

# Varun Shipping Company Limited

## Board of Directors

Mr. Arun Mehta  
*Chairman & Managing Director*

Mr. Yudhishtir D. Khatau  
*Vice Chairman & Managing Director*

Mr. C. M. Maniar

Mr. Praveen Singh

Dr. A. K. Bhattacharya

Mr. Charles Cayzer

Mr. Khurshed M. Thanawalla

Ms. Manali Parekh  
*Vice president – Corporate Affairs,  
Secretarial & Legal and Company Secretary*

## Registered Office

Laxmi Building,  
6, Shoorji Vallabhdas Marg,  
Ballard Estate,  
Mumbai 400 001.

## Auditors

Messrs Sorab S. Engineer & Co.,  
Chartered Accountants,  
Ismail Building,  
381, Dr. D. Naoroji Road,  
Mumbai 400 001.

## Bankers

State Bank of India  
Bank of India  
Axis Bank Limited  
ICICI Bank Limited  
Bank of Baroda

## Registrars & Transfer Agents

Datamatics Financial Services Limited,  
Plot No. A-16 & A-17, Part - B,  
Crosslane, MIDC, Andheri (East),  
Mumbai 400 093.

## Contents

Board of Directors 1 | Corporate Landmarks 2 | Directors' Report 4 | Corporate Governance Report 11 | Report of the Auditor 19 | Balance Sheet 22 | Profit and Loss Account 23 | Schedules 24 | Cash Flow Statement 35 | Report of Auditors on Consolidated Financial Statements 36 | Consolidated Profit and Loss Account 37 | Schedules forming part of Consolidated Profit and Loss Account 38 | Balance Sheet Abstract 41 | VSC International Pte Ltd - Auditors Report 42 | Profit and Loss Account 43 | Notes to Profit and Loss Account 44 | Statement by Directors 48



# Corporate Landmarks

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**1973**

The Company commenced operations with the acquisition of one product tanker.

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**1983-84**

The Company's first diversification programme- entered into support services for oil exploration with the acquisition of Anchor Handling and Towing Supply Vessels (AHTS).

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**1986**

The Company's shares were listed on the Stock Exchanges.

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**1995**

The Company promoted a wholly owned subsidiary company in Singapore, VSC International Pte Ltd.

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## 1996

The Company acquired its first LPG carrier making it the first private sector Indian company to commercially operate LPG carriers. Since then, the Company has become the largest owner of LPG carriers in India and has established a leadership position globally.

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## 2005

In 2005, the Company diversified into transportation of crude oil with acquisition of two modern Aframax crude oil tankers. Since then, the Company acquired its third modern, double hull Aframax crude oil tanker in 2007.

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## 2007

The Company acquired a Very Large Gas Carrier (VLGC), which is the largest LPG Carrier in the Indian fleet.

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## 2007-09

In 2007, the Company acquired two modern highly sophisticated AHTS vessels. With the acquisition of three more large AHTS vessels in 2008 and 2009, Company established its leadership position in the large AHTS sector in the Asian region.



# Directors' Report

Your Directors have pleasure in presenting the Thirty-ninth Annual Report together with the audited statements of account of the Company for the year ended 31st March, 2010.

	(Figures in millions of Rupees)	
	Current Year ended 31.03.2010	Previous Year ended 31.03.2009
<b>PROFIT BEFORE TAX</b>	<b>538.86</b>	<b>1,271.15</b>
Less: Provision for Taxation		
Current Tax	<b>413.58</b>	<b>34.60</b>
Fringe Benefit Tax	<b>(0.25)</b>	<b>8.50</b>
<b>PROFIT AFTER TAX</b>	<b>125.53</b>	<b>1,228.05</b>
Less: Transferred to Tonnage Tax Reserve under Section 115VT of the Income-tax Act, 1961	<b>-</b>	<b>200.00</b>
Add : Surplus brought forward from previous year	<b>949.33</b>	<b>921.63</b>
Amount available for appropriation	<b>1,074.86</b>	<b>1,949.68</b>

Your Directors have recommended payment of dividend of Rs. 0.80 per equity share for the year ended 31st March, 2010, which will absorb Rs.120.01 million. Additional amount of Rs.19.93 million will be absorbed towards dividend tax. After the above appropriations, your Directors propose to carry forward a balance of Rs. 934.92 million in the Profit and Loss Account.

Freight and charter hire income was Rs. 6,662.23 million compared to Rs. 9,146.59 million for the year ended 31st March, 2009. Profit before tax was Rs. 538.86 million for the year ended 31st March, 2010 as against Rs.1,271.15 million during the preceding year. Net profit after tax was Rs.125.53 million for the year ended 31st March, 2010 as against Rs.1,228.05 million during the preceding year.

During the financial year under review, the Company subscribed to and was allotted additional 6,376,750 ordinary shares of S\$ 1 each of VSC International Pte Ltd, Singapore (VSCI) when it was a wholly owned subsidiary of the Company.

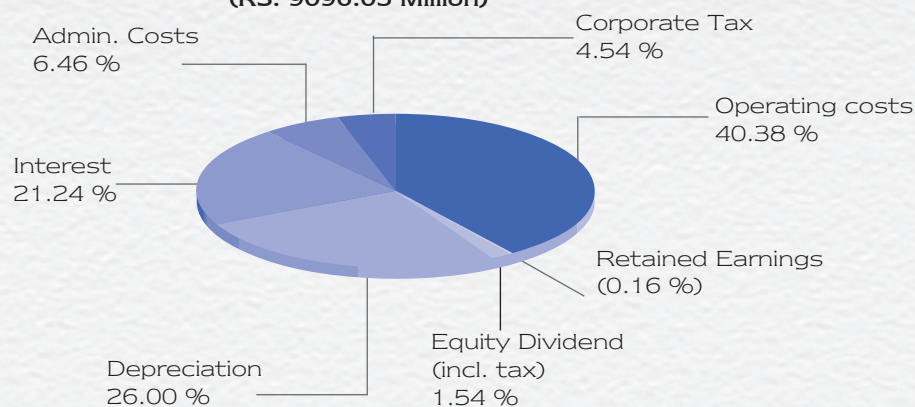
VSCI, the erstwhile wholly owned subsidiary of the Company has become an associate in March, 2010 consequent upon the sale of 51 per cent of the paid-up share capital held in it by the Company. The Company continues to hold 49 per cent of the paid-up share capital of VSCI.

During the financial year ended 31st March, 2010, Company acquired one newly built, large modern and sophisticated Anchor Handling Towing and Supply (AHTS) vessel, Suchandra in April, 2009.

During the financial year ended 31st March, 2010, Company sold five of its vessels, namely, Maharshi Shivatreya, Maharshi Labhatreya, Maharshi Dattatreya, Maharshi Bhavatreya and Maharshi Devatreya to

## DISTRIBUTION OF REVENUE

(RS. 9096.05 Million)





the associate Company, out of which three vessels have been taken back on Bareboat Charter (BBC) and/or Bareboat Charter cum Demise (BBCD) basis. The Company also phased out its 1976 built gas carrier, namely, Maharshi Vasisht during the financial year under review.

The Company presently owns and/or operates a well diversified fleet of 20 vessels. The LPG carrier fleet presently owned by the Company is the largest in India in terms of both fleet size and cargo carrying capacity of 187,978 dwt (248,638 cbm) and forms approximately 78 per cent of total LPG tonnage under Indian flag. The Company has transported approximately 63 per cent of all LPG cargoes imported into the country by public sector undertakings marketing LPG in India during the year ended 31st March, 2010.

In October, 2009 the Company received "The Tanker Operator Award" at the Seatrade Middle East & Indian Subcontinent Awards 2009 ceremony held at Dubai.

In October, 2009 the Company received "Training and Crewing Award" at the 11th Lloyds List Asia Awards 2009 ceremony held at Singapore.

In November, 2009 the Company received "The Energy Award" at the Lloyds List Middle East & Indian Subcontinent Awards-2009 ceremony held at Dubai.

In June, 2009, Mr. Yudhishthir D. Khatau, Vice Chairman & Managing Director was elected as "President Designate" of the Baltic and International Maritime Council (BIMCO).

In March, 2010 Mr. Yudhishthir D. Khatau, Vice Chairman & Managing Director received "Young Entrepreneur of the Year" award at the Shipping, Marine & Ports 2010 Leadership & Excellence Awards ceremony held at Mumbai.

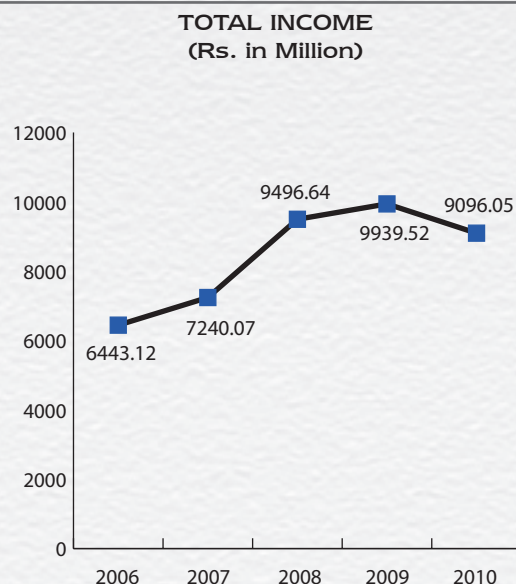
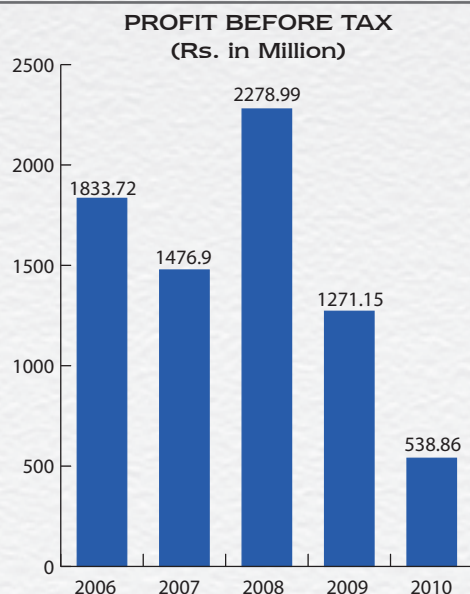
## Management Discussion and Analysis :

### (a) Industry Structure and Development :

About 90 per cent of the world trade by volume is carried through sea transportation. Marine transportation of energy creates vital link between remote energy supplies and markets.

The international shipping industry transports hydrocarbons and bulk commodities in wet bulk, dry bulk, liquefied gas, bulk chemicals and container sectors. Further, specialized vessels such as ferries, cruise ships, car carriers and heavy lift ships are deployed to transport passengers, automobiles and project cargoes the world over. In addition thereto, offshore support vessels are used to provide services to offshore oil and gas exploration and production industry. The Company owns/operates a well diversified fleet of 20 vessels in the oil, gas and offshore support services sectors.

According to Platou Report-2010, late in 2008, there was a widespread fear that the global economy could go into a depression like the one we had in the 1930s. Fortunately, the global economy is expanding again after the steepest drop in economic activity and trade since World War II. The triggers for this recovery are wide-ranging public interventions across advanced and emerging economies.





According to Platou Report-2010, the sustained strong growth trend in the world economy from 2003 to the summer of 2008 was driving tonnage demand for the world merchant fleet by 8 per cent per year, on average. Despite an accelerating fleet growth the capacity utilization rate was persistently above 90 per cent, which we define as full capacity utilization. Parallel to the steep fall in economic activity tonnage demand dropped. Our preliminary estimates indicate a fall of 3.3 per cent, which we must characterize as moderate compared with IMF's estimate for world trade of -11.9 per cent. The large gap in these numbers is caused by the fact that our estimate for tonnage demand is based on seaborne trade in volume terms, transport distances and productivity of the world merchant fleet, while IMF's estimate for world trade is based on the sum of exports and imports in value terms deflated by a detailed price deflator system.

According to Platou Report-2010, world shipping is much more dominated by raw materials than the total world trade and the trade of raw materials was well maintained, driven by emerging economies, China in particular. These countries managed much better in this financial crisis than advanced countries. While OECD countries experienced a decline in GDP of 3.5 per cent in 2009, developing Asia had a growth of 6.2 per cent and China 8.7 per cent. In addition, there has been a building of raw material inventories that has required more tonnage than running consumption should indicate. There was a fall in utilization rate for the world total fleet from 90 per cent in 2008 to 81 per cent in 2009.

According to Platou Report-2010, demand for new tonnage in 2009 continued its falling trend since the financial crisis of the previous year. From a peak in new orders in 2007, the level of contracting was down by 85 per cent in 2009.

According to Platou Report-2010, the bulk carrier market in 2009 turned out better than expected even if freight rates were 60 per cent lower than in 2008.

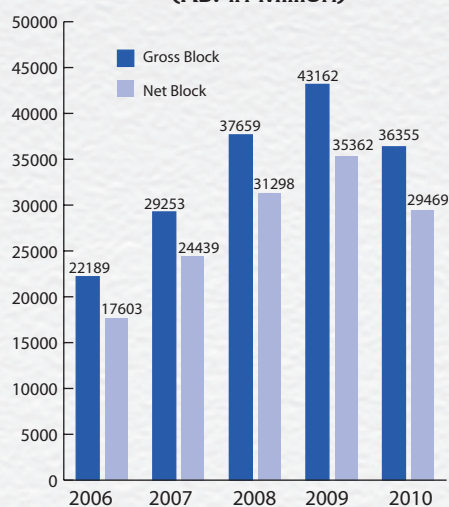
According to Platou Report-2010, in the tanker market, a 7 per cent fleet growth combined with a 5 per cent decline in seaborne oil trade and, in addition to, reduced transport distances, should apparently have resulted in a huge overcapacity. This did not happen due to a persistent overproduction of oil that required the use of 5 per cent of the tanker fleet for floating oil storage. The dramatic drop in oil consumption as a consequence of the deep recession in the global economy enforced a large cutback in OPEC output, which fell by 8 per cent from 2008 to 2009. The utilization rate for the tanker fleet fell from 91 per cent in 2008 to 84 per cent in 2009.

The container market continued to be in dire straits. It is observed that sectors transporting raw materials (bulkers and tankers) have been more favourably positioned than sectors transporting manufactured goods (container and car carriers).

LPG markets began a transition period in 2008. The year 2009 was the end of this beginning and start of a new era of sharply rising seaborne LPG supplies.

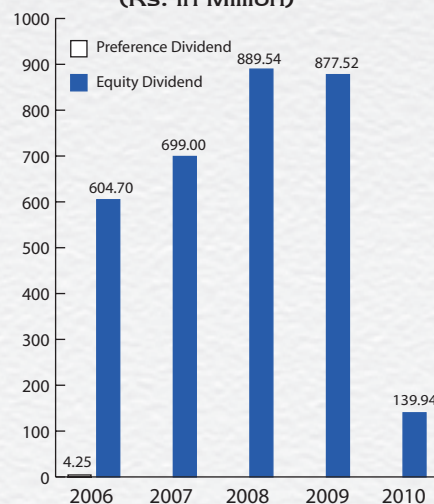
#### GROSS AND NET BLOCK

(Rs. in Million)



#### DIVIDEND

(Rs. in Million)





According to Platou Report-2010, after a rally that began in autumn 2004, the term chartering market started to decline in January, 2009 in the offshore sector. Term charter rates have declined on average 40-50 per cent for contracts with about a one-year firm period. At the same time, spot rates in the North Sea were on average 65 per cent lower than the previous year. The main factors for the decrease in rates are fewer requirements issued by oil companies, drilling rig operators that have been cancelling and delaying offshore development programs and an oversupply of ships due to the tidal wave of newbuilding deliveries. Overall, shipowners have been vigorously competing to keep their vessels on charter in the short term and this has contributed to pushing rates down. As per the said Report, despite last year's dip, demand for supply vessels in 2010 is expected to increase.

**(b) Opportunities and Threats :**

Due to continued economic slowdown, opportunities will arise for acquisition of good quality vessels at cheaper prices. However, at the same time it will become increasingly difficult to obtain financing for acquisition of vessels in the global market, but financing for vessels is still available from Indian lenders albeit at a higher cost.

The recent economic uncertainty in the European Union and the nature and magnitude of the stimulus package required remains a threat to the global economic environment.

The freight rates are mainly determined by the fine balance between future demand and supply of vessels. Currently, there is a large order book of vessels in most sectors which coupled with economic slowdown may affect the freight rates adversely but at the same time with increased difficulty in obtaining finance for newbuilding which are on order, it is expected that some of the new building orders will be cancelled.

The Indian shipping industry continues to be burdened with several taxes such as service tax, withholding tax on interest and fringe benefit tax. In order to be globally competitive, it is essential that these taxes are rationalized to ensure that Indian shipping companies have a level playing field in the international arena.

