</li> <li>- Member of Indo German Chamber of Commerce.</li> <li>- Member of the Committee for revision of SEBI Takeover Code.</li> <li>- President of Society of Indian Law firms (Western Region)</li> </ul>
Names of other companies in which he holds directorships of the Board and membership/chairmanship of committees of the Board*	<ol style="list-style-type: none"> <li>1. Pfizer Limited (Also Chairman of Audit Committee)</li> <li>2. Colgate Palmolive India Limited (Also Chairman of Audit Committee)</li> <li>3. The Bombay Dyeing &amp; Mfg. Company Limited (Also Chairman of Audit Committee)</li> <li>4. BASF India Limited (Also a Member of Audit Committee)</li> <li>5. Clariant Chemicals (India) Limited (Also Chairman of Audit Committee)</li> <li>6. Abbott India Limited (Also a Member of Audit Committee)</li> <li>7. Procter &amp; Gamble Hygiene and Healthcare Limited (Also a Member of Audit Committee)</li> <li>8. Nicholas Piramal India Limited (Also Chairman of Audit Committee)</li> <li>9. Asian Paints (India) Limited</li> <li>10. ACC Limited</li> <li>11. Deepak Fertilisers &amp; Petrochemicals Corporation Limited</li> <li>12. Lupin Limited</li> <li>13. Wockhardt Limited</li> </ol>
Name of the Director	Mr. Anup N. Kothari
Qualifications	B.Arch, F.I.I.A
Experience	<ul style="list-style-type: none"> <li>- Graduated in Architecture from Baroda University in 1965.</li> <li>- Proceeded to Sweden where he worked on various types of projects which included Administration and Bank Building, Group Housing Projects, etc.</li> <li>- Returned to India and joined a leading firm of Architects and have since been closely associated with various projects specially Hospitals, Hotels, Housing Projects, Multiplex Cinema Halls, Universities, Embassies, etc.</li> <li>- He is a member of Council of Architecture and Indian Institute of Architects.</li> <li>- He has been practicing Architecture since last 42 years.</li> </ul>
Names of other companies in which he holds directorships of the Board and membership/chairmanship of committees of the Board*	<ol style="list-style-type: none"> <li>1. International Research Park Laboratories Limited</li> <li>2. Samkap Chemicals Limited</li> </ol>
Name of the Director	Mr. O.P. Vaish
Qualifications	B.Com (H), M.A. (Eco.), LL.M.
Experience	<ul style="list-style-type: none"> <li>- Served for 8 years in the Indian Revenue Service and for another 8 years as Chief (Taxation Division), FICCI.</li> <li>- Founded the Law firm Vaish Associates, proprietary firm and is now designated as Senior Advocate of the Supreme Court of India. (The Law firm was taken over by those who were part of the proprietary firm.)</li> <li>- Past President of PHD Chamber of Commerce.</li> <li>- Member, Board of Governors, International Centre for Alternate Disputes Resolution (ICADR).</li> <li>- Honorary President, International Fiscal Association - India.</li> <li>- Member, Advisory Board of American India Foundation.</li> <li>- Member, Board of Trustees, Centre for Civil Society.</li> <li>- Member, Board of Governors, International Management Institute (IMI)</li> <li>- Member, Advisory Board, Western International University, USA.</li> <li>- Past Director of Rotary International and past Trustee of Rotary Foundation.</li> <li>- Chairman, Rotary Foundation (India)</li> <li>- Chairman, Rotary Blood Bank, New Delhi</li> <li>- Member, FICCI Executive Committee.</li> <li>- Government Nominee to the Institute of Chartered Accountants of India</li> </ul>
Names of other companies in which he holds directorships of the Board and membership/chairmanship of committees of the Board*	<ol style="list-style-type: none"> <li>1. PNB Finance &amp; Industries Limited</li> <li>2. Indo Rama Synthetics (India) Limited</li> <li>3. International Travel House Limited (Also Member of Audit Committee)</li> <li>4. The India Thermit Corporation Limited</li> </ol>

\* Excludes directorships in private limited companies, foreign companies, alternate directorships and also memberships of Managing Committees of various chambers/bodies. Represents memberships/chairmanships of Audit Committee and Shareholders/Investors Grievances Committee (excluding private companies).

## GODFREY PHILLIPS INDIA LIMITED

### (vi) Legal Compliances

Legal compliances applicable to the Company are taken note of and reviewed by the Board. The Company is in the process of implementing a system of tracking legal compliances in a structured manner with the help of a software developed by a professional firm. No material instances of non-compliance were noticed during the financial year.

### (vii) Code of Conduct

The Company has a Code of business Conduct applicable to the Board members and senior management team of the Company. Such Code of Conduct is posted on the website of the Company.

All the Board members and senior management team have affirmed compliance with the Code of Conduct as above for the financial year ended 31<sup>st</sup> March, 2007. A declaration signed by Mr. K.K. Modi, President & Managing Director as the Chief Executive Officer of the Company is annexed to this report.

## 3. AUDIT COMMITTEE

### i) Composition and terms of reference

The Board of Directors of the Company have constituted an Audit Committee comprising of three non-executive independent directors namely Mr.O.P.Vaish, Mr. Anup N. Kothari and Mr. Lalit Bhasin, in pursuance of the provisions of Section 292A of the Companies Act, 1956. The terms of reference of the Audit Committee cover all the areas specified in Section 292A of the Companies Act, 1956 as well as those specified in clause 49 of the Listing Agreement. In pursuance of SEBI's Circular No. SEBI/CFD/DIL/CG/1/2004/12/10 dated 29<sup>th</sup> October, 2004, the Board of Directors have revised the terms of reference of the committee so as to meet the requirements of the amended clause 49. Audit Committee of the Company consists of members who are financially literate and Mr. O.P. Vaish, Chairman of the Audit Committee possesses accounting and related financial management expertise by virtue of his long experience in the relevant areas. Mr. R. Joshi, Company Secretary acts as the Secretary to the Committee.

The Chairman attended the Annual General Meeting held on September 8, 2006 to answer the shareholders' queries.

The terms of reference of the Audit Committee are in accordance with clause 49 of the listing agreement entered into with the stock exchanges and provisions of Section 292A of the Companies Act, 1956 and inter-alia include overseeing financial reporting process, reviewing the financial statements before submission to the Board, reviewing internal control systems and internal audit functions, etc. The Audit Committee also reviews the information relating to management discussion and analysis of financial condition, significant related party transactions, letters of internal control weaknesses issued by the statutory auditors and internal audit reports.

Audit Committee meetings are also attended by Managing Director being director in charge of finance, Executive Vice-President-Finance (Chief Financial Officer), Company Secretary, the Internal Auditors and the Statutory Auditors as the invitees.

### ii) Details of meetings and attendance of each member of the Committee

During the financial year 2006-07, the Audit Committee met five times on May 29, 2006, June 27, 2006, July 29, 2006, October 25, 2006 and January 27, 2007.

SN. No.	Name	Category of directors	No. of Committee Meetings attended (Total Meetings held-5)
1.	Mr. O.P. Vaish	Non-Executive & Independent	5
2.	Mr. Lalit Bhasin	Non-Executive & Independent	5
3.	Mr. Anup N. Kothari	Non-Executive & Independent	5

## 4. SUBSIDIARY COMPANIES

(i) Since the Company does not have any material non-listed Indian subsidiary company, the requirement for appointment of an independent director on the Board of such subsidiary is not applicable.

(ii) The Audit Committee of the Company has reviewed the financial statements in respect of the investments made by its unlisted subsidiary companies at its meeting held on June 20, 2007.

(iii) Copies of the minutes of the board meetings of all the unlisted subsidiary companies held during the year 2006-07 were placed at the board meeting of the Company held on April 27, 2007. Requirement relating to significant transactions and arrangements entered into between the Company and its unlisted subsidiary companies is not applicable to the Company since none of the subsidiaries is material.

## 5. DISCLOSURES

### (A) Basis of related party transactions

(i) Transactions with related parties in the ordinary course of business: Transactions with all the related parties referred to in note 11 of the Notes to the Accounts to the Financial Statements for the year ended March 31, 2007 are in the ordinary course of business. These transactions were placed at the Audit Committee meeting held on June 20, 2007.

(ii) Transactions with related parties not in the normal course of business: There are no transactions entered into by the Company with the related parties during the financial year ended March 31, 2007 whose terms and conditions are not in the normal course of business.

(iii) Transactions with related parties not on arm's length basis: There are no transactions entered into by the Company with the related parties during the financial year ended March 31, 2007 whose terms and conditions are not on arm's length basis.

### (B) Disclosure of Accounting Treatment

The financial statements for the year ended March 31, 2007 comply with the Accounting Standards issued by the Institute of Chartered Accountants of India.

### (C) Board Disclosures - Risk management

The Company being an old established organization, has in place built-in internal control systems for assessing and mitigating elements of risks in relation to its operations. The departmental heads are reasonably alive of this aspect in their day to day functioning. However, with a view to apprise the Board of Directors of the risk management procedures and the steps to minimise/eliminate the same in a structured manner in terms of the requirement under Clause 49 of the Listing Agreement, the Company has engaged services of a reputed firm of Chartered Accountants to formulate risk management procedures for the Company. The said firm of Chartered Accountants have almost completed their exercise and have submitted to the Company a draft of its Risk Profile along with the applicable Risk Management Policy Guidelines and the same are being discussed and finalised for implementation across the Company.

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

The Company did not raise any funds through public issues, rights issues, preferential issues, etc. during the year.

## 6. REMUNERATION TO DIRECTORS

### (i) Remuneration policy

The Company has not constituted any Remuneration Committee. The remuneration to be paid to the Managing/Executive/Whole-time Directors is decided by the Board and recommended for approval by the shareholders at the Annual General Meeting. The Non-Executive Directors do not draw any remuneration from the Company other than the payment of sitting fee of Rs. 20,000 for each meeting of the Board and the Board Committee attended by them. As per provisions of the Articles of Association of the Company, the overall payment of sitting fees to a director for attending the Board and Committee meetings shall not exceed Rs. 3 lacs in a financial year.

## GODFREY PHILLIPS INDIA LIMITED

### ii) Details of remuneration to the directors

(Amount in Rs.)					
Name of the Director	Salary and Other Allowances*	Perquisites	Commission	Sitting Fees Board/ Committee meetings	Total
Mr. R.A. Shah	Nil	Nil	Nil	120,000	120,000
Mr. K.K. Modi <sup>1</sup>	6,000,000	Nil	4,000,000	Nil	10,000,000
Mr. S.V. Shanbhag <sup>2</sup>	456,000	88,208	Nil	Nil	544,208
Mr. Lalit Bhasin	Nil	Nil	Nil	180,000	180,000
Mr. Anup N. Kothari	Nil	Nil	Nil	220,000	220,000
Mr. Lalit Kumar Modi <sup>3</sup>	840,000	1,440,392	840,000	Nil	3,120,392
Mr. C.M. Maniar	Nil	Nil	Nil	180,000	180,000
Mr. O.P. Vaish	Nil	Nil	Nil	220,000	220,000
Mr. Samir Kumar Modi <sup>4</sup>	840,000	1,620,143	840,000	Nil	3,300,143
Total	8,136,000	3,148,743	5,680,000	920,000	17,884,743

\* excludes incremental liability for gratuity and encashable leave salary which are actuarially determined on an overall basis.

### iii) Details of service contract, notice period, severance fees, etc. of directors

<sup>1</sup>The Company has service contract with Mr. K.K. Modi, President & Managing Director for a period of three years with effect from August 14, 2006. The notice period is six calendar months by either party. No severance fees is payable to him. Besides fixed salary, Mr. Modi is also entitled to payment of performance linked incentive in the form of commission @ 2% of the net profits of the Company computed in the manner laid down under Sections 349, 350 and 351 of the Companies Act, 1956, subject to a ceiling of Rs. 40 lacs per annum.

<sup>2</sup>The Company has service contract with Mr. S.V. Shanbhag, Whole-time Director for a period of three years with effect from October 1, 2004. His re-appointment as and when made shall be approved by the shareholders at the Annual General Meeting. The notice period is three months by either party. However, the Company has the right to terminate appointment forthwith upon payment of three months salary only in lieu of notice and in that case he is not entitled to any benefits or perquisites.

<sup>3</sup>The Company has service contract with Mr. Lalit Kumar Modi, Executive Director for the period from October 1, 2004 till the date of the Annual General Meeting to be held for the approval of the audited accounts for the financial year ending March 31, 2007. His re-appointment as and when made shall be approved by the shareholders at the Annual General Meeting. The notice period is six calendar months by either party. No severance fees is payable to him. Besides salary, allowances and perquisites, Mr. Lalit Kumar Modi is also entitled to payment of commission of Rs. 8,40,000/- per annum subject to a ceiling of 1% of the net profits of the Company computed in the manner laid down under Sections 349, 350 and 351 and the aggregate amount of salary, commission together with the monetary value of perquisites computed in the manner provided under the Income-tax Act, 1961 or Rules made thereunder shall not exceed Rs. 35 lacs per annum without the approval of shareholders in the General Meeting.

<sup>4</sup>The Company has service contract with Mr. Samir Kumar Modi, Executive Director for the period from October 1, 2004 till the date of the Annual General Meeting to be held for the approval of the audited accounts for the financial year ending March 31, 2007. His re-appointment as and when made shall be approved by the shareholders at the Annual General Meeting. The notice period is six calendar months by either party. No severance fees is payable to him. Besides salary, allowances and perquisites, Mr. Samir Kumar Modi is entitled to payment of commission of Rs. 8,40,000/- per annum subject to a ceiling of 1% of the net profits of the Company computed in the manner laid down under Sections 349, 350 and 351 and the aggregate amount of salary, commission together with the monetary value of perquisites computed in the manner provided under the Income-tax Act, 1961 or Rules made thereunder shall not exceed Rs. 35 lacs per annum without the approval of shareholders in the General Meeting.

