

## REPORT OF THE DIRECTORS FOR THE FINANCIAL YEAR ENDED 32ND ASADH 2063 (16TH JULY 2006)

Your Directors are pleased to submit their Report and Audited Accounts of your Company for the year ended 32nd Asadh 2063 (16th July 2006).

### SOCIO ECONOMIC ENVIRONMENT:

The operating environment during the year under review has been very difficult. The ongoing insurgency and socio-political turmoil reached its peak on 6th April 2006 when the country came to a complete standstill following a 21-day general strike.

The disturbances have led to depressed trading conditions, extortion threats to Company staff and its trading partners, thereby impacting employee morale & business.

Armed insurgents linked to the trade union abducted three employees of the Company, which was followed by a 15-day closure of the factory, in February, 2006. The employees were released unharmed after a period of 15 days. A total of 36 days' production at the Cigarette Factory and 21 days' production at the Garments factory was lost during the year due to these disturbances.

Ministry of Finance, Government of Nepal has indicated that GDP grew by 2.3%, whilst inflation rose to 8%. Revenue collections of the Government grew by 4.8% against a plan of 14.7%. The economy though has been sustained through very healthy inward remittances from Nepalese nationals working abroad and marginal growth in agriculture.

### COMPANY PERFORMANCE:

Overcoming various challenges posed by the aforesaid developments your Company has turned in an impressive performance for the year ended 32nd Asadh 2063.

Overall Company GTO at NRs. 547 Crores (as compared to NRs. 473 Crores last year) has grown by 16%. Profit Before Tax for the year at NRs. 72 Crores (as compared to NRs. 57 Crores last year) reflects a growth of 27%. Profit After Tax has increased from NRs. 38 Crores to NRs. 50 Crores – an increase of 32%. Return on net worth has increased to 24% as compared to 21% last year and earnings per share have grown to NRs. 149 per share as against NRs.113 per share last year.

### CONTRIBUTION TO THE EXCHEQUER:

Your Company is justifiably proud to retain its status as the single largest contributor to the Government Exchequer, with an outgo of NRs. 261 Crores towards Excise Duty, VAT, and other annual taxes representing nearly 3.6% of the total revenue collected by the Government.

### BUSINESS SEGMENTS:

#### CIGARETTE BUSINESS

##### Brand Portfolio

The strategy of creating, communicating and capturing value has been continued. The Company launched an upward extension of Surya – **Surya Classic** in an exclusive 97mm Shoulder Box format, thereby redefining the premium end of the market. Initially launched in Kathmandu in select retail outlets, hotels, restaurants and self service stores, the brand has been extended to upcountry towns and has received good response from the market.

Other key interventions included blend rationalisation of Shikhar Filter Kings, Shikhar Lights promotions, Khukuri pack modernisation and communication roll out, and Khukuri quality assurance campaign.

##### Distribution and Supply Chain Management

Despite the various constraints enumerated under Socio Economic Environment, your Company has increased penetration and has been successful in improving its rural coverage through various initiatives in managing the distribution chain. This has led to improvements in the Company's volume and value shares.

To mitigate the impact of various strikes, curfew and blockades and to ensure continuity in supply of finished goods, inventories were increased at the factory and marketing godowns.

Despite the disruptions referred to earlier, the Company ensured uninterrupted supplies of all brands.

##### Quality

The focus on cigarette quality systems and modules enhanced further the overall quality rating scores. Quality and efficiency in filter rod manufacturing in-house continues to set new benchmarks and your Company is now self sufficient to meet its requirements across all products.

##### Energy

The Company has taken many initiatives in energy savings. Some of the major initiatives include installation of Programmable Logic Controls, Variable Frequency Drives, Energy saving lighting circuits and Maximum Demand Controllers. These initiatives are expected to yield a substantial saving on the total energy bill.

##### Environment Health and Safety

The non-conventional effluent treatment plant is operational. The factory was certified with ISO 14001:2004 Environmental Management Systems by Det Norske Veritas.

Measures were taken to substantially improve the security & safety systems, taking into account the overall operating environment.

### Leaf Tobacco

Insurgency in the tobacco growing areas has led to disruptions in the crop development programme and consequently farmers have opted for alternate crops like hemp. Hence the total acreage of plantation as envisaged was not achieved.

Despite the constraints, the focus on improving the quality and chemistry of leaf tobacco cultivated locally continues. With assistance from ITC Ltd., your Company has now moved towards creating blending blocks by chemistry, in order to maintain consistency of the final product.

### GARMENT BUSINESS – EXPORT

Your Company's garments exports business has responded to the challenges of meeting commitments both in terms of volume as well as variety.