**(c) Segment-wise Performance :**

The Company is engaged only in the business of shipping and there are no separate reportable segments.

The Company owns/operates a fleet of ten LPG carriers, including eight mid-size Gas Carriers (MGCs), one Large Gas Carrier (LGC) and one Very Large Gas Carrier (VLGC) which have been deployed on a mix of time charters and spot charters with charterers such as Indian Oil Corporation Limited, Hindustan Petroleum Corporation Limited, Bharat Petroleum Corporation Limited, Reliance Industries Limited and Pertamina.

In the crude oil sector, the Company owns three double hull Aframax crude oil tankers which are placed in the Sigma Tanker Pool, trading globally.

In the offshore support services sector, the Company owns/operates a fleet of seven Anchor Handling Towing and Supply (AHTS) vessels which are deployed on time charters and spot charters both in India and overseas.

**(d) Outlook :**

According to Platou Report-2010, the global economic recovery is not as synchronized as the downturn was. The upturn in the major emerging economies, especially in Asia and particularly in China is now well established and supporting the OECD economies. The US economy is recovering on the back of policy stimulus and strong net exports and is expected to reach a growth rate of close to 3 per cent in 2010. Also, in Japan, the economy has recovered and an output growth of 1.7 per cent is now expected. Forecasters are predicting a 10 per cent growth in China in 2010. Activity in India is gaining momentum, driven by increased exports and business investments and growth is predicted to reach a level of between 7 and 8 per cent in 2010. In Brazil, supportive policy measures are predicted to steam up private consumption and bring economic growth upto the 4 to 5 per cent level in the coming years. Russia was harder hit than any other large emerging economy in 2009 with a GDP decline of 8 per cent. Growth has now resumed, driven by a rebound in commodity prices, policy stimulus and stronger external demand and predictions point to 3 to 4 per cent growth in 2010. Global economic growth will, according to these forecasts, be close to 4 per cent in 2010 and strengthen further to between 4.5 and 5 per cent in the next two years.





The world GDP is expected to return to positive growth in 2010 and should thereby help push tonnage demand for the world merchant fleet into growth again. However, huge order books and difficulties in financing newbuildings are likely to dampen demand for new tonnage.

According to Platou Report-2010, for tanker markets, prospects are again very uncertain, not only on the demand side but now also on the supply side. Tanker markets are at a utilization rate level that could generate a lot of fluctuations in the freight market. World economy, oil consumption, floating storage and deliveries of newbuildings are all important ingredients which, headed in the right direction, have the potential to generate an interesting tanker market in 2010.

Preliminary figures for LPG consumption in 2009 in major consuming nations have shown a mixed trend. While consumption in emerging Asian economies was expected to rise, mature economies' appetite for LPG appeared to be slowing. While South Korea, China, India, Indonesia and Vietnam increased their LPG intake, Japan was looking for alternative sources of energy, from both economic and environmental perspective. Interestingly, though not surprisingly, Saudi Arabia emerged as a major LPG consuming destination in 2009.

It is envisaged that the year 2010 will see better utilization of LPG vessels. Due to large expansion of Qatar Gas and Ras Gas LNG plants and establishment of new LNG export/import terminals, more LPG production and transportation is expected to take place during the times to come.

Seaborne LPG supply is forecast to rise 47 per cent to 83 mm t/year between 2008 and 2016. The growth – a difference of 27 mm t/year of exports in 2016 v/s 2008 – will alter the way LPG markets trade, changing existing trade dynamics and forcing product to new buyers. Government of India in October, 2009 announced the Rajiv Gandhi Gramin LPG Vitruk Scheme. This scheme aims to enhance LPG usage in India with the number of connections increasing from almost 110 million to 165 million by 2015. This is likely to generate additional demand for import of LPG into India.

According to Platou Report-2010, the last few years depletion of existing offshore oil production has on an average been 1.5 m bbls/day. This is the exact number of new barrels that is yearly coming on stream offshore. The oil companies are expected to increase their exploration and production budgets by 5 to 10 per cent in 2010 and with compelling economics and cashflow, their future ambitions are to significantly add more oil production offshore.

According to Platou Report-2010, world will most likely see strongly differentiated market conditions between segments. They believe trade of raw materials will continue on its more favourable trend than trade of manufactured goods.

**(e) Risks and Concerns :**

Shipping industry being global in nature is prone to several risks and uncertainties including, international competition, marine mishaps and accidents, force majeure such as earthquakes, volcanic eruptions, etc., amendments in Government policies, rules and regulations, new regulatory compliances, port state control, increase in financial costs, exchange rate fluctuations, changes in tax laws, acts of terrorism, wars, piracy, arrest of vessel by maritime claimants, shortage of qualified seafarers, global recession etc. In recent times, there have been increased instances of piracy for vessels passing through Gulf of Aden/Indian Ocean/Somalia/Somali Basin.

The Company endeavours to counteract these risks by adopting certain measures like diversifying its marine assets, employing vessels on time charter contracts and pool arrangements, complying with international ship management practices and also insuring against various maritime risks with hull and machinery underwriters and Protection and Indemnity Clubs. The Company is giving special emphasis on training of its floating staff.

The Board of Directors periodically reviews and assesses the adequacy of the risk assessment and minimization procedures so that various risks can be assessed and minimized through well defined framework/procedures.

**(f) Internal Control Systems and their adequacy :**

The Company has proper and effective internal control systems commensurate with its size of operations in order to ensure that all systems and procedures are functioning satisfactorily. Internal audit function is carried out by the Chief Internal Auditor on a regular basis.



The Audit Committee of the Board of Directors regularly reviews the effectiveness and adequacy of the internal control systems to monitor due and proper implementation thereof and for due compliance with various applicable laws, rules and regulations, accounting standards and regulatory guidelines.

**(g) Discussion on financial performance with respect to operational performance :**

The details of the financial performance of the Company have already been dealt with in the earlier part of the report.

**(h) Human Resources :**

The relations between the employees and the Company remained cordial throughout the year. The Company had 107 shore based staff and 563 floating staff employees as on 31st March, 2010. The committed shore based staff provides its prompt and efficient support and guidance to the floating staff on a continuous basis, which helps to maintain effective performance and operational efficiency at all times. The Company continues to focus on the safety, training and development of the employees.

The Company continues to conduct post-sea training programme for its marine officers which was initiated last year. The Company under the said programme imparted 2,657.5 man-days of training. Further, under its expanded Trainee Marine Engineer (TME) and Deck Cadet Programme, the Company on an average trained 51 TMEs and Deck Cadets on its fleet during each month. These programmes are helping the Company to build up an efficient and well qualified cadre of experienced seafarers for its fleet.

**(i) Social Responsibility :**

As a socially responsible corporate citizen, the Company continues to support a wide spectrum of community initiatives through NGOs as well as programmes for health, education and environment.

Total foreign exchange earned and saved including deemed earnings of the Company for the year ended 31st March, 2010 was Rs. 6,501.96 million and the foreign exchange used was Rs. 9,285.12 million.

As required under Section 217(2AA) of the Companies Act, 1956, your Directors confirm to the best of their knowledge and belief that:

- i) in the preparation of the annual accounts, the applicable accounting standards have been followed;
- ii) the Directors have selected such accounting policies and applied them consistently and made judgements and estimates that are 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 or loss of the Company for that period;
- iii) the Directors have 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; and
- iv) the Directors have prepared the annual accounts on a going concern basis.

The audited Profit and Loss Account along with Auditors' Report of VSC International Pte Ltd, Singapore, the then wholly owned subsidiary of the Company, for the period from 1st April, 2009 to 30th March, 2010 are attached to the Balance Sheet of the Company. Consolidated profit and loss account prepared in accordance with the accounting standards issued by the Institute of Chartered Accountants of India, is also attached.

As required by the Listing Agreement with Stock Exchanges on which shares of the Company are listed, a Report on Corporate Governance together with the certificate from the Auditors of the Company regarding compliance with Corporate Governance is attached to this report.

Mr. Praveen Singh and Mr. Charles Cayzer retire by rotation and being eligible, offer themselves for re-appointment. Separate resolutions are being proposed for their respective re-appointments.

Mr. Khurshed M. Thanawalla was appointed as a Director of the Company with effect from 27th January, 2009 in the casual vacancy caused by the resignation of Mrs. Rina D. Khatau. The Company has received notices under Section 257 of the Companies Act, 1956 from some of its members together with necessary deposits proposing to appoint Mr. Khurshed M. Thanawalla as a Director of the Company. Accordingly, a resolution for his appointment is being proposed at the ensuing Annual General Meeting for your consideration.





You are requested to appoint Auditors of the Company and fix their remuneration. The retiring Auditors Messrs Sorab S. Engineer & Co. being eligible, offer themselves for re-appointment.

Pursuant to the Special Resolution passed by the shareholders at Thirty-fifth Annual General Meeting of the Company held on 12th September, 2006 and in terms of Central Government approval, Mr. Haider Nawaz a relative of Mr. Yudhishtir D. Khatau was appointed as Vice President – Business Development for the period upto 24th February, 2011 at the Company's branch office at Singapore. The Directors believe that for growth and expansion of the Company, it would be desirable to continue to avail of his services as Vice President – Business Development (or on such other designation as may be decided from time to time) for a further period of four years with effect from 25th February, 2011. Accordingly, a resolution for his re-appointment and payment of revised remuneration is being proposed at the ensuing Annual General Meeting for your consideration.

Due to global recession, there was a downturn in the shipping industry, which affected the revenues of the Company adversely resulting in excess payment of remuneration to Mr. Arun Mehta, Chairman and Managing Director and Mr. Yudhishtir D. Khatau, Vice Chairman & Managing Director in terms of provisions of the Companies Act, 1956. The Company has therefore sought approval of the Central Government for waiver of such excess remuneration paid to them during the year under review. Accordingly, separate resolutions are being proposed at the ensuing Annual General Meeting for your consideration.

As an abundant caution, approval of members is also being sought for payment of minimum remuneration during the period from 1st April, 2010 to 31st March, 2012 to Mr. Arun Mehta and Mr. Yudhishtir D. Khatau in case of absence or inadequacy of profits. Accordingly, separate resolutions are being proposed at the ensuing Annual General Meeting for your consideration.

Explanation is given below with regard to Clause 2(f) of the Auditors Report relating to Note No.7(c) of Schedule N to the accounts in respect of excess managerial remuneration paid by the Company.

The Company had adequate profits for the past many years and thus has been paying remuneration to its managerial personnel within the overall limits as specified under the Companies Act, 1956. However, due to global recession, there was a downturn in shipping industry and the revenues and consequently the profitability of the Company were adversely affected. Due to this, the managerial remuneration paid during the year ended 31st March, 2010 exceeded the limits prescribed under the Companies Act, 1956. As mentioned earlier, the Company has sought approval of the Central Government for waiver of such excess remuneration paid to Mr. Arun Mehta and Mr. Yudhishtir D. Khatau for the year ended 31st March, 2010.

As required by Section 217(2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975, as amended, the names and other particulars of the employees are set out in the Annexure to the Directors' Report. However, as per the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956, the Report and the 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 Vice President – Corporate Affairs, Secretarial & Legal and Company Secretary at the registered office of the Company.

Your Directors express their thanks to all the officers of the Ministry of Shipping, Directorate General of Shipping, Ministry of Petroleum and Natural Gas and oil companies for the valuable help and co-operation extended by them to the Company. Your Directors also thank the banks for their continued support to the Company. Your Directors also thank the shareholders of the Company for their sustained confidence reposed in the Company and its management. Last but not the least, your Directors express their deep appreciation for the sincere and hard work put in by the floating as well as the shore based officers and staff of the Company.

On behalf of the Board of Directors

**ARUN MEHTA**

*Chairman and Managing Director*

*Mumbai, May 21, 2010*



# Corporate Governance Report

## 1. Company's Philosophy on Code of Governance

Corporate Governance is a combination of voluntary practices and compliance with laws and regulations leading to effective control and management of the Company. The Company believes that good corporate governance contemplates that corporate actions balance the interests of all stakeholders and satisfy the tests of accountability, transparency and fair play. The Company believes that all its operations and actions must be directed towards enhancing overall shareholder value.

## 2. Board of Directors

Presently, the Board of Directors consists of seven Directors.

The composition of the Board of Directors, attendance of Board of Directors at Board Meetings and Annual General Meeting and other relevant details are given below:

Name of the Director	Category	No. of Board meetings attended	Attendance at the previous Annual General Meeting held on 28.7.2009	No. of other Directorships *	No. of Memberships of other Board Committees **	No. of other Committees of which the Director is a Chairperson **
Mr. Arun Mehta	Executive	7	Absent	1	Nil	Nil
Mr. Yudhishthir D. Khatau	Promoter Executive	7	Present	9	Nil	Nil
Mr. C. M. Maniar	Independent Non-Executive	6	Present	16	7	Nil
Mr. Praveen Singh	Independent Non-Executive	6	Absent	1	Nil	Nil
Dr. A. K. Bhattacharya	Independent Non-Executive	7	Absent	Nil	Nil	Nil
Mr. Charles Cayzer	Independent Non-Executive	4	Present	39***	Nil	Nil
Mr. Khurshed M. Thanawalla	Independent Non-Executive	6	Present	18	5	3

\* Includes directorships in private limited companies, foreign companies and companies under Section 25 of the Companies Act, 1956 but excludes alternate directorships.

\*\* Only covers membership/chairmanship of Audit Committee and Shareholders/Investors Grievance Committee.

\*\*\* None in any Indian company other than Varun Shipping Company Limited.

During the financial year ended 31st March, 2010, seven Board meetings were held on 21st May, 2009, 23rd June, 2009, 29th July, 2009, 16th September, 2009, 29th October, 2009, 17th December, 2009 and 29th January, 2010.

## 3. Audit Committee

The terms of reference of the Audit Committee are given below:

- To have discussions with the auditors periodically about internal control systems, the scope of audit including the observations of the auditors and review the half yearly and annual financial statements before submission to the Board and ensure compliance of internal control systems.
- To oversee the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
- Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.
- Approval of payment to statutory auditors for any other services rendered by the statutory auditors.
- Reviewing, with the management, the annual financial statements before submission to the Board for approval, with particular reference to:
  - Matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of Clause (2AA) of Section 217 of the Companies Act, 1956.
  - Changes, if any, in accounting policies and practices and reasons for the same.
  - Major accounting entries involving estimates based on the exercise of judgement by management.
  - Significant adjustments made in the financial statements arising out of audit findings.
  - Compliance with listing and other legal requirements relating to financial statements.
  - Disclosure of any related party transactions.
  - Qualifications in the draft audit report.





6. Reviewing, with the management, the quarterly financial statements before submission to the Board for approval.
7. Reviewing, with the management, the statement of uses/application of funds raised through an issue (public issue, rights issue, preferential issue, etc.), the statement of funds utilized for purposes other than those stated in the offer document/prospectus/notice and the report submitted by the monitoring agency monitoring the utilization of proceeds of a public or rights issue, and making appropriate recommendations to the Board to take up steps in this matter.
8. Reviewing or approving all related party transactions to ensure they are conducted on an arm's length basis, that is, the transaction terms and prices are not more favourable to the related party than if they were transacted with a third party and will not be prejudicial to the interest of Company and its minority shareholders.
9. Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems.
10. Reviewing the adequacy of internal audit function, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
11. Discussion with internal auditors on any significant findings and follow up there on.
12. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.
13. Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.
14. To look into the reasons for substantial defaults in the payment to the depositors, debentureholders, shareholders (in case of non payment of declared dividends) and creditors.
15. To review :
  - a) Management discussion and analysis of financial condition and results of operations;
  - b) Statement of significant related party transactions (as defined by the audit committee), submitted by management;
  - c) Management letters/letters of internal control weaknesses issued by the statutory auditors;
  - d) Internal audit reports relating to internal control weaknesses; and
  - e) The appointment, removal and terms of remuneration of the chief internal auditor.
16. To review the financial statements, in particular the investments made by the unlisted subsidiary company, if any.
17. To approve appointment of Chief Financial Officer (CFO) (i.e. the whole-time Finance Director or any other person heading the finance function or discharging that function) after assessing the qualifications, experience and background, etc. of the candidate.

The Audit Committee comprises of three independent non-executive Directors namely Mr. Praveen Singh, Dr. A. K. Bhattacharya and Mr. C. M. Maniar and the members meet the requirements of clause 49 of the Listing Agreement. Mr. Praveen Singh is the Chairman of the Audit Committee.

During the financial year ended 31st March, 2010, four Audit Committee Meetings were held on 20th May, 2009, 28th July, 2009, 28th October, 2009 and 28th January, 2010. All members of the Committee were present at each of the four meetings.