The Company presently does not have any stock option scheme.

### iv) Details of shares/convertible instruments held in the Company by Non-Executive Directors and their relatives.

SN. No.	Name of the non-executive director/relative	No. of shares held as on March 31, 2007
1.	Mr. R.A. Shah	1208
	Mrs. A.R. Shah (Wife)	4000
2.	Mr. Lalit Bhasin	400
3.	Mr. Anup N Kothari	1200
	Mrs. Neela Kothari (Daughter-in-Law)	500
4.	Mr. C.M. Maniar jointly with Mrs. K.C. Maniar (Wife)	688
5.	Mr. O.P. Vaish	400

## 7. MANAGEMENT

As required under Clause 49 of the Listing Agreement, all the members of senior management team shall disclose their interest in all material, financial and commercial transactions, which may have a potential conflict with the interest of the Company at large.

The Senior Management Team comprising of 12 members who are the top executives of the Company have disclosed to the Board of Directors of the Company about all the material, financial and commercial transactions that have taken place during the financial year ended March 31, 2007 where they had personal interest. These include dealing in/holding of shares by them/their relatives in the Company, transactions entered into by them/their relatives with the Company, transactions entered into by the Company with the companies in which they/their relatives are Directors or Members and transactions entered into by them/their relatives with the subsidiary companies of the Company and these were placed before the Board of Directors of the Company at its meeting held on June 20, 2007.

## 8. SHARE TRANSFER AND SHAREHOLDERS/INVESTORS GRIEVANCE COMMITTEE

The Company has a Share Transfer and Shareholders/Investors Grievance Committee which comprises of Mr. C.M. Maniar, a Non-Executive Director as its Chairman, Mr. K.K. Modi, President & Managing Director, Mr. S.V. Shanbhag, Whole-time Director and Mr. Lalit Bhasin, Non-Executive Director as its members. This Committee besides sanctioning share transfers/transmissions and other related matters, is also required to look into the redressal of shareholders' and other investors' complaints regarding transfer of shares, non-receipt of balance sheets and dividends, etc. Mr. R. Joshi, Company Secretary has been appointed as the Compliance Officer.

During the financial year 2006-07, 105 complaints were received from the shareholders/investors and same were solved to their satisfaction. There were neither any complaints nor any cases of share transfers pending as on March 31, 2007.



## GODFREY PHILLIPS INDIA LIMITED

### 9. GENERAL BODY MEETINGS

Details of the last three Annual General Meetings (AGM) are as follows:

Financial year	Date of AGM	Time	Location
2003-04	September 28, 2004	3:30 P.M.	Y.B. Chavan Auditorium, General Jagannath Bhosle Marg, Mumbai - 400021
2004-05	September 15, 2005	3:30 P.M.	Rama Watumull Auditorium, Kishinchand Chellaram College, Dinshaw Wacha Road, Churchgate, Mumbai - 400020
2005-06	September 8, 2006	3:30 P.M.	Y.B. Chavan Auditorium, General Jagannath Bhosle Marg, Mumbai - 400021

There was no other General Body Meeting during the last three years.

No special resolution was put through postal ballot during the year ended March 31, 2007 and no special resolution is proposed to be conducted through postal ballot at the ensuing Annual General Meeting.

During the last three years following special resolutions were passed:

SN. NO.	ANNUAL GENERAL MEETING AT WHICH SPECIAL RESOLUTION WAS PASSED	PARTICULARS OF THE RESOLUTION
1.	Sixty-Seventh AGM	<ul style="list-style-type: none"> <li>Re-appointment of Mr. S.V. Shanbhag as Whole-time Director and approval of his remuneration</li> </ul>
2.	Sixty-Eighth AGM	<ul style="list-style-type: none"> <li>Increase in the retainership fee of M/s. Bhasin &amp; Co., Advocates by the Company &amp; its wholly owned subsidiary International Tobacco Company Ltd. from Rs. 14,000/- per month to Rs. 19,000/- per month &amp; from Rs. 5,000/- per month to Rs.18,000/- per month respectively</li> </ul>
3.	Sixty- Ninth AGM	<ul style="list-style-type: none"> <li>Increase in the retainership fee of M/s. Bhasin &amp; Co., Advocates by the Company's wholly owned subsidiary International Tobacco Company Ltd. from Rs. 18,000/- per month to Rs. 28,000/- per month</li> </ul>

### 10. DISCLOSURES

- Related parties and transactions with them as required under Accounting Standard 18 (AS-18) are stated in note 11 of the Notes to the Accounts attached with the financial statements for the year ended March 31, 2007.  
The said transactions have no potential conflict with the interest of the Company at large.
- There is no non-compliance of any legal provision of applicable laws and no penalties or strictures have been imposed by the stock exchanges, SEBI or any other statutory authority on any matter related to capital markets during the last three years.
- The Company does not have any Whistle Blower Policy.
- The Company has complied with all applicable mandatory requirements of clause 49 of the Listing Agreement during the year. The Company has not adopted any non-mandatory requirements.

### 11. MEANS OF COMMUNICATION

The quarterly, half yearly and annual results are published by the Company in all editions of Financial Express (English) and in Loksatta (Marathi). The quarterly and yearly results are also available on the Company's website : [www.godfreyphillips.com](http://www.godfreyphillips.com) as well as on Bombay Stock Exchange and National Stock Exchange websites: [www.bseindia.com](http://www.bseindia.com) & [www.nseindia.com](http://www.nseindia.com). The half-yearly reports are not sent to household of the shareholders. During the year, there were no official news releases and no formal presentations were made to the institutional investors/analysts.

The Management Discussion and Analysis Report forms a part of the Directors' Report.

### 12. GENERAL SHAREHOLDER INFORMATION

- Annual General Meeting  
Date and Time : August 30, 2007 at 3:30 p.m.  
Venue : Kishinchand Chellaram College, Dinshaw Wacha Road, Churchgate, Mumbai - 400020
- Financial Calendar for 2007-08  
First Quarter Results : July, 2007  
Second Quarter Results : October, 2007  
Third Quarter Results : January, 2008  
Annual Results : June, 2008
- Date of Book Closure : August 27, 2007 to August 30, 2007 (both days inclusive)
- Dividend Payment Date : Dividend payments shall be made on or after September 6, 2007 to those shareholders whose names shall appear on the Members' Register as on August 30, 2007.

### (v) Listing on the Stock Exchanges :

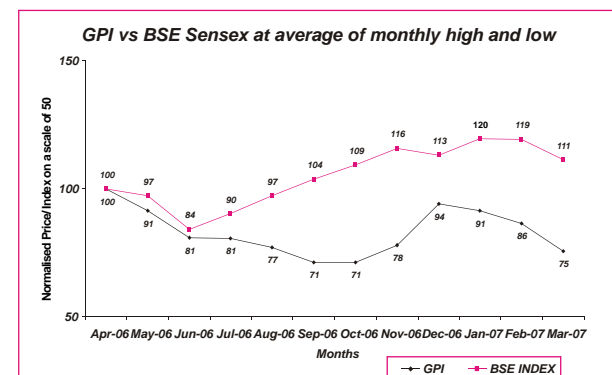
The Company's shares are listed on National Stock Exchange (Stock Code GODFRYPHLP), Bombay Stock Exchange (Stock Code 500163) and Calcutta Stock Exchange (Stock Code 10017335 for shares in demat form and 17335 for physical form.). The Company's application for delisting of its equity shares from Calcutta Stock Exchange is still pending decision by a committee set up for the purpose by them.

### (vi) Market Price Data of equity shares of the Company

High, Low during each month in the financial year 2006-07, on The Bombay Stock Exchange

Month	High (Rs.)	Low (Rs.)
April, 2006	1650.00	1410.00
May, 2006	1591.00	1200.00
June, 2006	1410.00	1060.00
July, 2006	1323.90	1141.30
August, 2006	1279.00	1075.10
September, 2006	1149.95	1025.00
October, 2006	1150.00	1025.00
November, 2006	1380.05	1000.00
December, 2006	1597.55	1276.05
January, 2007	1507.10	1292.10
February, 2007	1450.00	1190.00
March, 2007	1240.00	1070.00

### (vii) Performance in comparison to BSE Sensex



## GODFREY PHILLIPS INDIA LIMITED

### (viii) Registrars and Share Transfer Agent

Sharepro Services (India) Pvt. Ltd.  
Satam Estate  
3<sup>rd</sup> Floor, Above Bank of Baroda  
Cardinal Gracious Road, Chakala  
Andheri (East), Mumbai - 400099  
Telephone No : 022-28215168, 28329828, 28215991  
Fax No : 022-28375646  
E-mail : sharepro@vsnl.com

### (ix) Share Transfer System

The Company's share transfer and related operations are handled by Sharepro Services (India) Pvt. Ltd., Registrars and Share Transfer Agent (RTA) who are registered with the SEBI as a Category 1 Registrar.

The shares for transfers received in physical mode by the Company/RTA, are transferred expeditiously provided the documents are complete and the shares are not under dispute. The share certificates duly endorsed are returned immediately to those who do not opt for simultaneous transfer cum dematerialisation. Confirmation in respect of the request for dematerialisation of shares is sent to the respective depositories NSDL/CDSL within 21 days.

### (x) Distribution of shareholding as on March 31, 2007

Number of equity share holdings	Number of shareholders	Percentage of shareholders	Number of shares	Percentage of shares
1-50	5974	46.89	110050	1.06
51-100	2538	19.92	231045	2.22
101-500	3764	29.55	812261	7.81
501-1000	267	2.10	191997	1.84
1001-5000	142	1.11	291944	2.81
5001-10000	13	0.10	90161	0.87
10001 & above	42	0.33	8671326	83.39
Total	12740	100.00	10398784	100.00

### (xi) Categories of Shareholding as on March 31, 2007

Category of Shareholder	Number of Shares	Percentage of Shares
A. Promoter and Promoter Group	7,497,237	72.10
B. Public Shareholding		
Foreign Institutional Investors	814,547	7.83
Mutual funds/UTI	91,643	0.88
Financial Institutions/Banks	10,083	0.10
Central Government/State Government(s)	6000	0.06
Bodies Corporate	108,510	1.04
Individuals	1,794,827	17.26
Directors & Relatives	7441	0.07
NRIs and OCBs	68,496	0.66
Total Public Shareholding	2,901,547	27.90
Total Shareholding (A+B)	1,03,98,784	100.00

### (xii) Dematerialisation of shares

The shares of the Company are compulsorily traded in the dematerialised form and are available for trading under both the Depository Systems-NSDL (National Securities Depository Ltd.) and CDSL (Central Depository Services (India) Ltd.). As on March 31, 2007, a total of 45,03,229 equity shares of the Company, which forms 43.31% of the share capital, stand dematerialised.

Under the Depository System, the International Securities Identification Number (ISIN) allotted to the Company's equity shares is INE260B01010.

### (xiii) Outstanding GDRs/ADRs/Warrants or any Convertible Instruments

The Company has no outstanding GDRs/ADRs/Warrants or any convertible instruments.

### (xiv) Plant Locations

The Company's plant is situated at Andheri (Mumbai) and the other one owned by the Company's wholly owned subsidiary, International Tobacco Company Limited, is located at Guldhar (Ghaziabad).

Andheri Plant	: V.K.K. Menon Road (Sahar Road), Chakala, Andheri (East), Mumbai - 400099
Guldhar Plant	: International Tobacco Company Ltd. Delhi - Meerut Road, Guldhar, Ghaziabad - 201001.

### Address for Correspondence

Shareholders should address all their correspondence concerning shares to the Company's Registrars and Share Transfer Agent, Sharepro Services (India) Pvt. Ltd. at the address mentioned at Sr. No. 12 (viii) above or at:  
Sharepro Services (India) Pvt. Ltd.  
912, Raheja Centre,  
Free Press Journal Road,  
Nariman Point, Mumbai - 400021.  
Telephone No : 022-22825163, 22881569  
Fax No : 022-22825484  
E-mail : sharepro@vsnl.com

### 13. CEO/CFO CERTIFICATION

A certificate signed by Mr. K.K. Modi, President & Managing Director as CEO and by Mr. R.N. Agarwal, Executive Vice President - Finance as the CFO is attached with this report.

### 14. COMPLIANCE REPORT ON CORPORATE GOVERNANCE

The Company is regularly filing the Quarterly Compliance Report on Corporate Governance with the Stock Exchanges as per the format specified in Annexure 1B to the Clause 49 of the Listing Agreement.

For and on behalf of the Board

R.A. SHAH  
Chairman

Place : Mumbai  
Date : 31<sup>st</sup> July, 2007

CERTIFICATE

To the Members of Godfrey Phillips India Limited

We have examined the compliance of conditions of Corporate Governance by Godfrey Phillips India Limited for the year ended March 31, 2007, as stipulated in clause 49 of the Listing Agreement of the said Company with stock exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the 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 in respect of investor grievances received during the year ended March 31, 2007 no investor grievances are pending for a period exceeding one month against the Company as per the records maintained by the Company.

We further 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 A.F. Ferguson & Co.  
Chartered Accountants

J.M. SETH  
Partner  
(Membership No. 17055)

Place: New Delhi  
Date : 31<sup>st</sup> July, 2007

CHIEF EXECUTIVE OFFICER (CEO) AND  
CHIEF FINANCIAL OFFICER CERTIFICATION

The Board of Directors  
Godfrey Phillips India Limited  
Bhilwara Bhawan  
40-41, Community Centre  
Friends Colony  
New Delhi - 110025

We K.K. Modi, Managing Director being the Chief Executive Officer and R.N. Agarwal Executive Vice-President - Finance as the Chief Financial Officer of Godfrey Phillips India Limited to the best of our knowledge and belief certify in relation to the financial statements for the year ended March 31, 2007 that:

- a. We have reviewed financial statements and the cash flow statement for the year and that to the best of our knowledge and belief
  - i. these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
  - ii. these statements together present a true and fair view of the Company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.
- b. There are, to the best of our knowledge and belief, no transactions

entered into by the Company during the year which are fraudulent, illegal or violative of the Company's code of conduct.