Ms. Manali Parekh assumed the role of Secretary to the Audit Committee.

#### **4. Remuneration Committee**

The Remuneration Committee was constituted on 21st May, 2010 and comprises of three independent non-Executive Directors, namely, Mr. C. M. Maniar, Mr. Praveen Singh and Mr. Khurshed M. Thanawalla. The Chairman of the Committee is Mr. Khurshed M. Thanawalla.

The Remuneration Committee inter-alia determines the company policy on specific remuneration package for executive directors including pension rights and any compensation payment.

The remuneration of the Executive Directors is decided by the Board of Directors based on the recommendation of the Remuneration Committee.

The Company has no pecuniary relationship or transactions with its non-executive Directors other than payment of sitting fees to them for attending Board and Committee meetings, payment of commission, which has been approved by the shareholders, payment of dividend on equity shares held by the Directors in the Company and payment of professional fees, if any, paid to a firm in which one of the non-executive Directors is a partner.



The remuneration policy is directed towards rewarding performance. It is aimed at attracting and retaining high calibre talent. The criteria for making payment of remuneration to non-executive Directors is based on their roles and responsibilities and their contribution to the Company. The remuneration of non-executive Directors is already approved by shareholders. Distribution of this remuneration amongst non-executive Directors is determined by the Chairman in consultation with the Vice Chairman.

Details of remuneration of Directors during the year ended 31st March, 2010 are given below :

#### Executive Directors

(Amount in Rs.)

Name of the Director	Salary and Allowances	Commission	Contribution to Provident & Superannuation Funds	Gratuity	Other Perquisites	Sitting Fees	Total
Mr. Arun Mehta	1,56,00,000	–	29,16,000	9,00,000	14,08,512	–	2,08,24,512
Mr. Yudhishthir D. Khatau	96,00,000	–	25,92,000	8,00,000	10,20,752	–	1,40,12,752

#### Non-Executive Directors

(Amount in Rs.)

Name of the Director	Salary and Allowances	Commission	Contribution to Provident & Superannuation Funds	Gratuity	Other Perquisites	Sitting Fees *	Total
Mr. C. M. Maniar	–	–	–	–	–	55,000	55,000
Mr. Praveen Singh	–	–	–	–	–	55,000	55,000
Dr. A. K. Bhattacharya	–	–	–	–	–	55,000	55,000
Mr. Charles Cayzer	–	–	–	–	–	20,000	20,000
Mr. Khurshed M. Thanawalla	–	–	–	–	–	30,000	30,000

\* Including Audit Committee and Shareholders/Investors Grievance Committee meetings.

Mr. Arun Mehta was re-appointed as Vice Chairman & Managing Director (re-designated as Chairman & Managing Director w.e.f. 2nd December 2008) for a period of five years with effect from 3rd October, 2008. The Company has entered into agreement dated 1st August, 2008 with Mr. Arun Mehta for his said re-appointment. Mr. Yudhishthir D. Khatau was re-appointed as Managing Director (re-designated as Vice-Chairman & Managing Director w.e.f. 2nd December 2008) for a period of five years with effect from 25th August, 2007. The Company has entered into agreement dated 16th August, 2007 with Mr. Yudhishthir D. Khatau for his said re-appointment. In terms of the said agreements, Mr. Arun Mehta and Mr. Yudhishthir D. Khatau may resign from their office upon giving three months notice in writing to the Company of their intention to do so and their services can be terminated by the Company by giving them three months notice in writing or by paying three months remuneration in lieu thereof.

The Company does not have any Stock Option Scheme.

During the year, the Company paid professional fees amounting to Rs.30,33,250/- to Crawford Bayley & Co., Advocates and Solicitors, a firm in which Mr. C. M. Maniar, one of the non executive Directors of the Company, is a senior partner.

The number of shares held in their own names by non-executive Directors in the Company is given below:

Name of the Director	No. of Shares held as on 31st March, 2010	% of holding on the paid-up capital
Mr. C. M. Maniar	3,000 *	0.00
Mr. Praveen Singh	45,000	0.03
Dr. A. K. Bhattacharya	5,000	0.00
Mr. Charles Cayzer	–	–
Mr. Khurshed M. Thanawalla	34,230	0.02

\* Out of 3,000 equity shares, 2,850 equity shares are held by Mr. Maniar as first named holder jointly with his wife and daughter and 150 equity shares are held by Mr. Maniar as second named holder jointly with his wife and daughter.





## 5. Shareholders/Investors Grievance Committee

The Shareholders/Investors Grievance Committee consists of four members and is headed by Mr. C. M. Maniar, an independent non-executive Director.

Ms Manali Parekh, Vice President – Corporate Affairs, Secretarial & Legal and Company Secretary is the Compliance Officer and the Secretary to the Committee.

During the financial year ended 31st March, 2010, 155 complaints were received from the shareholders/investors in addition to 2 complaints carried forward from previous year. All the complaints were replied/resolved to the satisfaction of the shareholders/investors but 3 complaints remained unresolved, as for one complaint, final order from the court is awaited and for the balance two complaints, necessary action from a bank is awaited.

All valid requests for share transfers received during the financial year ended 31st March, 2010 have been acted upon by the Company/Datamatics Financial Services Limited, Registrar and Transfer Agents of the Company and no transfers were pending as on 31st March, 2010.

## 6. General Body Meetings

The previous three Annual General Meetings of the Company were held at 11.00 a.m. on 14th August, 2007, 1st August, 2008 and 28th July, 2009. The first and third meetings were held at Y. B. Chavan Centre, General Jagannath Bhonsle Marg, Sachivalaya, Mumbai – 400 021 and the second meeting was held at Patkar Hall, SNDT Women's University, 1, Nathibai Thackersey Marg, New Marine Lines, Mumbai - 400 020.

Special Resolutions relating to re-appointment of Mr. Arun Mehta as Vice Chairman & Managing Director (re-designated as Chairman & Managing Director w.e.f 2nd December 2008) for a period of five years and payment of remuneration to him, payment of commission to non-executive directors, commencing and carrying on of new business and activities by the Company were passed at the Annual General Meetings held on 1st August, 2008 and 14th August, 2007. No Special Resolution was passed during the financial year ended 31st March, 2010 through Postal Ballot. No Special Resolution is proposed to be conducted through Postal Ballot.

The Company follows the procedure as prescribed under Companies (Passing of the Resolutions by Postal Ballot) Rules, 2001 as amended for conducting Postal Ballot.

## 7. Disclosures

- a) There were no materially significant related party transactions i.e. transactions of the Company of material nature, with its promoters, the Directors or the management, their subsidiaries or relatives that may have had potential conflict with the interests of the Company, at large.
- b) In the preparation of the financial statements, the Company has followed the Accounting Standards issued by the Institute of Chartered Accountants of India.
- c) The Company has complied with the requirements of Stock Exchanges, Securities and Exchange Board of India and other statutory authorities on matters relating to capital markets during the last three years and consequently no penalties, strictures have been imposed on the Company by these authorities.
- d) The Company has not adopted a Whistle Blower policy.
- e) The Company has complied with mandatory requirements of Clause 49 of the Listing Agreement and has not adopted the non-mandatory requirements specified under Clause 49 other than constitution of a Remuneration Committee.

## 8. Means of Communication

As half yearly results as well as quarterly and annual results are published in newspapers, submitted to the Stock Exchanges in accordance with the Listing Agreement and also hosted on Company's website [www.varunship.com](http://www.varunship.com), the half yearly reports are not sent to each household of shareholders. These results are normally published in The Economic Times/Free Press Journal and Maharashtra Times/Navshakti.

The official news releases are intimated to the Stock Exchanges and also displayed on the Company's website. During the year under review, the presentation made to the analysts was hosted on the Company's website.

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



## 9. General Shareholder Information

### 39th Annual General Meeting :

Date, Time and Venue	4th August, 2010 at 11.00 a.m. at Y. B. Chavan Centre, General Jagannath Bhonsle Marg, Sachivalaya, Mumbai - 400 021
Financial Year :	1st April, 2009 to 31st March, 2010
Financial Reporting for	
Quarter ended June, 2009	29th July, 2009
Quarter ended September, 2009	29th October, 2009
Quarter ended December, 2009	29th January, 2010
Annual Results for the year ended 31st March 2010	21st May, 2010
Date of Book Closure	Friday, 23rd July, 2010 to Wednesday, 4th August, 2010 (both days inclusive)
Dividend Payment Date	On or after 10th August, 2010

### Listing on Stock Exchanges :

The Company's equity shares are listed on Bombay Stock Exchange Limited, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400 001 and National Stock Exchange of India Limited, Exchange Plaza, Bandra-Kurla Complex, Bandra (East), Mumbai- 400 051. Annual listing fees are being paid to each of the said stock exchanges as and when they fall due for payment.

### Stock Codes

	Equity Shares (Physical form)	Equity Shares (Demat Form)
Bombay Stock Exchange Limited	465	500465
National Stock Exchange of India Limited	—	VARUNSHIP

### ISIN

The Company's equity shares form part of SEBI's compulsory demat segment bearing ISIN No. INE702A01013. All the equity shares have been admitted for dealing by both National Securities Depository Limited and Central Depository Services (India) Limited.

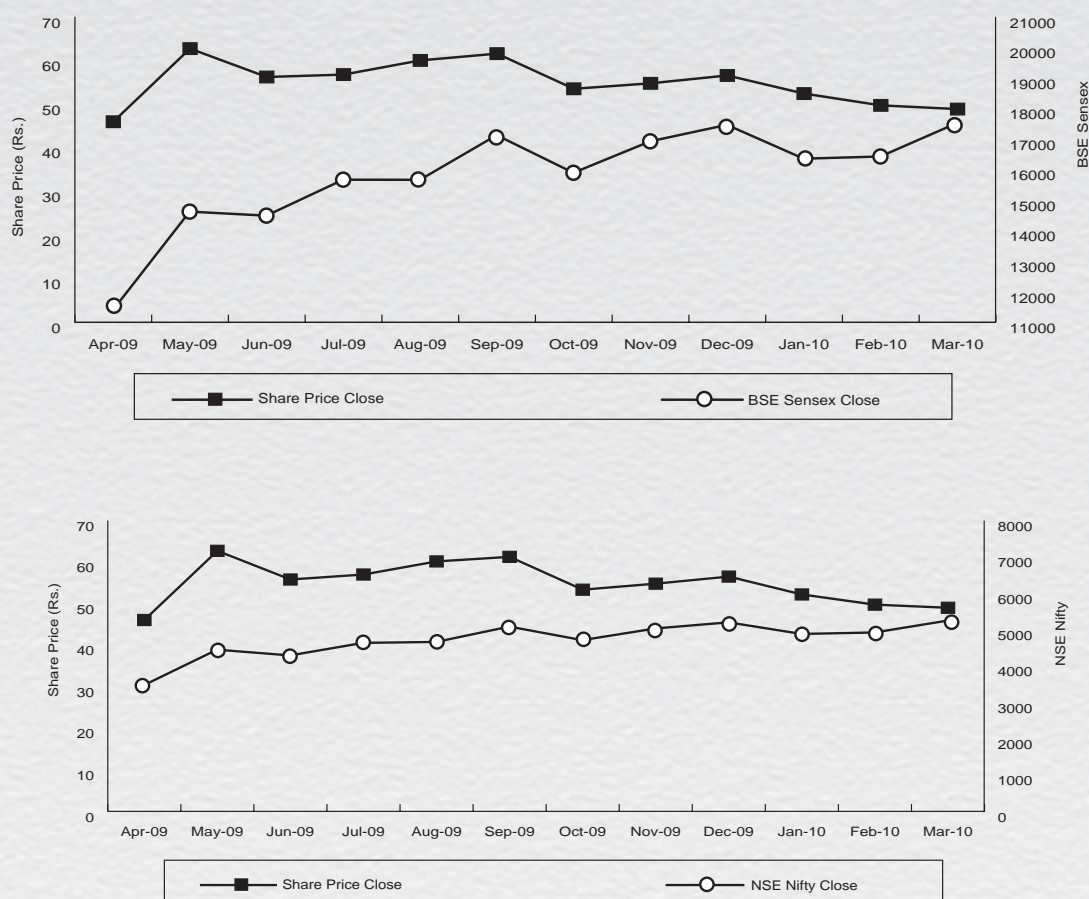
### Stock Prices

The monthly high and low quotations of equity shares traded on the Bombay Stock Exchange Limited and National Stock Exchange of India Limited are as follows :

Month	Bombay Stock Exchange Limited		National Stock Exchange of India Limited	
	High (Rs.)	Low (Rs.)	High (Rs.)	Low (Rs.)
April, 2009	52.65	42.25	54.75	38.00
May, 2009	65.00	46.25	65.00	46.35
June, 2009	70.40	55.80	70.45	55.30
July, 2009	59.40	52.05	59.30	50.10
August, 2009	63.50	52.00	63.70	51.80
September, 2009	62.75	56.65	69.20	56.10
October, 2009	63.20	51.05	63.20	51.50
November, 2009	61.60	50.75	61.70	51.00
December, 2009	58.50	54.20	58.30	54.60
January, 2010	61.95	50.60	61.80	50.20
February, 2010	53.50	48.50	53.60	48.60
March, 2010	53.05	48.50	53.00	48.50



### Performance of Company's share price in comparison to BSE and NSE index



[Source: [www.bseindia.com](http://www.bseindia.com) ; [www.nseindia.com](http://www.nseindia.com) ]

#### Registrars and Transfer Agents:

Datamatics Financial Services Limited,  
Plot No. A-16 & A-17,  
Part "B" Crosslane, MIDC  
Andheri (East), Mumbai - 400 093  
Tel : + 91 22 6671 2151-2160  
Fax : + 91 22 2821 3404  
E-mail : [vsinvestors@dfssl.com](mailto:vsinvestors@dfssl.com)

#### Share Transfer System:

Applications for transfer of shares in physical form are processed by the Company's Registrars and Transfer Agents, Datamatics Financial Services Limited. The Share Transfer Committee constituted for transfer/transmission of shares, issue of duplicate share certificates and allied matters considers and approves the share transfers once in a fortnight subject to transfer instruments being valid and complete in all respects.

Demat requests are generally processed and completed within an average period of 14 days from the date of receipt provided they are otherwise in order.



**Distribution of Shareholding as on 31st March, 2010:**

No. of Equity Shares held	Shareholders		Shares	
	Nos.	%	Nos.	%
Upto 500	72,967	84.41	11,697,281	7.80
501 to 1000	7,147	8.27	5,751,561	3.83
1001 to 2000	3,416	3.95	5,150,701	3.43
2001 to 3000	1,066	1.23	2,723,576	1.81
3001 to 4000	493	0.57	1,751,912	1.17
4001 to 5000	368	0.43	1,742,093	1.16
5001 to 10000	537	0.62	3,865,579	2.58
10001 to 50000	381	0.44	7,719,156	5.15
50001 and above	70	0.08	109,605,914	73.07
<b>Total</b>	<b>86,445</b>	<b>100.00</b>	<b>150,007,773</b>	<b>100.00</b>

Category	No. of Shares	% of Shareholding
Promoters/Persons acting in concert	64,605,926	43.07
Venture Capital Fund	1,500,000	1.00
Insurance Companies	9,008,794	6.01
Foreign Institutional Investors/Foreign MFs	22,105,204	14.74
Other Institutions/Banks/MFs	76,323	0.05
Bodies Corporate	5,842,475	3.89
Non-Residents	4,546,550	3.03
Indian Public	42,322,501	28.21
<b>Total</b>	<b>150,007,773</b>	<b>100.00</b>

**Promoter Group Disclosures**

The promoter of the Company is Yudhishtir D. Khatau Group which is controlled by Mr. Yudhishtir D. Khatau.

For the purposes of inter-se transfer of shares under Regulation 3(1)(e)(i) of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997, the following persons/entities/individuals are included in the "Group" as defined in the Monopolies and Restrictive Trade Practices Act, 1969 (54 of 1969):

Sr. No.	Name of the Person/Entities
1	Mr. Yudhishtir D. Khatau
2	Varun Corporation Limited (formerly known as Khatau International Limited)
3	Tarun Shipping and Industries Limited
4	Sunbeam Talc Private Limited
5	Realpoint (Mauritius) Limited

**Dematerialisation of Shares and Liquidity:**

97.55 % of the equity shares have been dematerialized as on 31st March, 2010.

The Company's shares are regularly traded on Bombay Stock Exchange Limited and National Stock Exchange of India Limited

**Outstanding GDRs/ADRs/Warrants or any Convertible Instruments:**

There are no outstanding GDRs/ADRs/Warrants or any other Convertible Instruments.

**Plant Locations:**

The Company does not have any plants since it is engaged in the business of shipping.

**Address for Correspondence :****With the Registrars and Transfer Agents**

Datamatics Financial Services Limited,  
Plot No. A-16 & A-17,  
Part "B" Crosslane, MIDC  
Andheri (East),  
Mumbai - 400093  
Tel : + 91 22 6671 2151-2160  
Fax : + 91 22 2821 3404  
E-mail : vsinvestors@dfssl.com

**With the Company**

Varun Shipping Company Limited,  
Laxmi Building,  
6, Shoorji Vallabhdas Marg,  
Ballard Estate,  
Mumbai - 400 001.  
Tel : + 91 22 6635 0100-09  
Fax : + 91 22 6635 0274  
E-mail: secretarial@varunship.com  
E-mail of grievance redressal division :  
investors@varunship.com





**DECLARATION BY THE CHAIRMAN & MANAGING DIRECTOR AND VICE CHAIRMAN & MANAGING DIRECTOR UNDER CLAUSE 49 OF THE LISTING AGREEMENT**

To,

The Members of Varun Shipping Company Limited

We, Arun Mehta, Chairman & Managing Director and Yudhishtir D. Khatau, Vice Chairman & Managing Director, to the best of our knowledge and belief, do hereby declare that all the members of the Board of Directors and Senior Management Personnel have affirmed compliance with the Code of Conduct for the year ended 31st March, 2010.

**ARUN MEHTA**

*Chairman & Managing Director*

*Mumbai: May 21, 2010*

**YUDHISHTHIR D. KHATAU**

*Vice Chairman & Managing Director*

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**AUDITORS' CERTIFICATE ON COMPLIANCE OF CONDITIONS OF CORPORATE GOVERNANCE UNDER CLAUSE 49 OF THE LISTING AGREEMENT**

To,

The Members of Varun Shipping Company Limited

We have examined the compliance of the conditions of Corporate Governance by Varun Shipping Company Limited for the year ended 31st March, 2010, as stipulated in Clause 49 of the Listing Agreement of the said Company with the Stock Exchanges in India.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to a review of the procedures and implementation thereof, adopted by the Company for ensuring the compliance with the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us and the representations made by the Directors and the management, we certify that the Company has complied in all material respects with the conditions of Corporate Governance as stipulated in Clause 49 of the above mentioned Listing Agreement.

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

For **SORAB S. ENGINEER & CO.**

*Chartered Accountants*

**Firm Registration Number : 110417W**

**M.P. ANTIA**

*Partner*

*Membership No. 7825*

*Mumbai: May 21, 2010*



# Report of the Auditors to the members of Varun Shipping Company Limited

We have audited the attached Balance Sheet of VARUN SHIPPING COMPANY LIMITED, as at 31<sup>st</sup> March, 2010 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.

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

1. As required by the Companies (Auditors Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure, a statement on the matters specified in paragraphs 4 and 5 of the said Order.
2. Further to our comments in the Annexure referred to in Paragraph (1) above, we report that:
  - a. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
  - b. In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books and proper returns adequate for the purposes of our audit have been received from the branches not visited by us;
  - c. The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
  - d. In our opinion, the Balance Sheet and Profit and Loss Account dealt with by this report comply with the applicable accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;
  - e. On the basis of written representations received from the Directors, as on 31<sup>st</sup> March, 2010 and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31<sup>st</sup> March, 2010 from being appointed as a Director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956;
  - f. *As stated in Note No. 7(c) of Schedule N, the Company has paid Rs. 34,837,264 as Managerial Remuneration, of which Rs. 14,461,534 is in excess of limits under the Companies Act, 1956. Had the Company accounted for the remuneration in accordance with the Act, the profit for the year would have been higher by Rs. 14,461,534.*
  - g. *Subject to the above Note (f),* in our opinion and to the best of our information and according to the explanations given to us, the said 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;
    - i. In the case of the Balance Sheet, of the state of affairs of the Company as at 31<sup>st</sup> March, 2010.
    - ii. In the case of the Profit and Loss Account, of the profit for the year ended on that date.
    - iii. In the case of Cash Flow Statement, of the cash flows for the year ended on that date.

For **SORAB S. ENGINEER & CO.**  
Chartered Accountants  
Firm Registration Number : 110417W

**M.P. ANTIA**  
Partner  
Membership No. 7825

Mumbai: May 24, 2010



**VARUN SHIPPING COMPANY LIMITED**



## Annexure to the Auditor's Report

Annexure referred to in Para 1 of our report of even date to the members of Varun Shipping Company Limited:

- (i) a) The Company is maintaining proper records of its fixed assets except Furniture and Fixtures.
  - b) The fixed assets have been physically verified by the Management during the year at reasonable intervals and no material discrepancies were noticed.
  - c) According to the information and explanations given to us, the Company has not disposed off substantial part of its fixed assets during the year.
- (ii) The Company owns and operates ships and hence a comment on inventory does not apply in this case. The Company does purchase stores and spare parts for its ships, which are directly treated as consumed as and when supplied to its ships. Stocks of bunkers have been physically verified by the Management.
- (iii) In respect of loans, secured or unsecured, granted or taken by the Company to / from Companies, Firms or other parties covered in the Register maintained under Section 301 of the Companies Act, 1956:
  - a) The Company has granted loans to its erstwhile wholly owned subsidiary. In respect of the said loans, the maximum balance outstanding at any time during the year is Rs. 2,255,018,300 and the year end balance is Rs. 2,211,370,000.
  - b) In our opinion and according to the information and explanations given to us, the rate of interest and other terms and conditions of such loans, are not, prima facie, prejudicial to the interest of the Company.
  - c) According to the information and explanations given to us, the party, to whom the loans have been granted by the Company as referred to in paragraph 4(iii)(a) above has been regular in repayment of principal amount as stipulated and has been regular in payment of interest.
  - d) According to the information and explanations given to us, there are no overdue amounts in excess of Rupees One Lakh in respect of the loans granted to the party as referred to in paragraph 4(iii)(a) above and interest thereon.
  - e) The Company has taken loans during the year from a Company covered in the Register maintained under Section 301 of the Companies Act, 1956. In respect of the said loans, the maximum balance outstanding during the year was Rs.250,000,000 and the year end balance of loans taken from the party was Rs. NIL.
  - f) In our opinion and according to the information and explanations given to us, the rate of interest and other terms and conditions on which loans have been taken from the Company referred to in paragraph 4(iii)(e) above, are not, prima facie, prejudicial to the interest of the Company.
  - g) According to the information and explanations given to us, the Company has been regular in repayment of principal amount as stipulated and has been regular in payment of interest.
- (iv) In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business with regard to purchases of stores, spare parts and fixed assets. During the course of our audit, no major weakness has been noticed in the internal controls.
- (v) a) According to the information and explanations given to us, we are of the opinion that the particulars of all contracts or arrangements that need to be entered into the Register maintained under Section 301 of the Companies Act, 1956 have been so entered.
  - b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of such contracts or arrangements entered in the Register maintained under Section 301 of the Companies Act, 1956 and exceeding the value of Rupees Five Lakhs 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.
- (vi) According to the information and explanations given to us, the Company has not accepted fixed deposits from public and hence, provisions of Sections 58A and 58AA and other relevant provisions of the Companies Act, 1956 and the Companies (Acceptance of Deposits) Rules, 1975 with regard to the deposits accepted from the public are not applicable.
- (vii) In our opinion and according to the information and explanations given to us, the Company has an internal audit system commensurate with the size and nature of its business.
- (viii) Maintenance of cost records has not been prescribed by the Central Government under clause (d) of sub section (I) of Section 209 of the Companies Act, 1956.



- (ix) a) According to the records of the Company, the Company is regular in depositing with appropriate authorities undisputed statutory dues including Provident fund, investor education and protection fund, employees' state Insurance, income-tax, sales-tax, wealth-tax, customs duty, cess and other statutory dues applicable to it, except for the payment of Service Tax amounting to Rs. 92,040,973, which is outstanding on 31<sup>st</sup> March 2010 for a period of more than six months, as the liability for the same has not been accepted by the receivers of the services rendered by the Company.

The Central Government has not specified the rate of cess payable under Section 441A of the Companies Act and hence the same is not payable by the Company.

- b) According to the records of the Company, as at 31<sup>st</sup> March, 2010, the following are the particulars of disputed dues on account of Commercial Tax which have not been deposited:

Nature of demand	Amount (Rs.)	Forum where appeal has been filed
Commercial Tax	83,284,324	Madras High Court

- (x) The Company does not have any accumulated losses. The Company has not incurred any cash losses during the financial year covered by our audit and in the immediately preceding financial year.
- (xi) Based on our audit procedures and on the information and explanations given by the Management, we are of the opinion that the Company has not defaulted in repayment of dues to any financial institution, bank or debenture holders.
- (xii) In our opinion and according to the information and explanations given by the Management, the Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures or any other securities.
- (xiii) In our opinion the Company is not a chit fund or a nidhi /mutual benefit fund/society. Therefore, the provisions of clause 4(xiii) of the Order are not applicable.
- (xiv) In our opinion, the Company is not dealing in or trading in shares, securities, debentures and any other investments. Therefore, the provisions of clause 4(xiv) of the Order are not applicable.
- (xv) In our opinion and according to the information and explanations given by the Management, the Company has given corporate guarantees, for loans taken by VSC International Pte Ltd. (erstwhile wholly owned subsidiary), from a bank.
- (xvi) On the basis of the records examined by us, and relying on the information compiled by the Company for co-relating the funds raised to the end-use of term loans, we state that the Company has, prima facie, applied the term loans for the purpose for which they were obtained.
- (xvii) According to the information and explanations given to us and on an overall examination of the financial statements and after placing reliance on the reasonable assumptions made by the Company for classification of Short-term and Long-term usage of the funds, we are of the opinion that, prima facie, no funds raised on short-term basis have been utilized for long-term investment.
- (xviii) According to the information and explanations given to us, the Company has not made any preferential allotment of shares to parties or Companies covered in the register maintained under Section 301 of the Companies Act, 1956.
- (xix) According to the information and explanations given to us, the Company has not issued any debentures during the year.
- (xx) The Company has not made any 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.

For **SORAB S. ENGINEER & CO.**  
Chartered Accountants  
Firm Registration Number : 110417W

**M.P. ANTIA**  
Partner  
Membership No. 7825

Mumbai: May 24, 2010





# Balance Sheet as at 31st March, 2010

	Schedule No.	As at 31.03.2010 Rupees	As at 31.03.2009 Rupees
<b>LIABILITIES:</b>			
Share Capital	A	1,500,077,730	1,500,077,730
Reserves and Surplus	B	6,619,506,071	6,633,921,458
Secured Loans	C	27,018,453,862	28,468,389,041
Unsecured Loans	D	375,000,000	—
Finance Lease Obligation	E	20,473,025	—
Foreign Currency Monetary Item Translation Difference		52,614,112	—
Current Laibilities and Provisions	F	1,697,224,762	1,823,116,421
		<b>37,283,349,562</b>	<b>38,425,504,650</b>

## ASSETS:

Gross Block		36,354,549,079	43,161,731,471
Less: Depreciation		6,885,505,224	7,800,179,186
Net Block	G	29,469,043,855	35,361,552,285
Foreign Currency Monetary Item Translation Difference		—	16,529,202
Investments	H	422,293,195	207,491,202
Current Assets, Loans & Advances	I	7,392,012,512	2,839,931,961
		<b>37,283,349,562</b>	<b>38,425,504,650</b>

For Notes forming part of accounts, please see Schedule "N"

As per our Report annexed

For and on behalf of  
**SORAB S. ENGINEER & CO.**  
Chartered Accountants

**M.P. ANTIA**  
Partner  
Membership No. 7825

Mumbai: May 21, 2010.

For and on behalf of the Board

**ARUN MEHTA**  
Chairman & Managing Director

**MANALI PAREKH**  
Vice President - Corporate Affairs,  
Secretarial & Legal and Company Secretary

Mumbai : May 21, 2010.

**YUDHISHTHIR D. KHATAU**  
Vice Chairman & Managing Director



# Profit and Loss Account for the year ended 31st March, 2010

	Schedule No.	31.03.2010 Rupees	31.03.2009 Rupees
<b>INCOME:</b>			
Income from Operations		6,662,226,855	9,146,591,407
Profit / (Loss) on sale of Ships and other Assets		2,304,240,549	280,154,662
Other Income	J	59,477,673	12,771,457
		<b>9,025,945,077</b>	<b>9,439,517,526</b>
<b>EXPENDITURE:</b>			
Operating Costs	K	3,672,893,978	3,692,321,133
Administration Costs	L	587,368,136	716,014,712
Interest and Finance Cost	M	1,931,994,297	1,454,800,977
Depreciation (refer note 4)		2,364,932,820	2,711,403,724
Impairment on certain ships		—	93,822,000
		<b>8,557,189,232</b>	<b>8,668,362,546</b>
Profit Before Exceptional Item		468,755,845	771,154,980
Exceptional Item		70,105,818	500,000,000
<b>Profit Before Tax</b>		<b>538,861,663</b>	<b>1,271,154,980</b>
Current Tax		413,585,000	34,600,000
Fringe Benefit tax (excess provision for previous year)		(252,625)	8,500,000
<b>Profit After Tax</b>		<b>125,529,288</b>	<b>1,228,054,980</b>
Add : Balance brought forward from the previous year		949,333,775	921,626,070
Less : Transfer to Tonnage Tax Reserve under Section 115 VT of the Income-tax Act, 1961		—	200,000,000
Balance Available For Appropriations		<b>1,074,863,063</b>	<b>1,949,681,050</b>
<b>APPROPRIATIONS:</b>			
Dividend and tax on distributed profits of previous year		6,925	—
Transfer to General Reserve		—	122,830,460
Interim Dividends paid on Equity shares		—	525,033,039
Tax on Interim Dividends paid on Equity shares		—	89,231,384
Proposed Final Dividend-Equity shares		120,006,218	225,011,660
Tax on Proposed Final Equity Dividend		19,931,532	38,240,732
Balance carried to Balance Sheet		934,918,388	949,333,775
		<b>1,074,863,063</b>	<b>1,949,681,050</b>

## EARNING PER SHARE:

Basic	0.84	8.19
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For Notes forming part of accounts, please see Schedule "N"

As per our Report annexed

For and on behalf of  
**SORAB S. ENGINEER & CO.**  
Chartered Accountants

**M.P. ANTIA**  
Partner  
Membership No. 7825

Mumbai: May 21, 2010.

For and on behalf of the Board

**ARUN MEHTA**  
Chairman & Managing Director

**MANALI PAREKH**  
Vice President - Corporate Affairs,  
Secretarial & Legal and Company Secretary

Mumbai: May 21, 2010.