- c. We accept responsibility for establishing and maintaining internal controls for financial reporting and that we have evaluated the effectiveness of internal control systems of the Company pertaining to financial reporting. Also, during the year we have not come across any instances of deficiencies in the design or operation of such internal controls requiring disclosure to the auditors and the Audit Committee.
- d. There were no significant changes in internal control over financial reporting and in accounting policies during the year requiring disclosure to the auditors and the Audit Committee. Also, we have not come across any instances of significant fraud during the year requiring disclosure to the auditors and the Audit Committee.

K.K. MODI  
Managing Director  
(Chief Executive Officer)

R.N. AGARWAL  
Executive Vice-President - Finance  
(Chief Financial Officer)

Place: New Delhi  
Date: June 20, 2007

CHIEF EXECUTIVE OFFICER (CEO) CERTIFICATION ON  
COMPANY'S CODE OF CONDUCT

The Board of Directors  
Godfrey Phillips India Limited  
Bhilwara Bhawan  
40-41, Community Centre  
Friends Colony  
New Delhi - 110 025

I, K.K. Modi, Managing Director being the Chief Executive Officer (CEO) of Godfrey Phillips India Limited do hereby declare that all the members of the Board of Directors and the members of the Senior Management Team of the Company have affirmed compliance with the Code of business conduct of the Company during the financial year ended March 31, 2007.

K.K. MODI  
Managing Director  
(Chief Executive Officer)

Place: New Delhi  
Date: June 20, 2007

AUDITORS' REPORT

To the Members of Godfrey Phillips India Limited

1. We have audited the attached balance sheet of Godfrey Phillips India Limited as at March 31, 2007 and also the profit and loss account and the cash flow statement for the year ended on that date, annexed thereto. 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 issued by the Central Government of India in terms of section 227(4A) of the Companies Act, 1956, we give in the Annexure, a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:
  - (i) 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;
  - (ii) 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;
  - (iii) the balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;
  - (iv) in our opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with the requirements of the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;
  - (v) on the basis of the written representations received from the directors as on March 31, 2007 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2007 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;
  - (vi) in our opinion and to the best of our information and according to the explanations given to us, the accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

- (a) in the case of the balance sheet, of the state of affairs of the Company as at March 31, 2007;
- (b) in the case of the profit and loss account, of the profit for the year ended on that date; and
- (c) in the case of the cash flow statement, of the cash flows for the year ended on that date.

For A.F. FERGUSON & CO.  
Chartered Accountants

J.M. SETH  
Partner  
(Membership No. 17055)

New Delhi : 20th June, 2007

GODFREY PHILLIPS INDIA LIMITED

Annexure referred to in paragraph 3 of Auditors' Report to the Members of GODFREY PHILLIPS INDIA LIMITED on the accounts for the year ended March 31, 2007

- (i) (a) The Company is maintaining proper records to show full particulars, including quantitative details and situation of fixed assets.
- (b) As explained to us, the Company has a system of physical verification of fixed assets which is designed to cover all fixed assets once in a period of three years and in accordance therewith, the fixed assets have been physically verified during the current year. The discrepancies noticed on such verification were not material and have been properly dealt with in the books of account. In our opinion, the frequency of physical verification is reasonable having regard to the size of the Company and the nature of its fixed assets.
- (c) During the year, 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.
- (ii) (a) The inventories have been physically verified by the management during the year. In our opinion, the frequency of verification is reasonable.
- (b) In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventories followed by the management were found 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 record of inventories, in our opinion, the Company has maintained proper records of inventories and the discrepancies noticed on physical verification between the physical stocks and the book records were not material in relation to the operations of the Company and have been properly dealt with in the books of account.
- (iii) (a) According to the information and explanations given to us, the Company has, during the year, not granted any loan, secured or unsecured to companies, firms and other parties covered in the register maintained under Section 301 of the Companies Act, 1956, other than unsecured loan of Rs.150 lacs granted to a company covered in the register maintained under Section 301 of the Companies Act, 1956. The maximum amount due during the year was Rs.150 lacs and the year end balance of the loan granted was Rs.150 lacs.
- (b) In our opinion and according to the information and explanations given to us, the rate of interest and other terms and conditions of the loan granted by the Company, as referred to in paragraph 4(iii)(a) of the Companies (Auditor's Report) Order, 2003 (hereinafter referred to as the Order) above, are, prima-facie, not prejudicial to the interest of the Company.
- (c) According to the information and explanations given to us, the party, to whom the loan has been granted by the Company, as referred to in paragraph 4 (iii) (a) above, has been regular in payment of interest. The principal amount of loan granted, as referred to in paragraph 4 (iii) (a) above, is not due for repayment during the year.
- (d) According to the information and explanations given to us, there are no overdue amounts in respect of the loan granted as referred to in paragraph 4 (iii) (a) above and interest thereon.
- (e) According to the information and explanations given to us, the Company has, during the year, not taken any loans, secured or unsecured, from companies, firms and other parties covered in the register maintained under Section 301 of the Companies Act, 1956. Accordingly, paragraph 4 (iii) (f) and (g) of the Order are not applicable.
- (iv) According to the information and explanations given to us, there is adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase of inventories and fixed assets and for the sale of goods. There are no sale of services during the year. Further, on the basis of our examination and according to the information and explanations given to us, we have neither come across nor have been informed of any instance of major weakness in the aforesaid internal control system.
- (v) (a) According to the information and explanations given to us, we are of the opinion that during the year, the particulars of contracts or arrangements referred to in section 301 of the Companies Act, 1956 have been entered in the register required to be maintained under the section.
- (b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the Companies Act, 1956 and exceeding the value of Rs. 5 lacs in respect of any party during the year have been made at prices which are reasonable having regard to prevailing market prices at the relevant time except for items stated to be of specialised nature for which there are no alternate sources of supply available to enable a comparison of prices.
- (vi) In our opinion and according to the information and explanations given to us, the Company has complied with the provisions of sections 58A, 58AA and other relevant provisions of the Companies Act, 1956 and the rules framed thereunder with regard to the deposits accepted from the public. As per information and explanations given to us, no order under the aforesaid sections has been passed by the Company Law Board or Reserve Bank of India or any court or any other tribunal, on the Company.
- (vii) In our opinion, the Company has an internal audit system commensurate with its size and nature of its business.
- (viii) We are informed that the maintenance of cost records has not been prescribed by the Central Government under section 209 (1) (d) of the Companies Act, 1956 in respect of the Company's products.
- (ix) (a) According to the information and explanations given to us and the records of the Company examined by us, the Company has been regular in depositing undisputed statutory dues including provident fund, investor education and protection fund, income-tax, wealth tax, customs duty, excise duty, cess, and other material statutory dues applicable to it except in few instances in respect of dues of works contract tax, entry tax, employees' state insurance, income-tax deducted at source, service tax and sales tax. We are informed that there are no undisputed statutory dues as at the year end outstanding for a period of more than six months from the date they became payable.
- (b) According to the information and explanations given to us and the records of the Company examined by us, there are no dues of wealth tax, service tax, customs duty and cess matters which have not been deposited on account of any dispute.

The details of dues of sales tax, excise duty and income-tax as at March 31, 2007, which have not been deposited by the Company on account of dispute are as follows:-

Name of the statute	Nature of the dues	Amount of dues* (Rs. lacs)	Amount deposited (Rs. lacs)	Period to which the amount relates	Forum where dispute is pending
Sales Tax Laws	Sales tax	0.83	0.25	1995-96, 2001-02	Sales Tax Tribunal
		42.23	15.16	1997-98 to 1999-00, 2001-02 to 2006-07	Upto Commissioners' Level
Central Excise Law	Excise duty	16.96	-	2000-01 to 2002-03, 2004-05 to 2006-07	Upto Commissioners' Level
		7.18	-	2004-05 to 2005-06	Customs Excise Service Tax Appellate Tribunal
Income-Tax Law	Income-tax	244.00	244.00	1980 to 1983, 1995-96 to 1997-98	High Court
		167.55	167.55	1999-00 to 2002-03	Income Tax Appellate Tribunal
		182.19	-	2001-02, 2003-04	Upto Commissioners' Level

\* amount as per demand orders, including interest and penalty, where quantified in the Order.

Further, as per information available with the Company, the concerned authority is in appeal against favourable orders received by the Company in respect of the following matters:-

Name of the statute	Nature	Amount (Rs. lacs)	Period to which the amount relates	Forum where department has preferred appeal
Income Tax Law	Income tax	299.46	1969, 1974 to 1977, 1991-92 to 1994-95	High Court
		189.01	1998-99 to 2001-02	Income Tax Appellate Tribunal
U.P. Krishi Utpadan Mandi Adhiniyam	Mandi cess	108.20	1997-98 to 1998-99	Supreme Court

- (x) The Company does not have accumulated losses as at the end of financial year March 31, 2007. Further, the Company has not incurred any cash losses during the financial year ended March 31, 2007 and in the immediately preceding financial year ended March 31, 2006.
- (xi) According to the records of the Company examined by us and on the basis of information and explanations given to us, the Company has not defaulted in repayment of dues to banks during the year. The Company has not taken any loans from financial institutions and has not issued debentures during the year.
- (xii) In our opinion and according to the 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 during the year.
- (xiii) Since the Company is not a chit fund or nidhi/mutual benefit fund/society, paragraph 4 (xiii) of the Order is not applicable.
- (xiv) As the Company is not dealing or trading in shares, securities, debentures and other investments, paragraph 4 (xiv) of the Order is not applicable.
- (xv) According to the information and explanations given to us, the Company has not given any guarantees for loans taken by others from banks or financial institutions during the year.
- (xvi) According to the information and explanations given to us, the Company has not raised any term loans during the year.
- (xvii) In our opinion and according to the explanations given to us, and on an overall examination of the balance sheet of the Company, we report that during the year short term funds have not been used to finance long term investments.
- (xviii) The Company has not made any preferential allotment of shares during the year.
- (xix) The Company has not issued any debentures during the year.
- (xx) The Company has not raised money by way of public issue, during the year.
- (xxi) Based upon the audit procedures performed and information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the year ended March 31, 2007.

For A.F. FERGUSON & CO.  
Chartered Accountants

J.M. SETH  
Partner  
(Membership No. 17055)

New Delhi : 20th June, 2007

GODFREY PHILLIPS INDIA LIMITED

Balance sheet as at March 31, 2007

				Rupees in lacs	
	Schedule Number	As at 31.3.2007		As at 31.3.2006	
SOURCES OF FUNDS					
Shareholders' funds					
Share capital	1	1039.88		1039.88	
Reserves and surplus	2	<u>40775.14</u>	41815.02	<u>35006.24</u>	36046.12
Loan funds					
Secured	3		6073.35		7439.19
Deferred tax liabilities (net)	12		355.44		407.96
TOTAL			<u>48243.81</u>		<u>43893.27</u>
APPLICATION OF FUNDS					
Fixed assets	4				
Gross block		23109.02		22340.38	
Less: Depreciation/ write down		<u>11248.76</u>		<u>9623.95</u>	
Net block		11860.26		12716.43	
Capital work-in-progress and advances on capital account		<u>794.60</u>	12654.86	<u>267.36</u>	12983.79
Investments	5		24626.57		21100.51
Current assets, loans and advances					
Income accrued on investments		12.72		15.17	
Inventories	6	15129.58		14971.64	
Sundry debtors	7	1569.61		1153.09	
Cash and bank balances	8	1427.60		668.41	
Loans and advances	9	<u>7342.47</u>		<u>7673.50</u>	
		25481.98		24481.81	
Less:					
Current liabilities and provisions					
Current liabilities	10	9129.14		9967.59	
Provisions	11	<u>5390.46</u>		<u>4705.25</u>	
		<u>14519.60</u>		<u>14672.84</u>	
Net current assets			10962.38		9808.97
TOTAL			<u>48243.81</u>		<u>43893.27</u>
Notes to the accounts	16				

For and on behalf of the Board of Directors

Per our report attached  
For A. F. FERGUSON & CO.,  
Chartered Accountants

J.M. SETH  
Partner  
(Membership No.17055)

New Delhi: 20th June, 2007

L.K. MODI  
Executive Director

S.V. SHANBHAG  
Whole-time Director

R.N. AGARWAL  
Executive Vice President (Finance)