**YUDHISHTHIR D. KHATAU**  
Vice Chairman & Managing Director



## Schedules *forming part of the Balance Sheet as at 31st March, 2010*

	As At 31.03.2010	As At 31.03.2009
Rupees	Rupees	Rupees
<b>SCHEDULE "A"</b>		
<b>SHARE CAPITAL:</b>		
<b>Authorised:</b>		
300,000,000 Equity Shares of Rs. 10 each	3,000,000,000	3,000,000,000
2,000,000 Preference shares of Rs. 100 each	200,000,000	200,000,000
	<b>3,200,000,000</b>	<b>3,200,000,000</b>
<b>Issued, Subscribed and Paid-up:</b>		
150,007,773 (previous year 150,007,773) Equity Shares of Rs. 10 each	1,500,077,730	1,500,077,730
	<b>1,500,077,730</b>	<b>1,500,077,730</b>
Out of the above 720,000 Equity Shares of Rs. 10 each were issued as fully paid-up Bonus Shares by Capitalisation of reserves in earlier years.		
<b>SCHEDULE "B"</b>		
<b>RESERVES AND SURPLUS:</b>		
<b>Share Premium:</b>		
As per last Balance Sheet	2,661,447,207	2,661,447,207
<b>General Reserve:</b>		
As per last Balance Sheet	962,200,000	2,197,118,390
Less: Exchange gain of previous year on foreign currency loan for acquisition of assets (refer note 4)	-	1,443,826,790
Add: Excess depreciation of previous year due to adjustment of exchange gain to the cost of ships (refer note 4)	-	90,234,126
Less: Exchange gain of previous year on long term foreign currency loans other than for acquisition of ship (net)	-	11,389,186
Add: Transferred from Fleet Contingency Reserve	-	7,233,000
Add: Transferred from Reserve under Section 33AC of the Income-tax Act 1961 (utilised) account:	390,000,000	-
Add: Transferred from Tonnage Tax Reserve under Section 115VT of the Income -tax Act 1961 (utilised) account	175,000,000	-
Add: Transferred from Profit and Loss Account	-	122,830,460
	<b>1,527,200,000</b>	<b>962,200,000</b>
<b>Capital Reserve :</b>		
As per last Balance Sheet	5,940,476	5,940,476
<b>Capital Redemption Reserve:</b>		
As per last Balance Sheet	200,000,000	200,000,000
<b>Reserve under Section 33AC of the Income-tax Act 1961 (utilised) account:</b>		
As per last Balance Sheet	390,000,000	390,000,000
Less: Transferred to General reserve	390,000,000	-
	-	390,000,000
<b>Tonnage Tax Reserve under Section 115VT of the Income-tax Act 1961:</b>		
As per last Balance Sheet	200,000,000	460,000,000
Add: Transferred from Profit and Loss Account	-	200,000,000
Less: Transferred to tonnage tax reserve under Section 115VT of the income-tax Act, 1961 ( utilised ) account	-	460,000,000
	<b>200,000,000</b>	<b>200,000,000</b>
<b>Tonnage Tax Reserve under Section 115VT of the Income-tax Act 1961( utilised ) account</b>		
As per last Balance Sheet	1,265,000,000	805,000,000
Add: Transferred from tonnage tax reserve under section 115VT of the Income-tax Act, 1961	-	460,000,000
Less: Transferred to General reserve	175,000,000	-
	<b>1,090,000,000</b>	<b>1,265,000,000</b>
<b>Fleet Contingency Reserve:</b>		
As per last Balance Sheet	-	7,233,000
Less: Transferred to General Reserve	-	7,233,000
	-	-
Surplus being balance in Profit and Loss Account	934,918,388	949,333,775
	<b>6,619,506,071</b>	<b>6,633,921,458</b>



# Schedules forming part of the Balance Sheet as at 31st March, 2010

	Rupees	As At 31.03.2010 Rupees	As At 31.03.2009 Rupees
<b>SCHEDULE "C"</b>			
<b>SECURED LOANS:</b>			
<b>Term Loans from a Financial Institution:</b>			
Secured by a charge on one of the Company's ships		200,000,000	21,283,226
<b>Term Loans from Banks:</b>			
Secured by a charge on some of the Company's ships and receivables thereof		18,604,625,537	24,278,139,146
Secured by a charge on receivables of one of the Company's ships		747,742,046	—
Secured by a charge on some of the Company's ships and a Director's Guarantee		1,600,000,000	—
Secured by a charge on one of the Company's ships, receivables thereof and a Director's guarantee (since released)		1,141,233,358	—
Secured by a charge on some of the Company's ships		4,692,182,130	4,168,966,669
Overdraft facility with bank secured by a charge on one of the Company's ships and personal guarantee of a Director.		25,302,404	—
Overdraft facility with bank to be secured by a charge on one of the Company's ships		7,368,387	—
		<b>27,018,453,862</b>	<b>28,468,389,041</b>
<b>SCHEDULE "D"</b>			
<b>UNSECURED LOANS</b>			
From Others		375,000,000	—
		<b>375,000,000</b>	<b>—</b>
<b>SCHEDULE "E"</b>			
<b>FINANCE LEASE OBLIGATION</b>			
Finance Lease Obligation	773,787,698		—
Finance Lease Receivable	753,314,673		—
(Refer note 17)		20,473,025	—
		<b>20,473,025</b>	<b>—</b>
<b>SCHEDULE "F"</b>			
<b>CURRENT LIABILITIES &amp; PROVISIONS:</b>			
<b>A. CURRENT LIABILITIES:</b>			
Sundry creditors (Refer note 13)	871,266,426		1,231,255,484
Advance received from customers	53,323,585		45,797,057
Unclaimed dividend (Refer note 14)	25,203,958		17,497,395
Interest accrued but not due on loans	117,604,870		120,790,510
		<b>1,067,398,839</b>	<b>1,415,340,446</b>
<b>B. PROVISIONS:</b>			
Provision for Gratuity	77,359,672		92,681,088
Provision for leave encashment	46,931,396		51,842,495
Provision for Taxation (Net of TDS and Advance Tax of Rs 131,256,179 )	365,597,105		—
Proposed Equity Dividend	120,006,218		225,011,660
Tax on Proposed Equity Dividend	19,931,532		38,240,732
		<b>629,825,923</b>	<b>407,775,975</b>
		<b>1,697,224,762</b>	<b>1,823,116,421</b>

## SCHEDULE "G"

### FIXED ASSETS :

PARTICULARS	GROSS BLOCK (AT COST)				DEPRECIATION		IMPAIRMENT		NET BLOCK	
	AS AT 31.03.2009 Rs.	ADDITIONS Rs.	DEDUCTIONS Rs.	AS AT 31.03.2010 Rs.	FOR THE YEAR Rs.	AS AT 31.03.2010 Rs.	FOR THE YEAR Rs.	AS AT 31.03.2010 Rs.	AS AT 31.03.2010 Rs.	AS AT 31.03.2009 Rs.
FLEET **	42,786,843,739	4,242,538,528	11,049,978,805	35,979,403,462	2,347,805,113	6,493,857,147	—	220,051,000	29,265,495,315	35,144,211,358
LAND	160,565	—	—	160,565	—	—	—	—	160,565	160,565
PREMISES *	252,750,000	—	—	252,750,000	9,571,860	70,884,671	—	—	181,865,329	191,437,189
FURNITURE & FIXTURES	52,170,712	—	2,509,380	49,661,332	1,673,958	41,596,598	—	—	8,064,734	9,738,693
OFFICE EQUIPMENTS	61,137,672	3,478,661	506,069	64,110,264	4,824,183	53,653,392	—	—	10,456,872	11,835,194
VEHICLES	8,668,783	58,453	263,780	8,463,456	1,057,706	5,462,416	—	—	3,001,040	4,169,286
TOTAL	43,161,731,471	4,246,075,642	11,053,258,034	36,354,549,079	2,364,932,820	6,665,454,224	—	220,051,000	29,469,043,855	35,361,552,285
31.03.2009	37,659,367,740	6,989,804,994	1,487,441,263	43,161,731,471	2,711,403,724	7,580,128,186	93,822,000	220,051,000	35,361,552,285	—

\* Premises include 21,182 Equity Shares ( Previous year 21,182 ) of Rs. 100 each of M/s. Khatau Industries Private Limited Cost Rs. 230,000,000 ( previous year Rs. 230,000,000 ) with a right to occupy and use of certain commercial premises.

\*\* For additions and deletions from fleet ( refer note 12)





# Schedules forming part of the Balance Sheet as at 31st March, 2010

	Rupees	As At 31.03.2010 Rupees	As At 31.03.2009 Rupees
<b>SCHEDULE "H"</b>			
<b>INVESTMENTS (LONG TERM) - AT COST</b>			
<b>Unquoted, fully paid up</b>			
In a Subsidiary Company (till 30th March 2010)			
Equity shares of Singapore \$ 1 each of VSC International Pte Ltd			
Subscribed during the year - 6,376,750 shares			
Sold during the year - 5,788,198 shares			
Balance as on 31.3.2010 - 5,561,208 shares (Previous year 4,972,656 shares)		188,243,195	123,441,202
Other Investments			
8,400,000 Equity Shares of Rs.10 each		84,000,000	84,000,000
of Tarun Shipping and Industries Limited			
2000 Equity shares of Rs. 25 each of Shamrao Vithal Co-op. Bank Limited		50,000	50,000
Investment in Mutual Fund (SBI-Magnum Insta Cash Fund-Daily Dividend Option) (Refer note 11)		150,000,000	-
		<b>422,293,195</b>	<b>207,491,202</b>
<b>SCHEDULE "I"</b>			
<b>CURRENT ASSETS, LOANS &amp; ADVANCES:</b>			
<b>A. Current Assets:</b>			
Interest Accrued but not due on Deposit		1,184,191	559,070
Stock of Bunkers (Certified as to quantity and value by the Management)(at cost)		159,808,064	132,108,081
Sundry Debtors			
(Unsecured - considered good)			
Debts outstanding for more than six months		318,690,051	70,980,427
Other Debts		3,000,549,837	546,354,035
		<b>3,319,239,888</b>	<b>617,334,462</b>
Included in Other Debts are:			
Dues from the Companies under the Same Management:			
- VSC International Pte Ltd (Maximum amount outstanding during the year Rs 2,105,525,451 lacs) (Previous year Rs NIL)		2,105,525,451	-
- Realpoint (Mauritius) Limited (Maximum amount outstanding during the year Rs 212,479,855) (Previous year Rs NIL)		212,479,855	-
		<b>2,318,005,306</b>	<b>-</b>
<b>Cash &amp; Bank Balances:</b>			
Cash on hand		489,879	685,038
<b>With Scheduled Banks:</b>			
In Fixed Deposit Account		24,624,257	6,395,625
(Including margin against bank guarantees Rs. 246.24 lakhs (Previous year Rs. 41.00 lakhs))			
In Current Account		315,494,884	924,194,961
		<b>340,119,141</b>	<b>930,590,586</b>
		<b>340,609,020</b>	<b>931,275,624</b>
<b>B. Loans &amp; Advances (Unsecured)</b>			
Considered Good:			
Advances recoverable in cash or kind		1,342,049,688	1,133,657,053
Advances paid to suppliers and agents		17,553,170	20,531,715
Advance payment of taxes		-	4,267,465
(Previous year - net of provision for taxation of Rs.147,162,816)			
Loan to a Company under the Same Management:		2,211,370,000	-
VSC International Pte Ltd (Maximum amount outstanding during the year Rs. 2,255,018,300) (Previous year Rs NIL)			
Security & Other Deposits		198,491	198,491
		<b>3,571,171,349</b>	<b>1,158,654,724</b>
		<b>7,392,012,512</b>	<b>2,839,931,961</b>



# Schedules forming part of the Profit & Loss Account for the year ended 31st March, 2010

	Rupees	31.03.2010 Rupees	31.03.2009 Rupees
<b>SCHEDULE "J"</b>			
<b>OTHER INCOME:</b>			
Miscellaneous Income		5,131,283	47,017
Income from Investments		2,588,493	10,365,433
Interest (Tax Deducted at Source Rs 3,074,698 (Previous year Rs 62,956))		51,757,897	2,359,007
		<b>59,477,673</b>	<b>12,771,457</b>
<b>SCHEDULE "K"</b>			
<b>OPERATING COSTS:</b>			
Wages, Bonus and other expenses of Floating Staff		854,024,968	771,879,737
Contribution to Provident Fund		9,461,850	10,896,525
Stores, Lubricants & Victualling Expenses		385,042,490	388,740,606
Other Direct Floating Staff Cost		116,700,010	88,582,242
Floating Staff Welfare Expenses		15,619,225	15,097,050
Bunkers & Water		676,439,611	764,258,835
Agency Fees & Port Expenses		200,120,884	191,489,768
Repairs & Maintenance including Spares and Survey		665,179,434	900,120,142
Fleet Insurance & Protection Club Fees		180,574,977	162,457,520
Charter Hire Expenses		459,402,909	268,400,061
Brokerage & Commission		43,768,716	55,772,244
Miscellaneous Expenses		66,558,904	74,626,403
		<b>3,672,893,978</b>	<b>3,692,321,133</b>
<b>SCHEDULE "L"</b>			
<b>ADMINISTRATION COSTS:</b>			
Salaries, Bonus & Gratuity		293,273,382	301,727,935
Contribution to Provident Fund and Superannuation Fund		20,681,816	19,296,160
Staff Welfare Expenses		5,704,648	9,146,264
Rent		9,935,674	8,009,920
Rates and taxes		12,334,945	5,952,843
Brokerage & Commission		2,004,562	2,710,213
Directors' Fees		215,000	200,000
Managerial Remuneration (See Note 7)		34,837,264	67,108,186
Auditors' Remuneration			
Audit Fees	1,000,000		700,000
For tax audit and other certificates	1,503,330		1,380,500
		<b>2,503,330</b>	<b>2,080,500</b>
Repairs and Maintenance -			
Buildings	9,461,503		15,198,859
Others	23,233,870		18,971,643
		<b>32,695,373</b>	<b>34,170,502</b>
Foreign Currency Monetary Item Translation Difference (Refer Note 4)		(450,207)	21,793,679
Miscellaneous Expenses		166,061,524	239,539,621
Insurance		7,570,825	4,278,889
		<b>587,368,136</b>	<b>716,014,712</b>
<b>SCHEDULE "M"</b>			
<b>INTEREST AND FINANCE COST:</b>			
On Fixed Loans		1,892,645,815	1,453,815,996
On Others		39,348,482	984,981
		<b>1,931,994,297</b>	<b>1,454,800,977</b>





# Schedules *forming part of Accounts*

## SCHEDULE "N"

### NOTES FORMING PART OF ACCOUNTS.

#### 1) SIGNIFICANT ACCOUNTING POLICIES

##### (a) Convention

The accounts are prepared under the historical cost convention and as a going concern. Fixed assets are included at the cost incurred at the date of acquisition.

##### (b) Foreign Exchange Transactions

Loans in foreign currency from banks and financial institutions for acquisition of fixed assets are converted at the rate of exchange prevailing on the date of Balance Sheet. However, where there are outstanding forward cover contracts, loans are translated at the rate under the said covers.

Government of India, Ministry of Corporate Affairs vide Notification No.GSR 225(E) dated 31st March, 2009 issued Companies (Accounting Standards) Amendment Rule 2009 with effect from Accounting Year commencing on or after 7th December, 2006.

In terms of the notification referred above, exchange differences arising on reporting of long term foreign currency loans, so far as they relate to acquisition of depreciable capital assets, is added to or deducted from the cost of the asset and depreciated over the balance life of the asset and in other cases it is accumulated in a "Foreign Currency Monetary Items Translation Difference Account" and amortized over balance period of such long term liability but not beyond 31st March, 2011.

Current assets and Current liabilities are converted at the rate prevailing on the Balance Sheet date and the net result is taken into Profit & Loss account.

Gains or Losses on other foreign exchange transactions during the year are credited / debited to Profit & Loss Account.

##### (c) Impairment of Assets

The Company reviews the carrying values of tangible assets for any possible impairment at each balance sheet date. Impairment loss, if any, is recognised in the year in which impairment takes place.

##### (d) Capitalisation of Expenses

i) Interest and other expenses incurred on amounts borrowed for the company's expansion programme are carried forward and allocated to the cost of assets acquired.

ii) In addition operating costs of newly acquired ships till the first load port or commencement of first commercial voyage in case of offshore assets are added to the cost of assets. These expenses include initial bunkers, stores, spares, interest, floating staff salaries and wages, travelling of personnel and other incidental expenses.

##### (e) Depreciation

Depreciation is provided on ships on straight line basis at the rates provided in Schedule XIV to the Companies Act, 1956, or such higher rates as have been determined by technical evaluation of the balance useful life for each ship. Depreciation on other assets is provided on the written down value method at the rates specified in Schedule XIV to the Companies Act, 1956.

##### (f) Treatment of Major Repairs

All major repairs including special survey expenses carried out on vessels are written off to the revenue in the year of incurring the expenses. However, where such expenses are of the nature of capital expenses, the same are added to the cost of the vessel concerned.

##### (g) Lease Rentals and Bareboat Charter Expenses

Assets acquired under finance lease from 1st April 2001 are accounted in accordance with Accounting Standard 19 issued by the Institute of Chartered Accountants of India. Similarly assets given on long term bare boat charter basis is considered as finance lease for the purpose of accounts.

##### (h) Stores and Spares

Stores and spares purchased are directly issued to ships and the values of such purchases are charged to the expenses account as consumed.

##### (i) Revenue Recognition

Income from time and voyage charters is recorded on the basis of rates contracted with charterers. For voyages in progress at the year end, the estimated net earnings are divided proportionately over the total number of days taken to complete the voyage and credit is taken for the net earnings falling within the accounting period.

##### (j) Employee Benefits

For defined benefit plans, in case of shore staff and ships' officers on Company's roster, the cost of providing benefits is determined using the projected unit credit method, with actuarial



## Schedules *forming part of Accounts*

valuations being carried out at each balance sheet date. Actuarial gains and losses are recognized in full in the profit and loss account for the period in which they occur.

In the case of ships' crew members, gratuity is accounted for on cash basis and is insignificant in value.

**(k) Provision For Doubtful Debts/Advances**

Specific provisions for doubtful debts are made by provisions charged to current revenue. The determination of the balance of the provision is based on evaluation of individual advances.

**(l) Share Issue Expenses**

The Company follows the practice of adjusting expenses in connection with the issue of shares / convertible debentures against share premium.

**(m) Contingent Liabilities**

The following are considered as contingent liabilities by the company and disclosed by way of Notes to the accounts:-

- i) Guarantees executed by the company's bankers.
- ii) Demands received from statutory authorities but not accepted by the company.
- iii) Claims against the company not acknowledged as debts.
- iv) Estimated amount of contracts remaining to be executed on capital account and not provided for.
- v) Corporate guarantee issued by the company on behalf of erstwhile subsidiary.

	31.03.2010 Rupees	31.03.2009 Rupees
<b>2. Contingent Liabilities:</b>		
a) On account of guarantees executed by the Company's bankers secured by charge on some of the Company's vessels and fixed deposits of Rs 246.24 lacs (Previous year Rs 41.00 lacs)	65,357,000	37,800,000
b) Claims against the Company not acknowledged as debts	100,311,817	87,734,712
c) Corporate guarantees to the banks on behalf of VSC International Pte Ltd – erstwhile wholly owned subsidiary company in respect of loans taken for acquisition of ships.	1,714,940,000	-
d) Deputy Commissioner (CT) Chennai had raised a demand for Rs. 83,284,324 for earlier years on account of levy of Commercial tax on Charter-hire in respect of some of our ships. The Company was in appeal against the same and the Appellate authority has given the ruling in favour of the Company. However the Deputy Commissioner (CT) Chennai had preferred an appeal against the same with Sales Tax Appellate Tribunal, Chennai. The Appellate Tribunal vide its Order dated 10th November, 2008, has allowed the Appeal filed by the Revenue and has given the ruling in favour of the department. Company has been advised that this demand is not sustainable and accordingly Company has filed an Appeal against the said Order in the Madras High Court. Hence no provision has been made in the accounts.		
e) Outstanding commitment on capital account Rs. NIL (previous year – Rs. 3,901,615,000) against which an advance payment of Rs NIL (previous year - Rs. 541,768,750 ) has been made during the year.		
<b>3.</b> The Company has not entered in any derivative transactions by way of currency and/or interest rate swap.		
<b>4.</b> Government of India, Ministry of Corporate Affairs vide Notification No.GSR 225(E) dated 31st March, 2009 issued Companies (Accounting Standards) Amendment Rule 2009 with effect from Accounting Year commencing on or after 7th December, 2006. In view of this, instead of early adoption of Accounting Standard 30, the company has decided to exercise the option available under para 46 of the said notification. Hence, loss on account of revaluation of foreign currency loans which was charged to Profit & Loss Account as also amount transferred to Hedging Reserve Account during 1st April, 2008 to 31st December, 2008 has been reversed. In terms of the notification referred above, exchange differences arising on reporting of long term foreign currency loans, so far as they relate to acquisition of depreciable capital assets, is required to be added to or deducted from the cost of the asset and depreciated over the balance life of the asset and in other cases it is required to be accumulated in a "Foreign Currency Monetary Items Translation Difference Account" and amortized over balance period of such long term liability but not beyond 31st March, 2011.		





## Schedules *forming part of Accounts*

Accordingly, differences arising due to change in exchange rate on foreign currency loans relating to acquisition of depreciable Capital Asset amounting to Rs. 26,831.82 lacs are deducted (Previous year Rs. 51,477 lacs were added) from the cost of such Capital Assets and in respect of other long term loans, gain of Rs. 1,774.29 lacs (Previous year Rs. 497 lacs) has been transferred to Foreign Currency Monetary Items Translation Difference Account.

Consequent to the change, the depreciation for the year is lower by Rs. 1,658.34 lacs (Previous year higher by Rs. 2,996 lacs) and other expenses are lower by Rs. 4.50 lacs (Previous year higher by Rs. 218 lacs ).

If the option provided under AS 11 (R) issued by Ministry of Corporate Affairs vide Notification No.GSR 225(E) dated 31st March, 2009, was not exercised, the profit referred to above would have been a loss of Rs. 398.55 lacs (Previous year Rs. 35,541 lacs) and reserves would have been lower by Rs. 398.55 lacs (Previous year Rs. 34,172 lacs).

5. The Company has not incurred an impairment loss during the year (Previous year Rs. 938.22 lacs in respect of certain ships) in accordance with the Accounting Standard (AS 28). In the opinion of the management, the book value of these assets broadly reflect the earnings expectation from them.

6. **Disclosure requirements under Revised Accounting Standard 15 on Employee benefits:**

a) **Defined Contribution Plan:**

Provision for defined contribution plan viz. Provident Fund and Super Annuation Fund.

b) **Defined Benefit Plans:**

The Company offers to its employees defined benefit plans in the form of Gratuity and Leave encashment.

No fund is created for payment of gratuity and leave wages and the company would pay the same out of its own funds as and when the same become payable.

c) **Amount to be recognised in Balance Sheet**

	Period ended 31.03.2010 (in Rs.)	Period ended 31.03.2009 (in Rs.)
Present Value of Unfunded Gratuity Obligations	77,359,672	92,681,088
Amounts provided in Balance Sheet	77,359,672	92,681,088

d) **Gratuity Expense to be recognised in statement of Profit & Loss Account**

	Period ended 31.03.2010 (in Rs.)	Period ended 31.03.2009 (in Rs.)
Current Service Cost	7,910,994	5,620,451
Interest on Defined Benefit Obligation	6,115,721	4,533,640
Net Actuarial Losses/(Gains) Recognised in Year	(26,621,536)	21,727,810
Past Service Cost	1,570,106	—
<b>Total, included in "Employee Benefit Expense"</b>	<b>(11,024,712)</b>	<b>31,881,901</b>

e) **Reconciliation of Benefit Obligation & Plan Assets for the period**

	Period ended 31.03.2010 (in Rs.)	Period ended 31.03.2009 (in Rs.)
<b>Change in Defined Benefit Obligation</b>		
Opening Defined Benefit Obligation	92,681,088	64,364,377
Current Service Cost	7,910,994	5,620,451
Interest Cost	6,115,721	4,533,640
Actuarial Losses/(Gain)	(26,621,536)	21,727,810
Past Service Cost	1,570,109	—
Benefit paid	(4,296,704)	(3,565,190)
Closing Defined Benefit Obligation	77,359,672	92,681,088
<b>Change in Fair Value of Assets</b>		
Contributions by Employer	4,296,704	3,565,190
Benefit paid	(4,296,704)	(3,565,190)



# Schedules *forming part of Accounts*

## f) Summary of Principal Actuarial Assumptions

	Period ended 31.03.2010 (in Rs.)	Period ended 31.03.2009 (in Rs.)
Discount rate (p.a.)	7.85%	7.25%
Expected Rate of Return on Assets (p.a.)	0%	0%
Future Salary Escalation Rate (p.a.)	7%	10%
Mortality Rate	LIC 1994-96	LIC 1994-96
	<b>31.03.2010</b>	<b>31.03.2009</b>
	<b>Rupees</b>	<b>Rupees</b>
<b>7. (a) Managerial Remuneration</b>		
Salary and Allowances	25,200,000	20,364,516
Commission	–	38,411,290
Contribution to Provident & Superannuation Funds	5,508,000	4,611,774
Gratuity	1,700,000	1,700,000
Other Perquisites	2,429,264	2,020,606
	<b>34,837,264</b>	<b>67,108,186</b>
Estimated value of perquisites as per Income Tax Rules	5,894,266	3,571,740
<b>(b) Computation of the commission payable to the Directors</b>		
Profit before taxation as per the Profit & Loss Account	538,861,664	1,271,154,980
Add: - Depreciation charged in the accounts	2,364,932,820	2,711,403,724
Managerial Remuneration	34,837,264	67,108,186
Directors' Fees	215,000	200,000
	<b>2,938,846,748</b>	<b>4,049,866,890</b>
Less: - Depreciation under Section 350 of the Companies Act, 1956	2,364,932,820	2,711,403,724
Balance	573,913,928	1,338,463,166
Less : Capital profit on sale of assets	300,050,805	–
Less: Profit on sale of investment	70,105,818	–
Net Profit under Section 198 of the Companies Act, 1956.	203,757,306	1,338,463,166
Commission payable to the Chairman & Managing Director @ 3 percent of the net profit, restricted to	–	17,961,290
Commission payable to the Vice Chairman & Managing Director @ 3 percent of the net profit, restricted to	–	16,200,000
Commission payable to the other Directors @ 1 percent of the net profit restricted to	–	4,250,000
	<b>203,757,305</b>	<b>38,411,290</b>
10% of the net profits of the Company as per Section 349	<b>20,375,730</b>	<b>133,846,317</b>

- (c) The remuneration to the Directors is approved by the shareholders of the Company. However, due to inadequate profit during the year, not determinable on the date of such approval, the remuneration paid for the year is in excess of the requirements of the Companies Act, 1956. The Company has made an application to the Central Government for waiver of the excess remuneration of Rs 144.62 lacs.

## 8. DEFERRED TAX :

The Company is assessed under special provisions relating to income of shipping companies which has been introduced by the Finance Act (No. 2) of 2004 under which taxable income is notionally determined based on net tonnage of ships operated during the year. Actual income from the operation of ships and expenses incurred for earning income from shipping operations is not considered for the purpose of determining taxable income. Hence, there are no timing differences arising in the tax assessments as envisaged under the Accounting Standard 22 of the Institute of Chartered Accountants of India (ICAI) and accordingly there is no deferred tax liability for the Company.





## Schedules *forming part of Accounts*

	31.03.2010 Rupees	31.03.2009 Rupees
<b>9. Earnings per share:</b>		
Profit after taxation as per Profit & Loss Account	125,529,289	1,228,054,980
Profit attributable to equity shareholders	125,529,289	1,228,054,980
Weighted Average number of Equity Shares for Earnings Per Share Computation		
A) For Basic Earnings Per Share	150,007,773	150,007,773
B) For Diluted Earnings Per Share :		
No. of shares for Basic Earning Per Share as per A	150,007,773	150,007,773
Add : Outstanding shares deemed to be issued	–	–
No. of Shares for Earnings Per Share	150,007,773	150,007,773
Basic EPS	0.84	8.19

### 10. Related party Disclosures

Related Party disclosures as required by AS-18 are given below.

#### A) Relationships

##### (1) Wholly Owned Subsidiary

VSC International Pte. Ltd. (ceased to be wholly owned subsidiary on 30th March, 2010)

##### (2) Associate Company:-

Tarun Shipping & Industries Ltd.

##### (3) Companies under common control of the Promoters:-

a) Companies with which transactions have taken place during the period.

- i) Varun Corporation Ltd.
- ii) Realpoint (Mauritius) Ltd.

b) Companies with which no transactions have taken place during the period.

- i) Sunbeam Talc Pvt. Ltd.
- ii) Yuka Plantations Pvt. Ltd.

##### (4) Key Management Personnel:

- 1) Mr. Arun M. Mehta
- 2) Mr. Y.D. Khatau

#### B) 1) The following transactions were carried out in the ordinary course of business with parties referred to in A (1), (2) and (3)(a) above.

	Wholly Owned Subsidiary Company Rupees	Associate Company Rupees	Companies Under Common Control Rupees
Investment by subscribing to the Equity Capital	215,848,750	–	–
Sale of Shares of VSC International Pte Ltd	–	–	212,479,855
Vessel acquired on Finance lease	846,360,000	–	–
Net Sale Consideration for ships sold	6,522,551,840	–	–
Vessel given on Finance lease	–	753,314,674	–
Bare Boat Charter Deposit paid	–	60,000,000	–
Loan given	4,166,941,550	–	–
Loan recovered	1,716,987,250	–	–
Loan received	–	400,000,000	–
Loan repaid	–	400,000,000	–
Amount refunded out of Advances received during 2008-09 against sale of vessel	401,080,500	–	–
Dividend received on Investment	1,635,674	840,000	–
Interest received on short term loan given	44,833,212	–	–
Interest paid on unsecured short term loan	–	618,494	–



## Schedules *forming part of Accounts*

	Wholly Owned Subsidiary Company Rupees	Associate Company Rupees	Companies Under Common Control Rupees
Ship Management Fees Received	4,230,433	–	–
Hire charges paid for vessels chartered in	329,804,779	94,900,000	–
Reimbursement of Operating Expenses incurred on their behalf	147,138,117	–	–
Reimbursement of Freight Hire Charges received on their behalf	72,574,570	–	–
Payment made for air ticket expenses	–	–	113,715,873
Corporate Guarantee given to Banks	1,714,940,000	–	–
<b>Balance outstanding as at the year end:</b>			
Investments in Equity Shares of	188,243,195	84,000,000	–
Loan recoverable from	2,211,370,000	–	–
Amount receivable towards sale of ships and other expenses from	2,105,525,451	–	–
Amount receivable towards sale of investments from	–	–	212,479,855
Finance lease receivable from	–	753,314,673	–
Amount payable towards hire charges to	48,446,824	–	–
Amount payable for Air tickets expenses to	–	–	7,191,037
Finance lease payable to	773,787,698	–	–

2) Details of transactions relating to key Management Personnel mentioned in A (4) above are as under

Remuneration: Rs. 40,731,530 (for details refer note No. 7 (a))

3) Details of sitting fees paid to non executive Directors are given in the report on corporate governance.

### 11. Particulars of Investments purchased & sold during the financial year ended 31/03/2010

Name of the mutual fund	Face value	Number of units	Purchase cost (Rs.)
Reliance Money Manager Fund-Institutional Option	1,000	29,965.947	30,000,000
Tata Treasury Manager Fund- SHIP- Daily Dividend	1,000	29,693.648	30,000,000
Tata Floater Fund- Daily Dividend Reinvestment	10	2,989,357.886	30,000,000
Birla Sunlife Savings Fund- Institutional Plan	10	2,997,961.386	30,000,000
LIC MF Savings Plus Fund- Institutional Plan	10	5,000,000.000	50,000,000
UTI Treasury Advantage Fund- Institutional Plan	1,000	19,995.719	20,000,000
Kotak Floater Long Term- Daily Dividend Reinvestment	10	3,968,332.705	40,000,000

12. An amount of Rs. 2,683,182,096 (previous year Rs. 5,147,690,742 increase) towards decrease in rupee liability consequent to conversion of foreign currency loans at year end/contracted rates and costs in respect of forward covers for foreign currency loans incurred during the year for acquisition of assets has been deducted from the cost of fixed assets.

13. There are no Micro, Small and Medium Enterprises, as defined in the Micro, Small, Medium Enterprises Development Act, 2006, to whom the Company owes on account of principal amount together with the interest and accordingly no additional disclosures have been made.

The above information regarding Micro, Small and Medium Enterprises, has been determined to the extent such parties have been identified on the basis of information available with the Company. This has been relied upon by the auditors.

14. No amounts referred to in clauses (a) to (d) of Section 205C(2) of the Companies Act, 1956 have remained unclaimed for a period of seven years from the date they became due for payment.

15. The Company is engaged only in shipping business and there are no separate reportable segments as per Accounting Standard 17.





## Schedules *forming part of Accounts*

16. (a) The Company has received exemption from the Department of Company affairs from furnishing details as required by Para 4D(a), (b), (c) and (e) of Part II to Schedule VI of the Companies Act, 1956.

	31.03.2010	31.03.2009
	Rupees	Rupees
b) Dividend remitted in foreign currency		
Final Dividend (2009)	2,479,050	33,06,400
No. of shares – 1,652,700 (Previous year -1,653,200)		
No. of non resident shareholders- 11 (Previous year –13)		
First Interim Dividend (2010)	-	826,600
No. of shares – Nil (Previous year -1,653,200)		
No. of non resident shareholders- Nil (Previous year –13)		
Second Interim Dividend (2010)	-	2,479,800
No. of shares – Nil (Previous year -1,653,200)		
No. of non resident shareholders- Nil (Previous year –13)		
Third Interim Dividend (2010)	-	2,479,500
No. of shares – Nil (Previous year – 1,653,200)		
No. of non resident shareholders- Nil (Previous year –12)		

### 17. A) FINANCE LEASE OBLIGATIONS:

The details of lease payments outstanding as on 31st March, 2010 and present values are as under:

	Outstanding as on 31.03.2010 (In Rupees)		Outstanding as on 31.03.2009 (In Rupees)	
	Total minimum lease payments	Present value of lease payments	Total minimum lease payments	Present value of lease payments
Due				
Within one year	188,868,599	151,888,535	-	-
Later than 1 year and not later than 5 years	698,582,208	621,899,163	-	-
Total	887,450,807	773,787,698	-	-

### B) FINANCE LEASE RECEIVABLES:

The details of lease receivables as on 31st March, 2010 and present values are as under:

	Outstanding as on 31.03.2010 (In Rupees)		Outstanding as on 31.03.2009 (In Rupees)	
	Total minimum lease payments	Present value of lease payments	Total minimum lease payments	Present value of lease payments
Due				
Within one year	181,572,332	167,899,258	-	-
Later than 1 year and not later than 5 years	661,417,648	585,415,415	-	-
Total	842,989,980	753,314,673	-	-

### 18. Previous year's figures are regrouped wherever necessary.

As per our Report annexed

For and on behalf of

**SORAB S. ENGINEER & CO.**

Chartered Accountants

**M. P. ANTIA**

Partner

Membership No. 7825

Mumbai: May 24, 2010.