S. SERU  
Chief Executive (Domestic)

R. JOSHI  
Company Secretary

R.A. SHAH  
Chairman

C.M. MANIAR  
LALIT BHASIN  
O.P. VAISH  
ANUP N.KOTHARI

Directors



# GODFREY PHILLIPS INDIA LIMITED

## Profit and loss account for the year ended March 31, 2007

		Rupees in lacs	
	Schedule Number	For the year ended 31.3.2007	For the year ended 31.3.2006
INCOME			
Gross sales		159676.79	143187.18
Less: Excise duty		83528.33	74770.57
Net sales		76148.46	68416.61
Other income	13	3359.85	1660.84
		<u>79508.31</u>	<u>70077.45</u>
EXPENSES			
Raw and packing materials, manufactured and other goods	14	30803.51	24940.34
Manufacturing and other expenses	15	34621.44	32789.54
Depreciation	4	1906.58	1837.20
Increase/(decrease) in excise duty on finished goods		(1105.51)	1405.31
		<u>66226.02</u>	<u>60972.39</u>
Profit before taxation and exceptional items		13282.29	9105.06
Exceptional items - Refer note 14		240.59	864.30
Profit before taxation		13522.88	9969.36
Provision for taxation - current		4071.00	1307.35
- deferred tax		(52.52)	1984.30
- fringe benefit tax		693.98	664.75
Profit after taxation		8810.42	6012.96
Balance brought forward from previous year		23009.36	21064.27
Available for appropriation		<u>31819.78</u>	<u>27077.23</u>
APPROPRIATIONS			
Proposed dividend		2599.70	2339.72
Corporate dividend tax		441.82	328.15
Transferred to general reserve		1500.00	1400.00
Surplus carried to balance sheet		<u>27278.26</u>	<u>23009.36</u>
		<u>31819.78</u>	<u>27077.23</u>
Basic and diluted earnings per share (Face value of share - Rs.10 each)		Rs. 84.73	Rs.57.82
Notes to the accounts	16		

For and on behalf of the Board of Directors

Per our report attached to the balance sheet For A. F. FERGUSON & CO., Chartered Accountants	L.K. MODI Executive Director	S. SERU Chief Executive (Domestic)	R.A. SHAH Chairman	Directors
	S.V. SHANBHAG Whole-time Director		C.M. MANIAR LALIT BHASIN O.P. VAISH ANUP N.KOTHARI	
J.M. SETH Partner (Membership No.17055)	R.N. AGARWAL Executive Vice President (Finance)	R. JOSHI Company Secretary		
New Delhi: 20th June, 2007				

# GODFREY PHILLIPS INDIA LIMITED

## Cash flow statement for the year ended March 31, 2007

		Rupees in lacs	
		For the year ended 31.3.2007	For the year ended 31.3.2006
A. CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit before tax		13522.88	9969.36
Adjustments for:			
Depreciation		1906.58	1837.20
Interest income from:			
Subsidiary companies		(245.05)	(200.98)
Debts, deposits, loans, etc.		(131.14)	(234.17)
Dividends from other long term investments		(31.01)	(30.25)
Interest income from other long term investments		(25.91)	(25.91)
Profit on redemption/sale of other long term investments		(1885.91)	(191.81)
Profit on sale of other current investments		(344.40)	(273.10)
Exchange gain		(0.29)	(0.46)
Exchange (gain)/loss on foreign currency borrowings		(11.11)	23.70
Provision for wealth-tax		17.00	15.00
Interest expense - fixed loans		272.77	219.41
- others		19.51	58.89
Fixed assets written off/written down		64.37	99.13
Loss on sale of fixed assets		119.63	39.11
		<u>(274.96)</u>	<u>1335.76</u>
Operating profit before working capital changes		<u>13247.92</u>	<u>11305.12</u>
Adjustments for:			
Trade and other receivables		402.83	(1081.75)
Inventories		(157.94)	(2189.07)
Trade and other payables		(596.00)	(1776.76)
		<u>(351.11)</u>	<u>(5047.58)</u>
Cash generated from operations		<u>12896.81</u>	<u>6257.54</u>
Interest received		216.71	287.99
Direct taxes paid		(4709.18)	(2245.01)
		<u>(4492.47)</u>	<u>(1957.02)</u>
Net cash from operating activities		<u>8404.34</u>	<u>4300.52</u>
B. CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets		(1910.36)	(2060.44)
Proceeds from sale of fixed assets		119.02	107.83
Purchase of investments	(108818.01)		(76188.43)
Proceeds from sale of investments	107522.26	(1295.75)	75468.61
Dividends from long term other investments		33.46	27.86
Interest received from other long term investments		25.91	25.91
Loans and deposits made		(681.00)	(278.50)
Loans and deposits received back		200.00	400.00
Interest received		151.99	134.94
Net cash used in investing activities		<u>(3356.73)</u>	<u>(2362.22)</u>
C. CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of fixed deposits		-	(181.19)
Repayment of long term borrowings		(1167.20)	(107.72)
(Repayment of)/proceeds from working capital borrowings		(157.84)	1431.97
Interest paid		(301.86)	(333.94)
Dividend paid		(2333.66)	(2278.92)
Corporate dividend tax paid		(328.15)	(320.85)
Net cash used in financing activities		<u>(4288.71)</u>	<u>(1790.65)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		758.90	147.65
Opening cash and cash equivalents			
-Cash and bank balances		668.41	520.30
Closing cash and cash equivalents			
-Cash and bank balances		1427.60	668.41
-Effect of exchange rate changes on exchange earner foreign currency bank balance		(0.29)	(0.46)
		<u>1427.31</u>	<u>667.95</u>

For and on behalf of the Board of Directors

Per our report attached to the balance sheet For A. F. FERGUSON & CO., Chartered Accountants	L.K. MODI Executive Director	S. SERU Chief Executive (Domestic)	R.A. SHAH Chairman	Directors
	S.V. SHANBHAG Whole-time Director		C.M. MANIAR LALIT BHASIN O.P. VAISH ANUP N.KOTHARI	
J.M. SETH Partner (Membership No.17055)	R.N. AGARWAL Executive Vice President (Finance)	R. JOSHI Company Secretary		
New Delhi: 20th June, 2007				

**GODFREY PHILLIPS INDIA LIMITED**

Schedules 1 to 16 annexed to and forming part of the accounts for the year ended March 31, 2007

	Rupees in lacs	
	As at 31.3.2007	As at 31.3.2006
<b>SCHEDULE 1 - Share capital</b>		
AUTHORISED		
60,000 Preference shares of Rs. 100 each	60.00	60.00
2,44,00,000 Equity shares of Rs. 10 each	2440.00	2440.00
	<u>2500.00</u>	<u>2500.00</u>
ISSUED, SUBSCRIBED AND PAID UP		
1,03,98,784 Equity shares of Rs.10 each fully paid up	<u>1039.88</u>	<u>1039.88</u>

Of the above equity shares

- (i) 86,82,578 shares were allotted as fully paid up as bonus shares by capitalisation of general reserves Rs. 311.57 lacs, share premium account Rs. 36.75 lacs and profits Rs. 519.94 lacs.  
(ii) 83,490 shares were allotted as fully paid up to the shareholders of D. Macropolo & Company Limited on amalgamation.

**SCHEDULE 2 - Reserves and surplus**

REVALUATION RESERVE			
Per last balance sheet	236.16		236.16
CAPITAL REDEMPTION RESERVE			
Per last balance sheet	30.00		30.00
GENERAL RESERVE			
Per last balance sheet	11730.72		10330.72
Add: Amount transferred from profit and loss account	<u>1500.00</u>	<u>13230.72</u>	<u>1400.00</u>
			11730.72
PROFIT AND LOSS ACCOUNT			
	<u>27278.26</u>		<u>23009.36</u>
	<u>40775.14</u>		<u>35006.24</u>

**GODFREY PHILLIPS INDIA LIMITED**

	Rupees in lacs	
	As at 31.3.2007	As at 31.3.2006
<b>SCHEDULE 3- Loan funds</b>		
SECURED		
From banks:		
- Term loan secured by way of an exclusive charge over specific plant and machinery (payable within 12 months Rs. 1090.00 lacs; previous year Rs. 1119.50 lacs)	3270.00	4478.00
- Cash credit and working capital demand loan secured against hypothecation of stocks and book debts and second charge on certain immovable properties of the Company	2803.35	2961.19
	<u>6073.35</u>	<u>7439.19</u>

**SCHEDULE 4 - Fixed assets**

Rupees in lacs											
	GROSS BLOCK (AT COST)			DEPRECIATION/WRITE DOWN					NET BLOCK		
	As at 31.3.2006	Additions	Deductions	As at 31.3.2007	As at 31.3.2006	For the year	On deductions	Write down **	As at 31.3.2007	As at 31.3.2007	As at 31.3.2006
Goodwill	1.20	-	-	1.20	-	-	-	-	-	1.20	1.20
Patents and trade marks	0.51	-	-	0.51	-	-	-	-	-	0.51	0.51
Land (leasehold)	437.46 <sup>#</sup>	-	-	437.46 <sup>#</sup>	-	-	-	-	-	437.46	437.46
Land (freehold)	377.93	-	-	377.93	-	-	-	-	-	377.93	377.93
Buildings	1155.60 <sup>*</sup>	4.59	0.30	1159.89 <sup>*</sup>	248.42	22.25	0.13	-	270.54	889.35	907.18
Plant and machinery	16561.34	595.64	59.89	17097.09	7911.73	1519.14	33.27	21.03	9418.63	7678.46	8649.61
Electrical installation and equipments	163.56	56.64	29.92	190.28	52.43	11.59	11.41	-	52.61	137.67	111.13
Computers and Information technology equipments	834.15	207.77	176.09	865.83	465.10	119.65	127.14	-	457.61	408.22	369.05
Furniture, fixtures and office equipments	1252.48	166.56	85.67	1333.37	521.83	76.11	41.00	4.67	561.61	771.76	730.65
Motor vehicles	1556.15	315.68	226.37	1645.46	424.44	157.84	94.52	-	487.76	1157.70	1131.71
Total	<u>22340.38</u>	<u>1346.88</u>	<u>578.24</u>	<u>23109.02</u>	<u>9623.95</u>	<u>1906.58</u>	<u>307.47</u>	<u>25.70</u>	<u>11248.76</u>	<u>11860.26</u>	
Previous year	<u>20127.78</u>	<u>2512.38</u>	<u>299.78</u>	<u>22340.38</u>	<u>7854.53</u>	<u>1837.20</u>	<u>137.95</u>	<u>70.17</u>	<u>9623.95</u>		12716.43
Capital work-in-progress and advances on capital account (net of write down of Rs. 6.55 lacs; previous year Rs. 14.07 lacs)										<u>794.60</u>	<u>267.36</u>
										<u>12654.86</u>	<u>12983.79</u>

\* includes Rs. 0.02 lac (previous year Rs. 0.02 lac) being the cost of shares in co-operative societies and Rs. 126.90 lacs (previous year Rs.125.90 lacs) towards cost of buildings for which titles are yet to be registered in the name of the Company.

\*\* Write down of certain items identified for disposal to their expected realisable value.

<sup>#</sup> includes Rs. 425.98 lacs (previous year Rs. 425.98 lacs) in respect of a plot of land, title for which is yet to be registered in the name of the Company.

1. Estimated amount of contracts remaining to be executed on capital account and not provided for (net of capital advances) Rs. 2963.29 lacs (previous year Rs. 68.71 lacs).

2. Additions for the year are net of exchange gain (net) of Rs. 37.16 lacs (previous year - include exchange loss (net) of Rs. 53.00 lacs) on account of fluctuations in the rate of exchange including increase/decrease in rupee liability of long term foreign currency loan

3. Additions for the year include Rs. Nil (previous year Rs. 31.12 lacs) towards the amount of borrowing costs capitalised.



GODFREY PHILLIPS INDIA LIMITED

	Rupees in lacs	
	As at 31.3.2007	As at 31.3.2006
SCHEDULE 5 - Investments		
LONG TERM (At cost)		
TRADE INVESTMENT - UNQUOTED		
Subsidiary company		
International Tobacco Company Limited		
1,00,000 Equity shares of Rs.100 each fully paid up	100.00	100.00
Others		
Molind Engineering Limited		
3,500 Equity shares of Rs.10 each fully paid up	0.25	0.25
OTHER INVESTMENTS - QUOTED		
Unit Trust of India		
3,83,900 6.75% Tax Free US64 Bonds of Rs.100 each	383.90	383.90
OTHER INVESTMENTS - UNQUOTED		
Subsidiary companies:		
Chase Investments Limited		
40,010 Equity shares of Rs.100 each fully paid up	40.01	40.01
1,58,490 Equity shares of Rs.100 each Rs. 50 paid up	79.24	79.24
City Leasing and Finance Company Limited		
4,00,020 Equity shares of Rs.10 each fully paid up	40.00	40.00
15,49,980 Equity shares of Rs.10 each Rs. 5.50 paid up	85.25	85.25
Manhattan Credits and Finance Limited		
19,50,000 Equity shares of Rs.10 each fully paid up	195.00	195.00
Others:		
Success Principles India Limited		
1,99,673 Equity shares of Rs.10 each fully paid up	19.97	19.97
Modi Entertainers Networks Private Limited		
1,000 Equity shares of Rs.10 each fully paid up	0.10	0.10
Sundaram BNP Paribas Mutual Fund (Formerly Sundaram Mutual Fund)		
38,53,758 Units of Sundaram BNP Paribas Bond Saver - Appreciation of Rs.10 each	597.31	597.31
23,01,943 Units of Sundaram BNP Paribas Bond Saver - Bonus (Bonus Units) of Rs.10 each	236.84	236.84
Nil (Previous year 10,00,000 Units of Sundaram Fixed Term Plan Series 1 Feb'06 (100 days))		
-Growth Plan of Rs.10 each (sold during the year)	-	100.00
Franklin Templeton Mutual Fund		
25,59,040 Units of Templeton India Income Fund - Growth of Rs. 10 each	353.50	353.50
20,00,000 Units of Templeton Monthly Income Plan - Half Yearly Dividend of Rs.10 each	198.18	198.18
24,11,636 (Previous year 35,84,037) Units of Templeton India Government		
Securities Fund - Growth Plan of Rs. 10 each	398.40	597.23
(11,72,401 Units sold during the year)		
Nil (Previous year 14,33,918) Units of Templeton India Income		
Builder Account Plan A - Growth of Rs. 10 each (sold during the year)	-	300.00
35,90,487 Units of Franklin Templeton Capital Safety Fund - 3 Years Plan -		
Growth of Rs.10 each (purchased during the year)	359.05	-
ICICI Prudential Mutual Fund		
68,52,202 (Previous year 103,08,923) Units of ICICI Prudential Income Plan - Growth of Rs. 10 each	967.60	1455.72
(34,56,721 Units sold during the year)		
Nil (Previous year 25,56,402) Units of ICICI Prudential Gilt Fund Investment Plan - Growth of Rs. 10 each	-	398.12
(sold during the year)		
Nil (Previous year 45,38,687) Units of ICICI Prudential Flexible Income Plan - Growth of Rs. 10 each	-	500.00
(sold during the year)		
99,68,157 (Previous year 100,00,000) Units of ICICI Prudential FMP - Growth Yearly XII Institutional of Rs.10 each	1080.00	1000.00
(100,00,000 Units sold and 99,68,157 Units purchased during the year)		
50,00,000 Units of ICICI Prudential FMP Plan - Institutional Cumulative - XXVIII of Rs. 10 each	500.00	500.00
47,15,379 Units of ICICI Prudential Blended Plan A - Growth of Rs.10 each (purchased during the year)	500.00	-
30,00,000 Units of ICICI Prudential FMP Series 34 - One year Plan B Institutional Growth of Rs. 10 each	300.00	-
(purchased during the year)		
131,55,625 Units of ICICI Prudential Hybrid FMP 13 Months Plan - Institutional - Growth of Rs. 10 each	1315.56	-
(purchased during the year)		

GODFREY PHILLIPS INDIA LIMITED

	Rupees in lacs	
	As at 31.3.2007	As at 31.3.2006
SCHEDULE 5- Investments (Continued)		
Birla Mutual Fund		
42,47,005 Units of Birla Income Plus Plan B - Growth of Rs. 10 each	757.68	757.68
Nil (Previous year 14,12,030) Units of Birla Gilt Plus PF Plan - Growth of Rs. 10 each (sold during the year)	-	199.02
12,46,416 Units of Birla Gilt Plus Regular Plan - Growth of Rs. 10 each	199.37	199.37
Nil (Previous year 100,00,000) Units of Birla Fixed Term Plan Series A - Growth of Rs. 10 each (sold during the year)	-	1000.00
17,68,113 Units of Birla MIP Plan - Growth of Rs. 10 each	277.78	277.78
50,00,000 Units of Birla FTP Series H - Growth of Rs. 10 each	500.00	500.00
28,35,235 (Previous year 26,49,562) Units of Birla Sun Life Monthly Income - Quarterly Dividend - Reinvestment		
of Rs. 10 each (1,85,673 Units purchased during the year)	319.83	299.44
100,00,000 Units of Birla FTP - Institutional - Series U - Growth of Rs. 10 each (purchased during the year)	1000.00	-
Kotak Mahindra Mutual Fund		
17,31,037 (Previous year 21,54,634) Units of Kotak Gilt (Investment Regular) - Growth of Rs. 10 each	291.53	362.87
(4,23,597 Units sold during the year)		
16,78,451 (Previous year 27,52,305) Units of Kotak Bond Regular - Growth of Rs. 10 each	249.33	408.84
(10,73,854 Units sold during the year)		
10,00,000 Units of Kotak Wealth Builder Series 1 - Growth of Rs. 10 each (purchased during the year)	100.00	-
20,00,000 Units of Kotak Flexi Fund of Funds - Series II (Dividend) of Rs. 10 each (purchased during the year)	200.00	-
DSP Merrill Lynch Mutual Fund		
39,55,693 Units of DSP Merrill Lynch Bond Fund Retail - Growth of Rs. 10 each	595.82	595.82
SBI Mutual Fund		
34,44,028 Units of Magnum Income Fund - Growth Plan of Rs. 10 each	397.87	397.87
22,92,313 Units of Magnum Monthly Income Plan - Growth Option of Rs. 10 each	316.21	316.21
Standard Chartered Mutual Fund		
22,40,889 (Previous year 136,53,406) Units of GSSG GSSIF - Investment Plan - Growth Option of Rs. 10 each	269.48	1641.90
(114,12,517 Units sold during the year)		
150,00,000 Units of Grindlays Fixed Maturity 7th Plan - B - Growth of Rs. 10 each	1500.00	1500.00
50,00,000 Units of Standard Chartered Enterprise Equity Fund - Growth of Rs. 10 each (purchased during the year)	500.00	-
1,37,87,625 Units of Standard Chartered Fixed Maturity Plan Yearly Series 1- Growth of Rs. 10 each	1378.76	-
(purchased during the year)		
HDFC Mutual Fund		
40,56,978 Units of HDFC Income Fund - Growth of Rs. 10 each	471.19	471.19
Nil (Previous year 16,58,375) Units of HDFC High Interest Fund - Growth Plan of Rs. 10 each	-	254.87
(sold during the year)		
DBS Chola Mutual Fund (Formerly Chola Mutual Fund)		
Nil (Previous year 5,88,235) Units of DBS Chola Triple Ace - Regular - Cumulative of Rs. 10 each	-	99.38
(sold during the year)		
7,85,989 Units of DBS Chola Triple Ace - Regular - Bonus- Bonus Units of Rs. 10 each	88.89	88.89
30,00,000 Units of DBS Chola Fixed Maturity Plan - Series 6 (371 Days Plan) - Cumulative of Rs. 10 each	300.00	-
(purchased during the year)		
HSBC Mutual Fund		
50,00,000 Units of HSBC Fixed Term Series 13 Institutional Growth of Rs. 10 each	500.00	500.00
100,00,000 Units of HSBC Fixed Term Series 9 - Growth of Rs. 10 each (purchased during the year)	1000.00	-
100,00,000 Units of HSBC Fixed Term Series 15 - Institutional - Growth of Rs. 10 each (purchased during the year)	1000.00	-
Principal Mutual Fund		
Nil (Previous year 14,01,384) Units of Principal Income Fund - Growth Plan of Rs. 10 each	-	200.00
(sold during the year)		
Nil (Previous year 20,00,000) Units of Principal Deposit Fund (FMP - 6) 371 Days Plan Mar 05 - Growth Rs. 10 each	-	200.00
(sold during the year)		
38,42,983 Units of Principal Income Fund - Growth Plan of Rs.10 each (purchased during the year)	400.20	-
30,00,000 Units of PNB Fixed Maturity Plan - ( FMP-37) 385 Days - Series IV - Mar 07		
Institutional Growth Plan of Rs. 10 each	300.00	-
(purchased during the year)		
UTI Mutual Fund		
Nil (Previous year 13,93,338) Units of UTI Bond Advantage Fund Growth Plan of Rs. 10 each	-	205.54
(sold during the year )		
Nil (Previous year 50,00,000) Units of UTI Fixed Maturity Plan - (YFM P/02/05) Growth Plan of Rs. 10 each	-	500.00
(sold during the year)		
100,00,000 Units of UTI - Fixed Maturity Plan - (YFMP/0906) Growth Plan of Rs. 10 each (purchased during the year)	1000.00	-

GODFREY PHILLIPS INDIA LIMITED

	Rupees in lacs	
	As at 31.3.2007	As at 31.3.2006
SCHEDULE 5- Investments (Continued)		
Reliance Mutual Fund		
14,11,423 Units of RMTF - Retail Plan - Growth Plan - Bonus Option of Rs. 10 each	142.86	142.86
Nil (Previous year 50,00,000) Units of Reliance Fixed Maturity Fund - Annual Plan - Series1- Growth Option of Rs. 10 each (sold during the year)	-	500.00
9,72,195 Units of RIF Retail Plan - Growth of Rs. 10 each	100.00	100.00
100,00,000 Units of Reliance Fixed Horizon Fund I - Annual Plan - Series III Institutional Growth Plan of Rs. 10 each (purchased during the year)	1000.00	-
50,00,000 Units of Reliance Fixed Horizon Fund II - Annual Plan - Series II - Institutional Growth Plan of Rs. 10 each (purchased during the year)	500.00	-
Deutsche Mutual Fund		
Nil (Previous year 50,00,000) Units of Deutsche Fixed Term Fund - Growth Option of Rs. 10 each (sold during the year)	-	500.00
TATA Mutual Fund		
Nil (Previous year 50,00,000) Units of TATA Fixed Horizon Fund Series 1- Plan A (371 days) - Growth of Rs. 10 each (sold during the year)	-	500.00
Nil (Previous year 100,00,000) Units of TATA Fixed Horizon Fund Series 3 - Scheme B (6 Months) - Growth of Rs. 10 each (sold during the year)	-	1000.00
ING Vysya Mutual Fund		
Nil (Previous year 19,69,066) Units of ING Vysya Select Debt Fund - Growth of Rs. 10 each (sold during the year)	-	200.00
16,67,838 Units of ING Vysya Income Fund - Short Term Plan - Growth option of Rs. 10 each (purchased during the year)	219.25	-
100,00,000 Units of ING Vysya Fixed Maturity Fund - XXIV - Growth of Rs. 10 each (purchased during the year)	1000.00	-
Government Securities (Lodged as security with Government Authorities)	0.36	0.36
	24626.57	21100.51
Aggregate amount of quoted investments	383.90	383.90
Aggregate amount of unquoted investments:		
-Units of Mutual Funds	23682.49	20156.43
-Others	560.18	560.18
	24242.67	20716.61
Market value of quoted investments	390.00	390.39
Net asset value/repurchase price of units of Mutual Funds	27788.57	24199.51

Note:  
Details of current investments purchased and sold during the year:  
- ING Vysya Liquid Fund Super Institutional - Growth Option 7,04,47,714 Units of Rs. 10 each at cost of Rs. 7780 lacs.  
- Standard Chartered Liquidity Manager - Plus - Growth 21,87,252 Units of Rs. 1000 each at cost of Rs. 22470 lacs.  
- Birla Cash Plus - Institutional Premium - Growth 13,00,98,316 of Rs. 10 each at cost of Rs. 14735 lacs.  
- Birla Sun Life Cash Manager Institutional Plan - Growth 7,08,53,458 of Rs.10 each at cost of Rs. 8730 lacs.  
- ICICI Prudential Liquid Plan Institutional Plus - Growth Option 5,75,41,683 Units of Rs. 10 each at cost of Rs. 5935 lacs.  
- Mangnum Insta Cash Fund Liquid Floater Plan - Growth 40,28,002 Units of Rs. 10 each at cost of Rs. 500 lacs.  
- UTI Liquid Cash Plan Institutional - Growth Option 5,30,800 Units of Rs. 1000 each at cost of Rs. 6330 lacs.  
- UTI Money Market Fund - Growth Plan 30,49,165 Units of Rs. 20 each at cost of Rs. 620 lacs.  
- ICICI Prudential Sweep Cash Option Cumulative 2,77,09,013 Units of Rs.10 each at cost of Rs. 2980 lacs.  
- Templeton India Treasury Management Account Super Institutional Plan - Growth 7,28,923 Units of Rs.1000 each at cost of Rs. 7670 lacs.  
- Tata Liquid Super High Investment Fund - Appreciation 11,59,531 Units of Rs. 1000 each at cost of Rs. 15495 lacs.  
- SBI Debt Fund Series - 90 Days (May 06) - Dividend Option 50,00,000 Units of Rs.10 each at cost of Rs. 500 lacs.  
- UTI Money Market Fund - Growth Plan 50,00,000 Units of Rs.10 each at cost of Rs. 500 lacs.  
- UTI - Fixed Maturity Plan - (QFMP/0506/1) Growth Plan 50,00,000 Units of Rs. 10 each at cost of Rs. 500 lacs.  
- Principal Income Fund - Growth Plan 57,59,733 Units of Rs. 10 each at cost of Rs. 599.80 lacs.

GODFREY PHILLIPS INDIA LIMITED

	Rupees in lacs	
	As at 31.3.2007	As at 31.3.2006
SCHEDULE 6 - Inventories		
At cost or under:		
Stores and spare parts	425.52	443.25
At lower of cost and net realisable value:		
Raw and packing materials	10054.32	8752.88
Work-in-process	124.62	102.03
Finished goods - Cigarettes	3214.84	4546.15
- Cigars	174.86	119.37
Other goods	729.73	602.27
Real estate*	405.69	405.69
	15129.58	14971.64
*Includes land at revalued cost		
SCHEDULE 7- Sundry debtors		
CONSIDERED GOOD		
Over six months - unsecured	17.45	1.17
Others - secured	4.10	3.43
- unsecured	1548.06	1148.49
CONSIDERED DOUBTFUL		
Over six months - unsecured	70.96	74.16
Others - unsecured	5.24	4.41
	1645.81	1231.66
	76.20	78.57
	1569.61	1153.09
Less: Provision for doubtful debts		
SCHEDULE 8 - Cash and bank balances		
Cash on hand	24.30	15.89
Cheques on hand	710.90	120.10
With scheduled banks : On current accounts	653.89	495.25
: On margin money accounts	38.06	36.72
: On fixed deposit accounts**	0.45	0.45
	1427.60	668.41
** Lodged as security with Government Authorities		
SCHEDULE 9 - Loans and advances		
Unsecured, considered good, unless otherwise stated:		
Advances recoverable in cash or in kind or for value to be received*	1677.13	1789.09
Considered doubtful	-	64.87
	1677.13	1853.96
Less: Provision for doubtful advances	-	64.87
	1677.13	1789.09
Inter corporate deposits	975.00	825.00
Dues from subsidiary companies **	3754.08	3591.11
With excise and customs on current/cenvat accounts	95.71	627.58
Income-tax recoverable	840.55	840.72
	7342.47	7673.50

- \* Includes:  
i) Rs. 4.85 lacs (previous year Rs . 0.37 lac) due from officer/directors of the Company. Maximum amount due during the year Rs. 8.97 lacs (previous year Rs.2.81 lacs).  
ii) Rs. 0.12 lac (previous year Rs. 0.05 lac) due from Modipon Ltd., a company under the same management. Maximum amount due during the year Rs.0.14 lac (previous year Rs. 0.11 lac).  
iii) Rs. Nil (previous year Rs. 0.03 lac) due from a private company in which some of the directors of the Company are directors.