For and on behalf of the Board

**ARUN MEHTA**

Chairman & Managing Director

**YUDHISHTHIR D. KHATAU**

Vice Chairman & Managing Director

**MANALI PAREKH**

Vice President - Corporate Affairs,  
Secretarial & Legal and Company Secretary

Mumbai: May 24, 2010.



# Cash Flow Statement for the year ended 31st March, 2010

	31.03.2010 Rupees	31.03.2009 Rupees
<b>A. Cash Flow From Operating Activities:</b>		
Net Profit Before Tax	538,861,664	1,271,154,980
Adjustments For:		
Depreciation	2,364,932,820	2,711,403,724
Impairment Loss on Certain Ships	–	93,822,000
Transitional Adjustments on Account of AS 11 Revised	–	(1,455,215,976)
Dividend Income	(2,588,493)	(2,359,007)
Interest Income	(51,757,897)	(10,365,433)
Interest Expenses	1,931,994,297	1,454,800,977
(Profit) /Loss on Sale of Investment	(70,105,818)	–
(Profit) /Loss on Sale of Assets	(2,304,240,549)	(280,154,662)
<b>Operating Profit Before Working Capital Changes</b>	<b>2,407,096,024</b>	<b>3,783,086,603</b>
Adjustments For:		
Trade and Other Receivables	(2,907,319,516)	(1,053,579,894)
Inventories	(27,699,984)	(6,716,093)
Foreign Currency Monetary Item Translation Difference	69,143,314	(16,529,202)
Trade Payables	(372,695,045)	273,502,443
<b>Cash Generated From Operations</b>	<b>(831,475,207)</b>	<b>2,979,763,857</b>
Direct Taxes	(43,467,806)	(28,866,724)
<b>Net Cash From Operating Activities</b>	<b>A (874,943,013)</b>	<b>2,950,897,133</b>
<b>B. Cash Flow From Investing Activities:</b>		
Purchase/Additions to Fixed Assets	(4,246,075,642)	(6,989,804,994)
Sale of Fixed Assets	10,077,891,801	491,458,843
Purchase of Investments	(365,848,750)	–
Sale of Investments	221,152,575	–
Loan to a Company under same management	(2,211,370,000)	–
Increase in Finance Lease Obligation (Net)	20,473,025	–
Interest Received	51,132,776	2,196,728
Dividend Received	2,588,493	10,365,433
<b>Net Cash Used in Investing Activities</b>	<b>B 3,549,944,278</b>	<b>(6,485,783,990)</b>
<b>C. Cash Flow From Financing Activities:</b>		
Calls in Arrears Received	–	80,321
Proceeds from Borrowings (Net)	(1,074,935,179)	6,460,185,610
Dividends Paid - on Equity Shares including Tax	(255,552,754)	(965,551,555)
Interest Paid	(1,935,179,937)	(1,403,103,869)
<b>Net Cash used In Financing Activities</b>	<b>C (3,265,667,870)</b>	<b>4,091,610,507</b>
<b>Net Increase/(Decrease) In Cash and Cash Equivalents</b>	<b>A+B+C (590,666,605)</b>	<b>556,723,650</b>
Cash and Cash Equivalents at the beginning of the year	931,275,624	374,551,974
Cash and Cash Equivalents at the end of the year	340,609,019	931,275,624
	<b>(590,666,605)</b>	<b>556,723,650</b>

For and on behalf of

**SORAB S. ENGINEER & CO.**

Chartered Accountants

**M. P. ANTIA**

Partner

Membership No. 7825

Mumbai: May 24, 2010.

For and on behalf of the Board

**ARUN MEHTA**

Chairman & Managing Director

**YUDHISHTHIR D. KHATAU**

Vice Chairman & Managing Director

**MANALI PAREKH**

Vice President - Corporate Affairs,

Secretarial & Legal and Company Secretary

Mumbai: May 24, 2010.



**VARUN SHIPPING COMPANY LIMITED**



## Report of the Auditors on Consolidated Financial Statements

**AUDITORS REPORT TO THE BOARD OF DIRECTORS OF VARUN SHIPPING COMPANY LIMITED ON THE CONSOLIDATED PROFIT AND LOSS ACCOUNT OF VARUN SHIPPING COMPANY LIMITED, ITS ASSOCIATE AND ITS ERSTWHILE SUBSIDIARY, VSC INTERNATIONAL PTE LTD. INCORPORATED AT SINGAPORE**

We have examined the attached Consolidated Profit and Loss Account of VARUN SHIPPING COMPANY LIMITED, its associate and its erstwhile subsidiary for the year ended 31<sup>st</sup> March, 2010.

Consolidated Balance Sheet has not been prepared as VSC International Pte. Ltd. ceased to be a subsidiary of Varun Shipping Company Ltd. from the 31<sup>st</sup> of March, 2010. All revenue transactions of its erstwhile subsidiary from 1<sup>st</sup> April 2009 to 30<sup>th</sup> March 2010 which includes revenues of Rs. 218,703,807 have been consolidated.

The Profit and Loss Account of the erstwhile subsidiary from 1<sup>st</sup> April 2009 to 30<sup>th</sup> March 2010 have been audited by other auditors whose report has been furnished to us, and our opinion, in so far as it relates to the amounts included in respect of the subsidiary, is based solely on the report of the other auditors.

These financial statements are the responsibility of VARUN SHIPPING COMPANY LIMITED's management. Our responsibility is to express an opinion on these financial statements based on our audit. 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. We believe that our audit provides a reasonable basis for our opinion.

We report that the consolidated Profit and Loss Account has been prepared by the Company in accordance with the requirements of Accounting Standards (AS) 21, Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India.

On the basis of the information and explanation given to us and on the consideration of the separate audit reports on individual audited Profit and Loss Accounts of VARUN SHIPPING COMPANY LIMITED, its associate and its aforesaid erstwhile subsidiary, we are of the opinion that the Consolidated Profit and Loss Account gives a true and fair view of the consolidated results of operation of VARUN SHIPPING COMPANY LIMITED, its associate and its erstwhile subsidiary for the year ended 31<sup>st</sup> March, 2010.

For **SORAB S. ENGINEER & CO.**

*Chartered Accountants*

Firm Registration Number : 110417W

**M.P. ANTIA**

*Partner*

Membership No. 7825

Mumbai: May 21, 2010



## Consolidated Profit and Loss Account *for the period from 1st April, 2009 to 30th March, 2010*

	Schedule No.	30.03.2010 Rupees	31.03.2009 Rupees
<b>INCOME:</b>			
Income from Operations		<b>6,852,300,728</b>	9,146,591,407
Profit / (Loss) on sale of Ships and other Assets		<b>569,925,992</b>	280,154,662
Other Income	A	<b>27,747,784</b>	27,962,349
		<b>7,449,974,504</b>	9,454,708,418
<b>EXPENDITURE:</b>			
Operating Costs	B	<b>3,470,237,397</b>	3,692,321,133
Administration Costs	C	<b>594,953,483</b>	728,584,969
Interest and Finance Cost	D	<b>1,980,425,221</b>	1,454,806,320
Depreciation (refer note 4)		<b>2,580,965,537</b>	2,712,069,546
Impairment on certain ships		<b>—</b>	93,822,000
		<b>8,626,581,638</b>	8,681,603,968
Profit Before Exceptional Item		<b>(1,176,607,134)</b>	773,104,450
Exceptional Item		<b>70,105,818</b>	500,000,000
<b>Profit Before Tax</b>		<b>(1,106,501,316)</b>	1,273,104,450
Current Tax		<b>441,986,452</b>	34,824,011
Fringe Benefit tax (excess provision for previous year)		<b>(252,625)</b>	8,500,000
<b>Profit After Tax</b>		<b>(1,548,235,143)</b>	1,229,780,439
Add: Balance brought forward from the previous year		<b>1,218,732,504</b>	1,177,157,601
Add: Adjustment of Dividend on Consolidation		<b>1,569,342</b>	1,654,228
Add: Share of profit on investment in Associate Company		<b>19,415,000</b>	10,487,511
Less: Transfer to Tonnage Tax Reserve under Section 115 VT of the Income-tax Act, 1961		<b>—</b>	200,000,000
Balance Available For Appropriations		<b>(308,518,297)</b>	2,219,079,779
<b>APPROPRIATIONS:</b>			
Dividend and tax on distributed profits of previous year		<b>6,925</b>	—
Transfer to General Reserve		<b>—</b>	122,830,460
Interim Dividends paid on Equity shares		<b>—</b>	525,033,039
Tax on Interim Dividends paid on Equity shares		<b>—</b>	89,231,384
Proposed Final Dividend-Equity shares		<b>120,006,218</b>	225,011,660
Tax on Proposed Final Equity Dividend		<b>19,931,533</b>	38,240,732
Balance carried to Balance Sheet		<b>(448,462,973)</b>	1,218,732,504
		<b>(308,518,297)</b>	2,219,079,779
<b>EARNING PER SHARE</b>			
Basic		<b>(10.32)</b>	8.20
For Notes forming part of accounts, please see Schedule "E"			

As per our Report annexed

For and on behalf of

**SORAB S. ENGINEER & CO.**

Chartered Accountants

**M. P. ANTIA**

Partner

Membership No. 7825

Mumbai: May 21, 2010.

For and on behalf of the Board

**ARUN MEHTA**

Chairman & Managing Director

**MANALI PAREKH**

Vice President - Corporate Affairs,

Secretarial & Legal and Company Secretary

Mumbai: May 21, 2010.

**YUDHISHTHIR D. KHATAU**

Vice Chairman & Managing Director





# Schedules forming part of the Consolidated Profit & Loss Account for the period from 1st April, 2009 to 30th March, 2010

		30.03.2010	31.03.2009
	Rupees	Rupees	Rupees
<b>SCHEDULE "A"</b>			
<b>OTHER INCOME:</b>			
Miscellaneous Income		923,865	10,322,767
Income from Investments		952,819	10,365,433
Interest (Tax Deducted at Source Rs 3,074,698 (Previous year Rs 62,956))		25,871,100	7,274,149
		<b>27,747,784</b>	<b>27,962,349</b>
<b>SCHEDULE "B"</b>			
<b>OPERATING COSTS:</b>			
Wages, Bonus and other expenses of Floating Staff		881,243,728	771,879,737
Contribution to Provident Fund		9,461,850	10,896,525
Stores, Lubricants & Victualling Expenses		385,042,490	388,740,606
Other Direct Floating Staff Cost		116,700,010	88,582,242
Floating Staff Welfare Expenses		15,619,225	15,097,050
Bunkers & Water		724,658,579	764,258,835
Agency Fees & Port Expenses		200,120,884	191,489,768
Repairs & Maintenance including Spares and Survey		676,747,084	900,120,142
Fleet Insurance & Protection Club Fees		186,069,469	162,457,520
Charter Hire Expenses		130,909,985	268,400,061
Brokerage & Commission		43,768,716	55,772,244
Miscellaneous Expenses		99,895,377	74,626,403
		<b>3,470,237,397</b>	<b>3,692,321,133</b>
<b>SCHEDULE "C"</b>			
<b>ADMINISTRATION COSTS:</b>			
Salaries, Bonus & Gratuity		293,273,382	301,727,935
Contribution to Provident Fund and Superannuation Fund		20,681,816	19,296,160
Staff Welfare Expenses		5,704,648	9,146,264
Rent		9,935,674	8,009,920
Rates and taxes		12,334,945	5,952,843
Brokerage & Commission		2,004,562	2,710,213
Directors' Fees		346,331	467,718
Managerial Remuneration (See Note 7)		34,837,264	76,814,614
Auditors' Remuneration			
Audit Fees	1,864,400		1,113,588
For tax audit and other certificates	1,503,330		1,380,500
		<b>3,367,730</b>	<b>2,494,088</b>
Repairs and Maintenance -			
Buildings	9,461,503		15,198,859
Others	23,233,870		18,971,643
		<b>32,695,373</b>	<b>34,170,502</b>
Foreign Currency Monetary Item Translation Difference (refer note 4)		(450,207)	21,793,679
Miscellaneous Expenses		172,651,139	241,722,144
Insurance		7,570,825	4,278,889
		<b>594,953,483</b>	<b>728,584,969</b>
<b>SCHEDULE "D"</b>			
<b>INTEREST AND FINANCE COST:</b>			
On Fixed Loans		1,941,076,739	1,453,821,339
On Others		39,348,482	984,981
		<b>1,980,425,221</b>	<b>1,454,806,320</b>



# Schedules forming part of the Consolidated Profit and Loss Account

## SCHEDULE "E"

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The Consolidated financial statements have been prepared in accordance with Accounting Standard (AS) 21 issued by the Institute of Chartered Accountants of India.
2. The Consolidated financial statements comprise financial statements of Varun Shipping Company Limited, its associate and its erstwhile subsidiary viz. VSC International Pte Ltd, Singapore.
3. Government of India, Ministry of Corporate Affairs vide Notification No.GSR 225(E) dated 31st March, 2009 issued Companies (Accounting Standards) Amendment Rule 2009 with effect from Accounting Year commencing on or after 7th December, 2006. In view of this, instead of early adoption of Accounting Standard (AS) 30, the company has decided to exercise the option available under para 46 of the said notification. Hence, loss on account of revaluation of foreign currency loans which was charged to Profit & Loss Account as also amount transferred to Hedging Reserve Account during 1st April, 2008 to 31st December, 2008 has been reversed.

In terms of the notification referred above, exchange differences arising on reporting of long term foreign currency loans, so far as they relate to acquisition of depreciable capital assets, is required to be added to or deducted from the cost of the asset and depreciated over the balance life of the asset and in other cases it is required to be accumulated in a "Foreign Currency Monetary Items Translation Difference Account" and amortized over balance period of such long term liability but not beyond 31st March, 2011.

Accordingly, differences arising due to change in exchange rate on foreign currency loans relating to acquisition of depreciable Capital asset amounting to Rs. 26,831.82 lacs are deducted (Previous year Rs 51,477 lacs were added) from the cost of such Capital Assets and in respect of other long term loans, gain of Rs. 1,774.29 lacs (Previous year Rs 497 lacs) has been transferred to Foreign Currency Monetary Items Translation Difference Account.

Consequent to the change, the depreciation for the year is lower by Rs. 1,658.34 lacs (Previous year higher by Rs. 2,996 lacs) and other expenses are lower by Rs. 4.50 lacs (Previous year higher by Rs. 218 lacs).

If the option provided under AS 11 (R) issued by Ministry of Corporate Affairs vide Notification No.GSR 225(E) dated 31st March, 2009, was not exercised, the profit referred to above would have been a loss of Rs. 398.55 lacs (Previous year Rs. 35,541 lacs) and reserves would have been lower by Rs. 398.55 lacs (Previous year Rs. 34,172 lacs).

4. The Company has not incurred an impairment loss during the year (Previous year Rs. 938.22 lacs in respect of certain ships) in accordance with the Accounting Standard (AS 28). In the opinion of the management, the book value of these assets, broadly reflect the earnings expectation from them.
5. **Particulars of Investments in Associate Companies.**

Name of Associate

Tarun Shipping and Industries Limited - Proportion of ownership interest 49.91%.

6. **Related Party Disclosures**

Related Party disclosures as required by AS-18 are given below

#### A) Relationships

##### (1) Associate Company:

Tarun Shipping & Industries Limited

##### (2) Companies under common control of the Promoters:

- a) Companies with which transactions have taken place during the period
  - i) Varun Corporation Ltd.
  - ii) Realpoint (Mauritius) Ltd.
- b) Companies with which no transactions have taken place during the period
  - i) Sunbeam Talc Pvt. Ltd.
  - ii) Yuka Plantations Pvt. Ltd.

##### (3) Key Management Personnel:

- 1) Mr. Arun M. Mehta
- 2) Mr. Y.D. Khatau





## Schedules forming part of the Consolidated Profit and Loss Account

- B) (1) The following transactions were carried out in the ordinary course of business with parties referred to in A (1), (2) and (3) above.**

	Associate Company (Rs.)	Companies Under Common Control (Rs.)
Sale of Shares of VSC International Pte Ltd.	–	212,479,855
Vessel given on Finance lease	753,314,674	–
Bare Boat Charter Deposit paid	60,000,000	–
Loan received	400,000,000	–
Loan repaid	400,000,000	–
Dividend received on Investment	840,000	–
Interest paid on unsecured short term loan	618,494	–
Hire charges paid for vessels chartered in	94,900,000	–
Payment made for air ticket expenses	–	113,715,873
<b>Balance outstanding as at the year end :</b>		
Investments in Equity Shares of	84,000,000	–
Amount receivable towards sale of investments from	–	212,479,855
Finance lease receivable from	753,314,674	–
Amount payable for Air tickets expenses to	–	7,191,037

- (2)** Details of transactions relating to key Management Personnel mentioned in A (3) above are as under.