- \*\* Dues from subsidiaries represent loans and advances recallable on demand and comprise of:  
i) Interest free loans to Kashyap Metal and Allied Industries Limited (given prior to insertion of section 372A on October 31, 1998) Rs. 342.65 lacs (previous year Rs. 342.65 lacs). Maximum amount due during the year Rs. 342.65 lacs (previous year Rs. 342.65 lacs).  
ii) Interest bearing loans/advances to:  
(a) Loans to Kashyap Metal and Allied Industries Limited Rs. 1543.08 lacs including interest (net of tax) for the year (previous year Rs. 1205.05 lacs). Maximum amount due during the year Rs. 1543.08 lacs (previous year Rs. 1205.05 lacs).  
(b) Advances to International Tobacco Company Limited Rs.1868.35 lacs (previous year Rs. 2043.41 lacs). Maximum amount due during the year Rs. 2088.05 lacs (previous year Rs. 2043.41 lacs).



## GODFREY PHILLIPS INDIA LIMITED

	Rupees in lacs	
	As at 31.3.2007	As at 31.3.2006
<b>SCHEDULE 10 - Current liabilities</b>		
Sundry creditors #		
Dues of small scale industrial undertakings (Refer Note 8)	775.28	796.95
Dues of other than small scale industrial undertakings	8320.89	9127.94
Interest accrued but not due on loans and deposits	32.97	42.70
	<u>9129.14</u>	<u>9967.59</u>
# Sundry creditors do not include any amounts outstanding as on March 31, 2007 which are required to be credited to the Investor Education and Protection Fund.		
<b>SCHEDULE 11 - Provisions</b>		
Proposed dividend	2599.70	2339.72
Provision for corporate dividend tax	441.82	328.15
Taxation (net of payments)	815.98	743.35
Provision for encashable leave salary	1532.96	1294.03
	<u>5390.46</u>	<u>4705.25</u>
<b>SCHEDULE 12 - Deferred taxation</b>		
Deferred tax liabilities		
- Accelerated depreciation	889.89	1004.80
- Capital gains	109.73	63.80
	<u>999.62</u>	<u>1068.60</u>
Deferred tax assets		
- Accrued expenses deductible on payment	618.28	612.36
- Provision for doubtful debts/advances	25.90	48.28
	<u>644.18</u>	<u>660.64</u>
Deferred tax liabilities - net	<u>355.44</u>	<u>407.96</u>
	For the year ended 31.3.2007	For the year ended 31.3.2006
<b>SCHEDULE 13 - Other income</b>		
Rent and hire charges (gross) from:		
- Subsidiary company	4.80	4.80
- Others	100.32	90.91
Interest (gross) from:		
- Subsidiary companies	245.05	200.98
- Debts, deposits, loans, etc.	131.14	234.17
Income (gross) from other long term investments:		
- Dividends	31.01	30.25
- Interest	25.91	25.91
Profit on redemption/sale of other long term investments	1885.91	191.81
Profit on sale of other current investments	344.40	273.10
Doubtful debts and advances written back	5.70	-
Export incentives	82.08	164.30
Sundries	503.53	444.61
	<u>3359.85</u>	<u>1660.84</u>
Tax deducted at source:		
Interest income	74.92	63.87
Rent and hire charges	19.60	17.80
Sundries	0.45	0.28

## GODFREY PHILLIPS INDIA LIMITED

	Rupees in lacs	
	For the year ended 31.3.2007	For the year ended 31.3.2006
<b>SCHEDULE 14 - Raw and packing materials, manufactured and other goods</b>		
Raw and packing materials consumed	18997.06	16741.55
Manufacturing charges paid to a subsidiary company for cigarettes manufactured on our behalf	2851.65	2570.01
Purchases for resale (including transferred from raw and packing materials)	7829.03	7426.06
(Increase)/decrease in work-in-process, finished goods and other goods		
Opening stock:		
- Work-in-process	102.03	89.66
- Finished goods - Cigarettes	4546.15	2880.80
- Cigars	119.37	56.76
- Other goods	602.27	545.32
- Real estate	405.69	405.69
	<u>5775.51</u>	<u>3978.23</u>
Closing stock:		
- Work-in-process	124.62	102.03
- Finished goods - Cigarettes	3214.84	4546.15
- Cigars	174.86	119.37
- Other goods	729.73	602.27
- Real estate	405.69	405.69
	<u>4649.74</u>	<u>5775.51</u>
	<u>1125.77</u>	<u>(1797.28)</u>
	<u>30803.51</u>	<u>24940.34</u>

**GODFREY PHILLIPS INDIA LIMITED**

	Rupees in lacs	
	For the year ended 31.3.2007	For the year ended 31.3.2006
<b>SCHEDULE 15 - Manufacturing and other expenses</b>		
Salaries, wages and bonus	5010.71	4569.20
Contribution to provident and other funds (including administrative charges)	355.09	313.33
Workmen and staff welfare expenses	591.35	581.23
Contribution to gratuity and superannuation fund	679.22	503.97
Consumption of stores and spare parts	26.29	38.33
Power and fuel	508.17	438.62
Repairs and maintenance - Buildings	196.75	157.68
- Machinery	262.18	217.78
- Others	227.40	203.73
Rent (including Rs. 28.07 lacs; previous year Rs. 26.56 lacs to a subsidiary company)	716.08	609.84
Rates and taxes	3722.16	3676.70
Insurance	325.96	287.59
Freight and cartage	1111.53	869.37
Legal and professional expenses	1489.30	1452.33
Auditors' remuneration	73.19	63.74
Interest - Fixed loans	272.77	219.41
- Others	19.51	58.89
Cash discount	61.07	48.37
Commission paid to other than sole selling agents	113.25	129.15
Advertising and sales promotion	11198.18	11050.95
Selling and distribution expenses	1762.01	1714.26
Travelling and conveyance	1611.46	1577.44
Donations	130.48	64.66
Bad debts and advances written off	0.38	0.67
Provision for doubtful debts and advances	3.33	6.90
Fixed assets written off/written down	64.37	99.13
Loss on sale of fixed assets	119.63	39.11
Technical services fee and royalty	666.87	623.93
Miscellaneous expenses	3302.75	3173.23
	<u>34621.44</u>	<u>32789.54</u>
(a) Consumption of stores and spare parts has been computed after deducting the amount of spare parts charged to repairs and maintenance - machinery	196.54	158.87
(b) Insurance has been computed after deducting the amount for transit insurance charged to raw and packing materials, stores, etc.	11.90	13.41

**GODFREY PHILLIPS INDIA LIMITED**
**SCHEDULE 16 Notes to the accounts for the year ended March 31, 2007**
**1. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements are prepared under the historical cost convention in accordance with applicable accounting standards and relevant presentational requirements of the Companies Act, 1956.

**i) Fixed assets and depreciation**

Fixed assets are stated at cost of acquisition or construction less accumulated depreciation and include interest on loans attributable to the acquisition of assets upto the date of their commissioning.

Value of goodwill and patents and trade marks is not amortized because, in view of the management, there is no diminution in their value. No amortization is done in respect of leasehold land in view of the lease being perpetual.

Depreciation in the accounts is charged on the straight line method at the rates prescribed under the Companies Act, 1956 and is calculated on a full year basis on additions during the year and no depreciation is provided on assets deleted during the year. Extra shift depreciation is computed in full on a concern basis and not prorated to the number of days of shift working. Assets, other than items costing upto Rs. 5000 each, are depreciated upto 95% of their value and 5% residual value is retained in the books.

The depreciation rates which are different from the principal rates specified in Schedule XIV of the Companies Act, 1956 are as follows:-

Items of machinery and equipment costing upto Rs. 5,000 each	
acquired upto December 16, 1993	95%

Assets, other than data processing equipment, acquired upto December 31, 1987 and data processing equipment acquired upto December 31, 1986	SLM equivalent of rates applicable under the Income-tax Rules, 1962 at the time of acquisition of such assets
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**ii) Investments**

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

**iii) Inventories**

Inventories are valued at cost or net realisable value, whichever is lower except stores and spare parts which are valued at cost or under and real estate which is valued at revalued cost of land and construction thereon at cost. The cost of raw materials, stores and spares and other goods is determined on monthly weighted average cost basis. The cost of finished goods and work-in-process is determined on standard absorption cost basis which approximates actual costs. Absorption cost comprises raw materials cost, direct wages, appropriate share of production overheads and applicable excise duty paid/payable thereon.

**iv) Revenue recognition**

Sale of goods is recognised at the point of despatch of goods to customers. Sales are inclusive of excise duty where applicable but exclusive of sales tax. Income from investments is recognised on an accrual basis

**v) Retirement benefits**

The Company has various schemes of retirement benefits such as provident fund, superannuation fund and gratuity fund duly recognised by the Income-tax authorities. The funds are administered through trustees and the Company's contributions are charged against the revenue every year. Accrued liability for gratuity and leave salary encashable on retirement are determined on the basis of actuarial valuation at the end of the financial year.

**vi) Income-tax**

Provision for income-tax is based on the assessable profits computed in accordance with the provisions of the Income-tax Act, 1961.

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

**vii) Proposed dividends**

Dividends proposed by the directors as appropriation of profits are provided for in the books of account, pending approval of shareholders at the annual general meeting.

**viii) Research and development expenditure**

Research and development expenditure is charged to revenue under the natural heads of account in the year in which it is incurred.

**ix) Foreign currency transactions**

Transactions in foreign currency are recorded at the exchange rates prevailing at the time of transactions. Gains/losses on settlement of the transactions are taken to the relevant revenue heads in the profit and loss account except where the foreign currency liabilities have been incurred in connection with fixed assets acquired upto March 31, 2004 and subsequent thereto in case of fixed assets acquired from a country outside India, where the exchange differences are adjusted in the carrying amount of concerned fixed assets. Other monetary items are translated at the year end rates and the gains/losses are taken to the relevant revenue heads in the profit and loss account.

The difference between the forward rate and the exchange rate at the date of the forward contract transaction is recognised as income or expense over the life of the contract in the profit and loss account. The exchange difference on such contracts i.e. difference between the exchange rate at the reporting/settlement date and the exchange rate on the date of inception of the contract/the last reporting date, is recognised as income or expense for the period except where the foreign exchange liabilities have been incurred in connection with fixed assets acquired upto March 31, 2004 and subsequent thereto in case of fixed assets acquired from a country outside India, where the exchange differences are adjusted in the carrying amount of concerned fixed assets.



## GODFREY PHILLIPS INDIA LIMITED

### SCHEDULE 16 Notes to the accounts (contd.)

	Rupees in lacs	
	For the year ended 31.3.2007	For the year ended 31.3.2006
<b>2. REMUNERATION OF DIRECTORS</b>		
a) Included in Schedule 15 are:		
Salaries*	81.36	81.18
Monetary value of benefits	31.49	29.03
Commission	56.80	56.80
Sitting fees	9.20	9.00
	<u>178.85</u>	<u>176.01</u>
*excludes incremental liability for gratuity and encashable leave salary which are actuarially determined on an overall basis.		
b) Computation of directors' commission and net profit in accordance with Section 198 of the Companies Act, 1956		
Profit before taxation	13522.88	9969.36
Add/(less):		
Directors' remuneration	178.85	176.01
Profit on redemption/sale of other long term investments	(1885.91)	(191.81)
Bad debts and advances written off against provision	(64.87)	(32.91)
Provision for doubtful debts and advances (net)	(2.37)	6.90
	<u>11748.58</u>	<u>9927.55</u>
Maximum commission payable to the three working Directors @ 4% of the above profit	469.94	397.10
Restricted to	56.80	56.80
<b>3. AUDITORS' REMUNERATION*</b>		
As auditors		
Audit fee	31.00	27.50
Out of pocket expenses	3.49	3.07
In other capacity		
For limited review of unaudited financial results	21.75	18.75
For corporate governance, consolidated financial statements and other certification work	3.11	2.13
For tax audit	8.50	6.00
For management consultancy	-	2.00
For miscellaneous certificates	5.34	4.29
	<u>73.19</u>	<u>63.74</u>
*Net of service tax		
<b>4. EXPENDITURE ON SCIENTIFIC RESEARCH AND DEVELOPMENT</b>		
Revenue expenditure	356.43	310.75
Capital expenditure	58.64	305.97

## GODFREY PHILLIPS INDIA LIMITED

### SCHEDULE 16 Notes to the accounts (contd.)

	Rupees in lacs	
	As at 31.3.2007	As at 31.3.2006
<b>5. CONTINGENT LIABILITIES NOT PROVIDED FOR</b>		
a) Demands from excise, sales tax and other authorities disputed by the Company	288.50	781.12
b) Undertaking given to a bank in respect of cash credit facilities granted to the subsidiary company - International Tobacco Company Limited upto the limit of Rs. 150 lacs which is secured by hypothecation of stocks of that company. The actual overdrawn balance as on March 31, 2007 was Rs. Nil; previous year Rs. Nil		
c) Uncalled liability on shares partly paid	148.99	148.99
6. The following are the particulars of dues on account of sales tax, excise duty and income-tax as at March 31, 2007 that have been disputed by the Company in appeals pending before the appellate authorities:		

Name of the statute	Nature of the dues	Amount of dues* (Rs. lacs)	Amount deposited (Rs. lacs)	Period to which the amount relates	Forum where dispute is pending
Sales Tax Laws	Sales tax	0.83	0.25	1995-96, 2001-02	Sales Tax Tribunal
		42.23	15.16	1997-98 to 1999-00, 2001-02 to 2006-07	Upto Commissioners' Level
Central Excise Law	Excise duty	16.96	-	2000-01 to 2002-03, 2004-05 to 2006-07	Upto Commissioners' Level
		7.18	-	2004-05 to 2005-06	Customs Excise Service Tax Appellate Tribunal
Income Tax Law	Income Tax	244.00**	244.00	1980 to 1983, 1995-96 to 1997-98	High Court
		167.55**	167.55	1999-00 to 2002-03	Income Tax Appellate Tribunal
		182.19**	-	2001-02 to 2003-04	Upto Commissioners' Level

\* amount as per demand orders, including interest and penalty, where quantified in the Order.

\*\* provided for in the accounts.

Further, there are no dues of wealth tax, customs duty and service tax which have not been deposited on account of any disputes.

**GODFREY PHILLIPS INDIA LIMITED**

**SCHEDULE 16 Notes to the accounts (contd.)**

Further, as per information available with the Company, the concerned authority is in appeal against favourable orders received by the Company in respect of the following matters:

Name of the statute	Nature	Amount (Rs. lacs)	Period to which the amount relates	Forum where department has preferred appeal
Income Tax Law	Income tax	299.46	1969, 1974 to 1977, 1991-92 to 1994-95	High Court
		189.01	1998-99 to 2001-02	Income Tax Appellate Tribunal
U.P.Krishi Utpadan Mandi Adhiniyam	Mandi cess	108.20	1997-98 to 1998-99	Supreme Court

7. The Company and its contract manufacturer have received various show cause notices from Excise Authorities asking them to explain why certain amounts mentioned in these notices should not be paid. As these notices are in the nature of explanations required, the Company does not consider these to constitute a liability of any kind.

8. a) Small scale undertakings have been identified by the Company on the basis of information provided to it by its suppliers. The names of such undertakings to whom dues are outstanding for more than 30 days as at March 31, 2007 are Hitkari Multifilters Limited, Studio Printall (N.Delhi) Pvt.Ltd., Perfect Industries, Packfine Corrugating Industries, S&S Packaging, Tapan Engineering Works, Trival Boards Pvt. Ltd., Quality Tape Manufacturers, Perfect Engineering Works, Radix Microsystems, Image India Private Limited, Anand Packing Private Limited, Raghushree Packaging Pvt. Ltd, Amla Engineering Works, Assam Cigarette Company Pvt.Ltd., R C Tobacco Pvt.Ltd., Autonum Controls Pvt.Ltd., Excellent Manufacturing Co., Netel (India) Ltd., Ultrakash Brush Works, Image India Private Limited, Agarwal Ceramics, Markwell Paper Plast Pvt.Ltd., Prime Housewares Limited, Vimal Hi-Tech Pvt.Ltd. and Sunraj Industries.

8. b) Sundry creditors include Rs.16.69 lacs due to suppliers covered under "The Micro, Small and Medium Enterprises Act 2006" to the extent such parties have been identified from the available information. The Company has not received any claim for interest from any supplier under the said Act.

9. The Company has entered into various operating lease agreements for premises (residential, offices, godowns, etc.). These lease arrangements are cancellable in nature and range between two to three years and are usually renewable by mutual consent on mutually agreeable terms. The aggregate rentals paid under such agreements have been charged as rent in Schedule 15.

The Company, pursuant to the contract manufacturing arrangement with its wholly owned subsidiary company International Tobacco Company Limited, has taken from it certain plant and machinery and equipments for use in its manufacturing operations. Hire charges payable in respect thereof have been charged as rent in Schedule 15.

The Company has let out and sub-let part of its owned and rented office premises under lease arrangements which are cancellable in nature but renewable on mutually agreeable terms. The rent and hire charges receivable in respect thereof have been accrued as income in Schedule 13.

10. Exchange gain included in the profit and loss account for the year is Rs. 6.78 lacs (previous year exchange loss Rs. 6.15 lacs).

11. Related party disclosures under Accounting Standard 18  
(A) Names of related parties and nature of related party relationships:  
(a) Subsidiary companies:

International Tobacco Company Limited  
Chase Investments Limited  
City Leasing and Finance Company Limited  
Manhattan Credits and Finance Limited  
Kashyap Metal and Allied Industries Limited  
Unique Space Developers Limited

(b) Subsidiaries of the subsidiary companies:  
Rajputana Infrastructure Corporate Limited  
Gopal Krishna infrastructure & Real Estate Limited

(c) Associates:  
Philip Morris International Finance Corporation, of which the Company is an associate.  
Success Principles India Limited, an associate of the Company.

(d) Key management personnel:

Mr. K.K.Modi	President and Managing Director
Mr. Lalit Kumar Modi	Executive Director
Mr. Samir Kumar Modi	Executive Director
Mr. S.V.Shanbhag	Whole-time Director

(e) Enterprises over which key management personnel and their relatives are able to exercise significant influence:  
Modi Entertainment Limited  
Modicare Limited  
Modern Homecare Products Limited  
K.K.Modi Investment & Financial Services Private Limited  
Beacon Travels Private Limited  
Modipon Limited  
Assam Cigarette Company Private Limited  
R C Tobacco Private Limited  
HMA Udyog Private Limited  
Kaushambi Investment & Leasing Company Private Limited  
Bina Fashion N Food Private Limited  
Modicare Foundation  
Modi Apollo International Group Private Limited  
Priyal Hitay Nidhi  
Colorbar Cosmetics Private Ltd.  
Gujarmal Modi Science Foundation  
Ananda Embroidery Industries Pvt.Ltd.  
Modi Healthcare Placement India Pvt.Ltd.

**GODFREY PHILLIPS INDIA LIMITED**

**SCHEDULE 16 Notes to the accounts (contd.)**

(B) Disclosure of transactions between the Company and related parties and the status of outstanding balances as at the year end:

Rupees in lacs

Nature of transactions	Subsidiary companies		Associates		Key management personnel		Enterprises over which significant influence exists	
	2007	2006	2007	2006	2007	2006	2007	2006
Sale of goods, spare parts, etc.	1.33	4.00	-	-	0.60	-	3.60	10.83
Purchase of goods/services	7.62	0.94	-	-	-	-	604.18 #	6724.78 #
Purchase of fixed assets	-	-	-	-	-	-	4.08	0.97
Loans given								
- Kashyap Metal and Allied Industries Ltd.	331.00	78.50	-	-	-	-	-	-
Interest income	245.05	200.98	-	-	-	-	-	-
Rent and hire charges received	4.80	4.80	-	-	-	-	94.92	76.77
Manufacturing charges paid								
- International Tobacco Company Ltd.	2851.65	2570.01	-	-	-	-	-	-
Rent paid	28.07	26.56	-	-	-	-	22.41	19.35
Payments for employees on deputation	-	-	-	-	-	-	82.17	72.90
Donation given	-	-	-	-	-	-	95.60	28.50
Expenses recovered	11.12	50.57	-	-	0.53	0.54	2.27	1.76
Expenses reimbursed	595.87 *	647.84 *	-	-	-	-	4.89	4.47
Dividend payment (gross)								
- Philip Morris International Finance Corpn.	-	-	840.76	822.07	-	-	-	-
Managerial remuneration##	-	-	-	-	169.64	167.01	-	-
Provision for doubtful advances written back	-	-	-	-	-	-	-	2732.64 @
Balance outstanding as at the year end								
- Loans and advances	3754.08	3591.11	-	-	0.01	0.33	7.22	1.72
- Sundry creditors	-	-	-	-	0.29	0.24	742.76	733.67
- Undertaking given to a bank	150.00	150.00	-	-	-	-	-	-

\* comprising reimbursements to wholly owned subsidiary, International Tobacco Company Limited for payments made by them for and on behalf of the Company under the contract manufacturing arrangement, out of the funds made available by the Company.

# includes Rs. 523.32 lacs (previous year Rs. 507.03 lacs) from Beacon Travels Private Ltd. Current year figure includes sums of Rs. Nil (Previous year Rs. 2489.76 lacs) relating to Assam Cigarettes Company Pvt. Ltd. and Rs. Nil (previous year Rs. 3682.02 lacs) to R C Tobacco Pvt. Ltd. towards additional consideration for cigarettes purchased in an earlier year.

## excludes incremental liability for gratuity and encashable leave salary which are actuarially determined on an overall basis.

@ relates to Assam Cigarette Company Pvt. Ltd. and R C Tobacco Pvt. Ltd.

**12. Segment reporting disclosures under Accounting Standard 17**

(A) Business segments:

Based on the guiding principles given in Accounting Standard-17 "Segment Reporting" issued by the Institute of Chartered Accountants of India, the Company's primary business segments are (a) Cigarette and tobacco products; and (b) Tea and other retail products.

(B) Geographical segments:

Since the Company's activities/operations are primarily within the country and considering the nature of products it deals in, the risks and returns are same and as such there is only one geographical segment.

**GODFREY PHILLIPS INDIA LIMITED**

**SCHEDULE 16 Notes to the accounts (contd.)**

Financial information about the primary business segments is presented in the table below:

	Rupees in lacs					
	Cigarette and tobacco products	Tea and other retail products	Total	Cigarette and tobacco products	Tea and other retail products	Total
	For the year ended March 31, 2007			For the year ended March 31, 2006		
1. Segment revenue - External sales (gross)	153906.13	5770.66	159676.79	138323.53	4863.65	143187.18
- Less : Excise duty	83528.33	-	83528.33	74770.57	-	74770.57
- Net sales	70377.80	5770.66	76148.46	63552.96	4863.65	68416.61
- Other income	851.92	34.78	886.70	799.95	51.75	851.70
- Total	71229.72	5805.44	77035.16	64352.91	4915.40	69268.31
- Unallocable income			2473.15			809.14
Total revenue			79508.31			70077.45
2. Segment result	12135.61	(651.75)	11483.86	9977.50	(461.71)	9515.79
- Unallocable income net of unallocable expenses			2325.67			729.48
Profit before interest and taxation			13809.53			10245.27
- Interest expenses			(286.65)			(275.91)
- Provision for taxation			(4712.46)			(3956.40)
Profit after taxation			8810.42			6012.96
3. Other information	As at March 31, 2007			As at March 31, 2006		
a) Segment assets	31706.09	1701.25	33407.34	31830.73	1482.67	33313.40
- Unallocable assets/investments			29356.07			25252.71
Total assets			62763.41			58566.11
b) Segment liabilities	9927.36	569.69	10497.05	10699.95	391.09	11091.04
- Share capital and reserves			41815.02			36046.12
- Unallocable liabilities			10451.34			11428.95
Total liabilities			62763.41			58566.11
	For the year ended March 31, 2007			For the year ended March 31, 2006		
c) Capital expenditure including capital work in progress	1711.00	163.12	1874.12	1978.51	154.38	2132.89
d) Depreciation	1828.25	78.33	1906.58	1771.18	66.02	1837.20
e) Non cash expenditure other than depreciation	216.26	52.55	268.81	295.95	114.80	410.75

Segment accounting policies:

In addition to the significant accounting policies applicable to the business segments as set out in Note 1 in Schedule 16, the accounting policies in relation to segment accounting are as under:

a) Segment revenue and expenses:

Segment revenue and expenses only include items directly attributable to the segment. They do not include investment income, interest income from inter-corporate deposits and loans given, dividend income, profit or loss on sale of investments, provision for diminution in value of investments, interest expense (excluding those relatable to segments) and bill discounting charges, donations and provision for taxation (current, deferred and fringe benefit tax). Since the corporate office of the Company primarily caters to the cigarette and tobacco products segment, its expenses have been considered to be attributable to the same.

b) Segment assets and liabilities:

All segment assets and liabilities are directly attributable to the segment.

Segment assets include all operating assets used by the segment and consist principally of net fixed assets, inventories, sundry debtors, loans and advances and operating cash and bank balances. Segment liabilities include all operating liabilities and consist principally of creditors and accrued liabilities. Segment assets and liabilities do not include investments, inter-corporate deposits and loans given, bank balances for unclaimed dividend and fixed deposits interest, real estate stock, share capital, reserves and surplus, loan funds, dividends payable and income-tax (current, deferred and fringe benefit tax).

**GODFREY PHILLIPS INDIA LIMITED**

**SCHEDULE 16 Notes to the accounts (contd.)**

	For the year ended 31.3.2007	For the year ended 31.3.2006
13. Earnings per share has been computed as under:		
(a) Net profit as per profit and loss account (Rs. lacs)	8810.42	6012.96
(b) Weighted average number of equity shares outstanding	1,03,98,784	1,03,98,784
(c) Basic and diluted earnings per share - Rupees (face value of share - Rs.10 each)	84.73	57.82
14. Exceptional items comprise of :		<u>Rupees in lacs</u>
a) Provision for luxury taxes on cigarettes and interest thereon reversed pursuant to orders passed by the tax authorities based on the Supreme Court judgement in January, 2005	240.59	4303.43
b) Additional purchase consideration to small scale cigarette manufacturing units in Assam in view of the Supreme Court judgement in September, 2005	-	(6171.78)
c) Write back of amount provided as doubtful of recovery in earlier years in respect of dues recoverable from manufacturing units referred to in (b) above	-	2732.65
	<u>240.59</u>	<u>864.30</u>

**GODFREY PHILLIPS**  
—INDIA LIMITED—



## GODFREY PHILLIPS INDIA LIMITED

### SCHEDULE 16 Notes to the accounts (contd.)

#### 15. ADDITIONAL INFORMATION PURSUANT TO THE PROVISIONS OF PARAGRAPHS 3,4C AND 4D OF PART II OF SCHEDULE VI OF THE COMPANIES ACT, 1956.