Remuneration: Rs. 40,731,530 ( Previous year Rs. 62,858,186).

- (3)** Details of sitting fees paid to non executive Directors are given in the report on corporate governance.

- (4)** Managerial remuneration includes NIL (Previous year Rs. 9,706,428) paid to the Directors of the Subsidiary.

	30.03.2010 Rupees	31.03.2009 Rupees
<b>7. Earnings per share:</b>		
Profit / (Loss) after taxation as per Profit & Loss Account	(1,548,235,143)	1,229,780,439
Profit / (Loss) after adjustments	(1,548,235,143)	1,229,780,439
No. of Shares for Earnings Per Share	150,007,773	150,007,773
Basic EPS	(10.32)	8.20

- 8. During the year the Company acquired and sold the following investments in Mutual Funds:**

Mutual Funds	Face Value (Rs.)	No. of Units	Purchase Cost (Rs.)
Reliance Money Manager Fund-Institutional Option	1,000	29,965.947	30,000,000
Tata Treasury Manager Fund - SHIP- Daily Dividend	1,000	29,693.648	30,000,000
Tata Floater Fund- Daily Dividend Reinvestment	10	2,989,357.886	30,000,000
Birla Sunlife Savings Fund - Institutional Plan	10	2,997,961.386	30,000,000
LIC MF Savings Plus Fund - Institutional Plan	10	5,000,000.000	50,000,000
UTI Treasury Advantage Fund - Institutional Plan	1,000	19,995.719	20,000,000

- 9. Other Significant Accounting Policies**

These are set out in the Notes to Accounts under the Section "Significant Accounting Policies" of Varun Shipping Company Ltd. and VSC International Pte. Ltd., Singapore.

- 10.** Figures of the previous year are not comparable as VSC International Pte Ltd. has ceased to be a subsidiary of the Company with effect from 31st March, 2010.

Previous year's figures are regrouped wherever necessary.

### Signatures to Schedules "A" to "E"

As per our Report annexed

For and on behalf of the Board

For and on behalf of  
**SORAB S. ENGINEER & CO.**  
Chartered Accountants

**ARUN MEHTA**  
Chairman & Managing Director

**M. P. ANTIA**  
Partner  
Membership No. 7825

**MANALI PAREKH**  
Vice President - Corporate Affairs,  
Secretarial & Legal and Company Secretary

**YUDHISHTHIR D. KHATAU**  
Vice Chairman & Managing Director

Mumbai: May 21, 2010.

Mumbai: May 21, 2010.



# Balance Sheet Abstract and Company's General Business Profile

(Submitted in terms of Part IV of Schedule VI to the Companies Act, 1956)

## I. Registration Details

Registration No.

State Code

Balance Sheet Date

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

Public Issue

Rights Issue

Bonus Issue

Private Placement

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

Total Liabilities

Total Assets

### Sources of Funds

Paid-up Capital

Reserves & Surplus

Secured Loans

Unsecured Loans

Finance Lease Obligation

Foreign Currency Monetary Item  
Translation Difference

### Application of Funds

Net Fixed Assets

Investments

Net Current Assets

Accumulated Losses

Misc. Expenditure

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

Turnover

Total Expenditure

Profit before tax

Profit after tax

Earnings per Share in Rs.

Dividend Rate %

## V. Generic Names of Three Principal Products/Services of Company

(as per monetary terms)

Item Code No. (ITC Code)

Product Description





# Audit of the Profit and Loss Account of VSC International Pte Ltd for the period from 1 April 2009 to 30 March 2010

The Board of Directors  
VSC International Pte Ltd  
5 Shenton Way, # 02-02  
UIC Building, Singapore 068808.

Dear Sirs,

As requested in your letter dated 11 May 2010, we have audited the accompanying profit and loss account of VSC International Pte Ltd for the period from 1 April 2009 to 30 March 2010, as set out on pages 1\* to 9\* for the purpose of the preparation of the consolidated financial statements of Varun Shipping Company Limited. This profit and loss account has been prepared on the basis set out in Note 1 for the purpose of your submission to your then holding corporation, Varun Shipping Company Limited for their preparation of consolidated financial statements.

## **Management's Responsibility for the Profit and Loss Account**

Management is responsible for the preparation and presentation of this profit and loss account on the basis as described in Note 1. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of profit and loss account that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## **Auditor's Responsibility**

Our responsibility is to express an opinion on this profit and loss account based on our audit.

We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the profit and loss account is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial information. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the profit and loss account, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of the profit and loss account in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by management, as well as evaluating the overall presentation of the profit and loss account.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the accompanying profit and loss account has been prepared, in all material respects, in accordance with the basis as described in Note 1.

## **Emphasis of Matter**

Without qualifying our opinion, we emphasise that the information contained in this profit and loss account is not a complete set of financial statements of VSC International Pte Ltd in accordance with Singapore Financial Reporting Standards and is not intended to give a true and fair view of the financial position of VSC International Pte Ltd for the period from 1 April 2009 to 30 March 2010, and of its financial performance, for the period then ended in accordance with Singapore Financial Reporting Standards.

## **Restriction of Use and Distribution**

Our report is solely for the purpose set forth in the first paragraph of this report and for your information, and is not to be used for any other purpose or to be distributed to any other party.

## **PRICEWATERHOUSECOOPERS LLP**

*Public Accountants and Certified Public Accountants*

*Singapore*

*Date: 18 May 2010*

Pages 1\* to 9\* as mentioned in the Auditors Report have been renumbered as page 42 to 48 in the printed accounts.

## Profit and Loss Account *for the financial period from 1 April 2009 to 30 March 2010*

	Note	2010 US\$	2010 INR
Charter hire income		10,878,263	488,977,922
Vessel operating cost		(7,196,805)	(323,496,385)
Gross profit		3,681,458	165,481,537
Other income	3	600,586	26,996,341
Expenses			
- Administrative		(222,155)	(9,985,867)
- Finance	5	(1,950,230)	(87,662,839)
		(2,172,385)	(97,648,706)
Profit before income tax		2,109,659	94,829,172
Income tax expense	6	(595,793)	(26,780,895)
<b>Profit after tax</b>		<b>1,513,866</b>	<b>68,048,277</b>





# Notes to Profit and Loss Account *for the financial period from 1 April 2009 to 30 March 2010*

## 1. SIGNIFICANT ACCOUNTING POLICIES

### 1.1 Basis of preparation

These financial information have been prepared in accordance with the Company's accounting policies. The financial information have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with the Company's accounting policies requires the Company's directors to exercise its judgement in the process of applying the Company's accounting policies. It also requires the use of certain critical accounting estimates and assumptions. The areas involving a higher degree of judgement or complexity, or areas where estimates and assumptions are significant to the financial statements are disclosed in Note 2.

### 1.2 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for chartering of motor vessels in the ordinary course of the Company's activities.

The Company recognises revenue when the amount of revenue and related cost can be reliably measured, when it is probable that the collectibility of the related receivables is reasonably assured and when the specific criteria for each of the Company's activities are met as follows:

#### (a) Charter hire income

Voyage revenues and expenses are recognised rateably over the estimated length of the voyage within the respective reporting periods on a discharge-to-discharge basis, where voyage revenue is recognised rateably from the time when the cargo is discharged for one voyage to the time when the cargo is discharged for the next voyage.

Income from time charters is recognised on a straight-line basis.

Any losses arising from voyage or time charters are provided for as soon as they are anticipated.

#### (b) Interest income

Interest income, including income arising from finance leases is recognised using the effective interest method.

### 1.3 Leases

*When the Company is the lessor:*

The Company leases out motor vessels under finance leases to a related corporation and operating leases to both related and non-related parties.

#### (i) Lessor - Finance leases

Leases where the Company has transferred substantially all risks and rewards incidental to ownership of the leased assets to the lessees, are classified as finance leases.

The leased asset is derecognised and the present value of the lease receivable (net of initial direct costs for negotiating and arranging the lease) is recognised on the balance sheet and included in "trade and other receivables". The difference between the gross receivable and the present value of the lease receivable is recognised as unearned finance income.

Each lease payment received is applied against the gross investment in the finance lease receivable to reduce both the principal and the unearned finance income. The finance income is recognised in the profit and loss account on a basis that reflects a constant periodic rate of return on the net investment in the finance lease receivable.

Initial direct costs incurred by the Company in negotiating and arranging finance leases are added to finance lease receivables and recognised as an expense in the profit and loss account over the lease term on the same basis as the lease income.

#### (ii) Lessor - Operating leases

Leases of motor vessels where the Company retains substantially all risks and rewards incidental to ownership are classified as operating leases. Rental income from operating leases (net of any incentives given to lessees) is recognised in the profit and loss account on a straight-line basis over the lease term.

Initial direct costs incurred by the Company in negotiating and arranging an operating lease are added to the carrying amount of the leased assets and recognised as an expense in the profit and loss account over the lease term on the same basis as the lease income.

### 1.4 Borrowing costs

Borrowing costs are recognised in the profit and loss account using the effective interest method.

### 1.5 Income taxes

Current income tax is recognised at the amount expected to be paid to or recovered from the tax authorities.

Deferred income tax is recognised for all temporary differences except when the deferred income tax arises from the initial recognition of an asset or liability that affects neither accounting nor taxable profit or loss at the time of the transaction.



## Notes to Profit and Loss Account *for the financial period from 1 April 2009 to 30 March 2010*

Current and deferred income tax is measured using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date, and are recognised as income or expenses in the profit and loss account, except to the extent that the tax arises from a transaction which is recognised directly in equity.

### 1.6 Plant and equipment

#### (a) Measurement

##### (i) Motor vessels

Motor vessels are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

Cost of motor vessels includes direct relevant expenditure incurred in acquiring the vessels.

##### (ii) Other plant and equipment

All other items of plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

#### (b) Dry docking

The inherent components of the vessel which are subject to major overhauls at the dry docking of the motor vessel, are determined based on their estimated costs and are depreciated over a period of 2½ years in order to reflect their useful lives. Dry docking expenditure incurred are capitalised as additions when incurred.

#### (c) Depreciation

Depreciation on motor vessels is calculated on a straight-line basis to allocate the costs less estimated residual value over their expected useful lives from the date the vessels were put to use or the remaining useful lives from date of acquisition, except for the dry docking costs which are depreciated over 2½ years.

Depreciation on other plant and equipment is calculated using the straight-line method to allocate their depreciable amounts over their estimated useful lives as follows:

##### Useful lives

Motor vessels	– 5-11 years
Office equipment	– 5 years
Furniture and fittings	– 5 years
Computers	– 3 years
Motor vehicles	– 6 years

The residual values, estimated useful lives and depreciation method of plant and equipment are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are recognised in the profit and loss account when the changes arise.

#### (d) Subsequent expenditure

Subsequent expenditure relating to plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repair and maintenance expenses are recognised in the profit and loss account when incurred.

#### (e) Disposal

On disposal of an item of plant and equipment, the difference between the disposal proceeds and its carrying amount is recognised in the profit and loss account.

### 1.7 Impairment of non-financial assets

Plant and equipment are reviewed for impairment whenever there is any indication that these assets may be impaired.

If the recoverable amount of the asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. The difference between the carrying amount and recoverable amount is recognised as an impairment loss in the profit and loss account.

An impairment loss for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of accumulated depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset is recognised in the profit and loss account.

### 1.8 Cash and bank balances

#### Trade and other receivables

#### Loan to third parties

The Company assesses at each balance sheet date whether there is objective evidence that these financial assets are impaired and recognises an allowance for impairment when such evidence exists.





# Notes to Profit and Loss Account *for the financial period from 1 April 2009 to 30 March 2010*

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or significant delay in payments are objective evidence that these financial assets are impaired. The carrying amount of these assets is reduced through the use of an impairment allowance account which is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

## 1.9 Provisions for other liabilities and charges

Provisions for other liabilities and charges are recognised when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

## 1.10 Currency translation

The financial statements are presented in United States Dollar, which is the functional currency of the Company.

Transactions in a currency other than United States Dollar ("foreign currency") are translated into United States Dollar using the exchange rates prevailing at the dates of the transactions. Currency translation differences resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the balance sheet date are recognised in the profit and loss account.

## 2. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### (i) Useful life of the motor vessel

The Company's directors determine the estimated useful life and related depreciation expense for the motor vessel. The Company's directors estimate useful life of the motor vessel by reference to expected usage of the motor vessel, expected repair and maintenance, and technical or commercial obsolescence arising from changes or improvements in the motor vessel market. It could change significantly as a result of the changes in these factors.

### (ii) Estimated residual value of the motor vessel

The Company's directors determine the residual value for its motor vessel. This estimate is based on the current scrap values of steels in an active market at each measurement date since the directors decide to dispose the fully depreciated motor vessel as scrap steels. The depreciation expense will increase where the residual value is less than previously estimated value.

### (iii) Estimated impairment of the motor vessel

The Company's major operating asset represents motor vessels. The Company's directors perform a review for impairment of motor vessels whenever events or changes in circumstances indicate that the carrying amount of the motor vessel may not be recoverable.

The Company's directors review certain indicators of potential impairment such as reported sale and purchase prices, market demand and general market conditions. Based on the directors' best estimates, there was no indication of potential impairment of the motor vessels and no impairment loss was recognised during the year.

## 3. OTHER GAINS

	2010 US\$	2010 INR
Interest income from fixed deposits	60	2,697
Interest income on finance lease	391,166	17,582,912
Gain on disposal of plant and equipment	209,360	9,410,732
	600,586	26,996,341

## 4. EXPENSES BY NATURE

	2010 US\$	2010 INR
Depreciation of plant and equipment	4,531,838	203,706,118
Bunker costs	1,011,516	45,467,644
Vessel repair and survey costs	242,661	10,907,612
Crew overheads	570,983	25,665,686
Vessel overheads	619,199	27,832,995
Vessel insurance	115,261	5,180,982
Vessel management fee	89,890	4,040,556

## Notes to Profit and Loss Account *for the financial period from 1 April 2009 to 30 March 2010*

	2010 US\$	2010 INR
Other vessel related expenses	78,490	3,528,125
Professional fees	123,534	5,552,853
Currency exchange loss	143	6,428
Director's fee	2,755	123,837
Others	32,690	1,469,416
Total vessel operating cost and administrative expenses	7,418,960	333,482,252

### 5. FINANCE EXPENSE

	2010 US\$	2010 INR
- Loan from a shareholder	962,561	43,267,117
- Bank borrowings	987,669	44,395,722
	1,950,230	87,662,839

### 6. INCOME TAXES

#### Income tax expense

The Company derives income from shipping activities which are exempted from Singapore income tax as it obtained tax exemptions under Section 13A of the Singapore Income Tax Act.

The tax expense arose from activities which are not exempted from Singapore income tax.

	2010 US\$	2010 INR
Tax expense attributable to profit is made up of:		
- deferred income tax – Singapore	595,793	26,780,895

The tax expense on profit differs from the amount that would arise using the Singapore standard rate of income tax as explained as follows:

	2010 US\$	2010 INR
Profit before income tax	2,109,659	94,829,172
Tax calculated at a tax rate of 17% (2009: 17%) Effects of:	358,642	16,120,958
- expenses not deductible for tax purposes	237,151	10,659,937
Tax charge	595,793	26,780,895

**NOTE :** The audited Profit & Loss Account of the Company, prepared in accordance with the laws of Singapore, the country of incorporation, do not include the Indian Rupee equivalent figures which have been arrived at by applying the average exchange rate of 1US\$ = Rs. 44.95 as at 30th March 2010.

### 7. EMPLOYEE COMPENSATION

The Company does not have any employees on its payroll as the holding corporation, Varun Shipping Company Limited provides technical and commercial management services when the vessels are on voyage charter or time charter.



# Statement by Directors

In the opinion of the directors,

- (a) the financial information as set out on pages 1 to 9 has been prepared in accordance with the basis as described in Note 1 so as to present in all material respects the state of affairs and results of the Company for the period from 1 April 2009 to 30 March 2010; and
- (b) at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due as a shareholder has undertaken to provide continuing financial support to the Company to meet its liabilities as and when they fall due.

On behalf of the directors

**SIM GUAN SENG**

Director

*18 May 2010*

**HAIDER NAWAZ**

Director

Pages 1\* to 9\* as mentioned in the Auditors Report have been renumbered as page 42 to 48 in the printed accounts.