			For the year ended 31.3.2007		For the year ended 31.3.2006
	Unit	Qty.	Rs. in lacs	Qty.	Rs. in lacs

#### I. Class of Goods, Capacity and Production

Class of goods manufactured  
- Cigarettes

Capacity (per annum)

- Licensed Million 18750\* 18750\*  
- Installed (on a single shift basis) Million 3389 3434

Production

Cigarettes manufactured by the subsidiary  
company on behalf of the Company Million 5261 5026  
Million 8148 8031

\*including 25% admissible production over licensed capacity

Installed capacity has been certified by a  
director but has not been verified by the  
auditors as this is a technical matter.

#### II. Turnover and stocks

a) Particulars of sales (gross)\*

- Cigarettes Million 13525 147160.00 12852 133247.50  
- Unmanufactured tobacco Tonne 4444 3859.71 5955 4534.15  
- Cigars '000 Pcs 1806 330.66 1395 228.85  
- Other goods 8326.42 5176.68

b) Details of stock-in-trade

i) Opening stocks

- Cigarettes Million 570 4546.15 392 2880.80  
- Cigars '000 Pcs 987 119.37 993 56.76  
- Real estate 405.69 405.69  
- Other goods 602.27 545.32

ii) Closing stocks

- Cigarettes Million 427 3214.84 570 4546.15  
- Cigars '000 Pcs 1893 174.86 987 119.37  
- Real estate 405.69 405.69  
- Other goods 729.73 602.27

\* includes sales to a subsidiary Rs. 0.08 lac (previous year Rs. 0.46 lac) and excludes samples, write-offs, etc.

#### III. Raw and packing materials consumed

Unmanufactured tobacco Tonne 14530 9214.42 12604 7553.05  
Cigarette paper Bobbin 139604 617.49 132893 603.10  
Cardboard (shells, slides and others) Tonne 4739 3945.48 4300 3875.05  
Filter rods Million 1492 1582.36 1430 1495.89  
Aluminium foil/Metallised paper Million Meter 185 993.39 179 948.12  
Cellulose paper Tonne 326 566.18 305 590.43  
Miscellaneous 2077.74 1675.91  
18997.06 16741.55

## GODFREY PHILLIPS INDIA LIMITED

### SCHEDULE 16 Notes to the accounts (contd.)

			For the year ended 31.3.2007		For the year ended 31.3.2006
	Unit	Qty.	Rs. in lacs	Qty.	Rs. in lacs

#### IV. Purchases for resale

Unmanufactured tobacco Tonne 4444 3403.59 5955 3955.85  
Cigarettes '000 Pcs - 240 3.03  
Cigars '000 Pcs 2803 241.84 1790 206.52  
Other goods-Tea, etc. (including packing  
materials and processing charges) 4183.60 3260.66  
7829.03 7426.06

#### V. Value of imported and indigenous raw and packing materials and spare parts

	% of total consumption	Rs. in lacs	% of total consumption	Rs. in lacs
(A) Raw and packing materials				
i) Imported	7.70	1463.27	4.99	836.21
ii) Indigenous	92.30	17533.79	95.01	15905.34
	100.00	18997.06	100.00	16741.55
(B) Spare parts				
i) Imported	28.84	56.69	27.51	43.70
ii) Indigenous	71.16	139.85	72.49	115.17
	100.00	196.54	100.00	158.87

#### VI. Earnings in foreign exchange

a) Export of goods on F.O.B. basis 7755.84 6020.07  
b) Others including freight, etc. 306.66 166.74  
8062.50 6186.81

#### VII. Value of imports on C.I.F. basis (including those in transit)

i) Raw materials 1405.79 617.93  
ii) Components and spare parts 70.25 83.02  
iii) Capital goods 274.02 485.70  
iv) Purchases for resale - cigars, etc. 141.96 119.42  
1892.02 1306.07

#### VIII. Expenditure in foreign currencies

Fees for technical services (net of tax) 600.18 561.60  
Professional/consultancy fees (net of tax) 232.15 160.96  
Interest (net of tax) 245.78 223.98  
Others 497.10 448.44  
1575.21 1394.98

#### IX. Dividends remittance to non-resident shareholders in foreign currency

Amount of dividends 840.76 822.07  
Number of non-resident shareholders to whom remittances made 1 1  
Number of shares on which remittances made 37,36,704 37,36,704  
Year for which dividends remitted (year ended) 31.3.2006 31.3.2005

GODFREY PHILLIPS INDIA LIMITED

SCHEDULE 16 Notes to the accounts (contd.)

16. Foreign currency exposures that are not hedged by derivative instruments or otherwise are as follows:

Particulars	As at 31.3.2007		As at 31.3.2006	
	Amount in foreign currency (Lacs)	Amount in Rs. Lacs	Amount in foreign currency (Lacs)	Amount in Rs. Lacs
Loan Funds	75.00 USD	3270.00	100.00 USD	4478.00
Sundry debtors	29.95 USD 0.66 EURO	1287.55 37.74	22.16 USD 0.18 EURO	983.81 9.49
Current liabilities and provisions	3.64 USD 1.88 EURO - - 0.24 GBP	158.70 109.68 - - 20.61	1.49 USD 1.85 EURO 82.83 YEN 0.24 HKD 0.01 GBP	66.76 100.25 34.47 1.40 0.37

17. Excise duty related to sales has been shown as deduction from gross sales and that related to the difference between the closing stock and opening stock has been disclosed as "Increase/(decrease) in excise duty on finished goods", on the face of the profit and loss account.

18. The figures for the previous year have been re-cast, wherever necessary to conform to the current year's classification.

L.K. MODI  
Executive Director

S.V. SHANBHAG  
Whole-time Director

R.N. AGARWAL  
Executive Vice President (Finance)

Mumbai: 20th June, 2007

S. SERU  
Chief Executive (Domestic)

R. JOSHI  
Company Secretary

R.A. SHAH  
Chairman

C.M. MANIAR  
LALIT BHASIN  
O.P. VAISH  
ANUP N.KOTHARI

For and on behalf of the Board of Directors

Directors

GODFREY PHILLIPS INDIA LIMITED

Additional Information as required under Part IV of Schedule VI to the Companies Act, 1956.  
Balance Sheet Abstract and Company's General Business Profile:

I. Registration Details	
Registration Number	8587
State Code	11
Balance Sheet Date	31.3.2007
II. Capital Raised During the Year (Amount in Rs. Thousands)	
Public Issue	Nil
Rights Issue	Nil
Bonus Issue	Nil
Private Placement	Nil
III. Position of Mobilisation and Deployment of Funds (Amount in Rs. Thousands)	
Total Liabilities	6276341
Total Assets	6276341
Source of Funds:	
Paid-up Capital	103988
Reserves and Surplus	4077514
Secured Loans	607335
Unsecured Loans	Nil
Applications of Funds:	
Net Fixed Assets	1265486
Investments	2462657
Net Current Assets	1060694
Misc. Expenditure	Nil
Accumulated Losses	Nil
IV. Performance of the Company (Amount in Rs. Thousands)	
Turnover	16327723
Total Expenditure	14975435
Profit/(Loss) Before Tax	1352288
Profit/(Loss) After Tax	881042
Earning Per Share (Rs.)	84.73
Dividend Rate (%)	250
V. Generic Names of Three Principal Products/Services of the Company (as per monetary terms)	
Item Code No. (ITC Code)	2402.20
Product Description	Cigarettes containing tobacco
Item Code No. (ITC Code)	902.30
Product Description	Tea black in packets
Item Code No. (ITC Code)	2401.20
Product Description	Unmanufactured tobacco

For and on behalf of the Board of Directors

L.K. MODI  
Executive Director

S.V. SHANBHAG  
Whole-time Director

R.N. AGARWAL  
Executive Vice President (Finance)

Mumbai: 20th June, 2007

S. SERU  
Chief Executive (Domestic)

R. JOSHI  
Company Secretary

R.A. SHAH  
Chairman

C.M. MANIAR  
LALIT BHASIN  
O.P. VAISH  
ANUP N.KOTHARI

Directors

## GODFREY PHILLIPS INDIA LIMITED

### Statement pursuant to Section 212 of the Companies Act, 1956

A. Holding Company's interest in the subsidiaries at the close of the respective financial years.

Name of the Subsidiary	Financial Year ended	Extent of interest
1. International Tobacco Company Limited	31.3.2007	The entire issued share capital of 100000 Equity Shares of Rs. 100 each fully paid.
2. Chase Investments Limited	31.3.2007	The entire issued share capital of 198500 Equity Shares of Rs. 100 each of which 40010 are fully paid up and 158490 are Rs. 50 paid up.
3. City Leasing and Finance Company Limited	31.3.2007	The entire issued share capital of 1950000 Equity Shares of Rs. 10 each of which 400020 are fully paid up and 1549980 are Rs. 5.50 paid up.
4. Manhattan Credits and Finance Limited	31.3.2007	The entire issued share capital of 1950000 Equity Shares of Rs. 10 each fully paid.
5. Kashyap Metal and Allied Industries Limited	31.3.2007	Nil (It is a subsidiary under Section 4(3) (b)(ii) of the Companies Act, 1956.)
6. Unique Space Developers Limited	31.3.2007	Nil (It is a subsidiary under Section 4(3) (b)(ii) of the Companies Act, 1956.)

B. Net aggregate amount of profits/(losses) of the subsidiaries not dealt with in the Holding Company's accounts.

Name of the Subsidiary	For Financial Year ended 31.3.2007 Rs. in lacs	For Previous Financial Years Rs. in lacs
1. International Tobacco Company Limited	97.23	744.15
2. Chase Investments Limited	13.52	173.19
3. City Leasing and Finance Company Limited	10.78	92.74
4. Manhattan Credits and Finance Limited	9.90	18.74
5. Kashyap Metal and Allied Industries Limited	Not Applicable	Not Applicable
6. Unique Space Developers Limited	Not Applicable	Not Applicable

C. Net aggregate amount of profits/(losses) of the subsidiaries dealt with in the Holding Company's accounts, being the dividend received.

Name of the Subsidiary	For Financial Year ended 31.3.2007 Rs. in lacs	For Previous Financial Years Rs. in lacs
1. International Tobacco Company Limited	Nil	Nil
2. Chase Investments Limited	Nil	8.16
3. City Leasing and Finance Company Limited	Nil	8.29
4. Manhattan Credits and Finance Limited	Nil	7.20
5. Kashyap Metal and Allied Industries Limited	Not Applicable	Not Applicable
6. Unique Space Developers Limited	Not Applicable	Not Applicable

For and on behalf of the Board of Directors

L.K. MODI  
Executive Director

S. SERU  
Chief Executive (Domestic)

R.A. SHAH  
Chairman

S.V. SHANBHAG  
Whole-time Director

C.M. MANIAR  
LALIT BHASIN  
O.P. VAISH  
ANUP N.KOTHARI

Directors

R.N. AGARWAL  
Executive Vice President (Finance)

R. JOSHI  
Company Secretary

Mumbai: 20th June, 2007

## GODFREY PHILLIPS INDIA LIMITED

### CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF THE AUDITORS TO THE BOARD OF DIRECTORS OF GODFREY PHILLIPS INDIA LIMITED ON THE CONSOLIDATED FINANCIAL STATEMENTS OF GODFREY PHILLIPS INDIA LIMITED, ITS SUBSIDIARIES AND AN ASSOCIATE.

We have examined the attached consolidated balance sheet of Godfrey Phillips India Limited, its subsidiaries and an associate (the Group), as at March 31, 2007 and also the consolidated profit and loss account and the cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of Godfrey Phillips India Limited's management. Our responsibility is to express an opinion on these financial statements based on our audit.

1. We conducted our audit in accordance with generally accepted auditing standards in India. These Standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework and are free of material misstatements. 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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.

2. We did not audit the financial statements of subsidiaries viz., Chase Investments Limited, City Leasing and Finance Company Limited, Manhattan Credits and Finance Limited, Kashyap Metal and Allied Industries Limited and Unique Space Developers Limited whose financial statements reflect total assets of Rs. 2651.36 lacs as at March 31, 2007 and total revenues of Rs. 115.68 lacs for the year ended on that date (these figures include intragroup balances and intragroup transactions eliminated on consolidation) and an associate viz. Success Principles India Limited whose financial statements reflect the Group's share of profit upto March 31, 2007 of Rs. 32.77 lacs and the Group's share of profit of Rs. 2.12 lacs for the year ended on that date as considered in the consolidated financial statements. These financial statements have been audited by other auditors whose reports have been furnished to us, and our opinion, in so far as it relates to the amounts included in respect of the subsidiaries and an associate is based solely on the report of the other auditors.

3. We report that the consolidated financial statements have been prepared by the Company in accordance with the requirements of Accounting Standard 21, Consolidated Financial Statements and Accounting Standard 23, Accounting for Investments in Associates in Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India and on the basis of the separate audited financial statements of Godfrey Phillips India Limited, its subsidiaries and an associate included in the consolidated financial statements.

4. On the basis of the information and explanations given to us and on the consideration of the separate audit reports on individual audited financial statements of Godfrey Phillips India Limited, its subsidiaries, and an associate, in our opinion, the consolidated

financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

- in the case of the consolidated balance sheet of the consolidated state of affairs of Godfrey Phillips India Limited, its subsidiaries and an associate as at March 31, 2007;
- in the case of the consolidated profit and loss account of the consolidated results of operations of Godfrey Phillips India Limited, its subsidiaries and an associate for the year ended on that date; and
- in the case of the consolidated cash flow statement, of the consolidated cash flows of Godfrey Phillips India Limited, its subsidiaries and an associate for the year ended on that date.

For A.F. FERGUSON & CO.  
Chartered Accountants

J.M. SETH  
Partner  
(Membership No. 17055)

New Delhi : 20th June, 2007