In-house capacities were optimised and manufacture of a wider range and variety was achieved during the year. Wills Classic and Wills Sport shirts, which are more complex in terms of design and garment engineering, were manufactured for the first time. Sustained training inputs to the workforce for manufacturing quality resulted in the achievement of desired benchmarks.

Initiatives were taken to reduce input costs by sourcing fabrics directly from China. Initiatives in the area of logistics to cut down time and transportation costs also contributed to cost competitiveness.

### GARMENT BUSINESS – DOMESTIC

John Players men's wear was made available in the domestic market for the first full year and your Company has established a dominant position achieving a share of 27% in target outlets of both branded and unbranded men's wear. During the year, the supply chain was IT enabled to track inventories from sourcing to sale.

Distribution was extended to all key towns and the brand is now available in 39 key outlets across the country. Resources are focused on point of sale through visual merchandising solutions to offer a superior shopping experience to the consumer. Winter wear was introduced during the year and was well received by the consumers.

### DIVIDEND

Your Directors have declared an Interim Dividend of NRs. 70 per Ordinary share for the year ended 32nd Asadh 2063 (16th July, 2006). The consequent outflow on this account, including Dividend Tax, amounts to NRs. 24.76 Crores. No Final Dividend has been proposed.

All previous dividends have been paid within the prescribed period and there are no unclaimed dividends lying with the Company.

### CONTRIBUTION TO SOCIETY:

Your Company's corporate social responsibility programme as reported in the last year's Directors' Report could not be progressed satisfactorily due to the extraordinary disturbance prevailing across the country. These initiatives are proposed to be recommenced.

The CSR initiatives were aligned during the year to create for society sustainable value and include **Surya Nepal Asha** for community empowerment, **Surya Nepal Khelpariyatan** for promotion of sports and tourism, **Surya Nepal Prakriti** for preservation of environment and **Surya Nepal Suswasthya** for community health.

### EXCISE:

As reported last year, a demand letter for NRs. 37.17 Crores, excluding late fees and Value Added Tax, for the period 2055/56 to 2059/60 (1998/99 to 2002/03) has been issued to your Company by the Inland Revenue Office, Simra, Bara. The letter alleges that going by the total quantity of tobacco used for manufacture of cigarettes during those years, and applying the notional weight of tobacco required in the manufacture of cigarettes, theoretically more cigarettes than declared could have been manufactured and that excise duties on such excess would amount to NRs. 37.17 Crores.

In answer to the said demand, an administrative petition was filed with the Director General of Inland Revenue, in accordance with the revenue rules. However, the Director General without dealing with the issues raised by the Company, summarily dismissed the petition by an order-dated 17.1.06. The Company thereafter filed an appeal to the Revenue Tribunal, which refused to entertain the appeal in the absence of a pre-deposit of the entire sum of NRs.37.17 Crores. Immediately thereafter the Company filed a petition to the Tribunal praying that its appeal may be heard by accepting a bank guarantee for the said amount. This petition was dismissed by the Tribunal on 1.8.06. The Company is now taking steps to challenge the demand in the Supreme Court.

Your Directors wish to advise that a similar matter raised by the Excise Department for the years 2050/51 and 2051/52 (1993/94 and 1994/95) was quashed by the Supreme Court in your Company's favour.

The matter has been discussed with eminent counsel and your Company has been advised that the case made out by the Department has no legal or factual basis and the demand notice raised against your Company is not sustainable.

### RISK MANAGEMENT:

Your Company has a formal Corporate Governance Policy, as explained last year. The Policy not only lays down the structure, roles and responsibilities of the key entities in the governance process but also mandates periodic reviews of the key areas of operations. In addition your Company has amongst others robust policies and procedures covering Financial & Accounting systems and Information Technology systems.

**EMPLOYEES:**

Human Resource Development continues to be a critical focus area. Industrial relations with employees have been satisfactory. The Directors of your Company place on record their sincere appreciation for the dedication and performance of the employees during the year.

**DIRECTORS:**

Mr. S. Puri who was on secondment to your Company was recalled by ITC Limited and he stepped down as the Managing Director of your Company with effect from 5th May, 2006. Your Directors would like to place on record their appreciation for the services rendered by Mr. Puri.

Mr. H. M. Dar was seconded from ITC Limited and was appointed the Managing Director of your Company with effect from 6th May, 2006.

There were no other changes in the composition of the Board of Directors during the year.

The details of shares held in the Company as on 32nd Asadh 2063 (16th July, 2006) by your Directors is annexed to this Report (**Annexure I**). The Directors have confirmed that none of them or their close relatives have any direct involvement or any personal interest in any transaction of sale or purchase or any kind of contract or arrangement connected with the business of the

Company and no amounts are due to the Company from them.

The Board meeting fees etc. paid to the Directors, Managing Director and other Officials are also annexed to this Report (**Annexure II**).

Management expenses for the year 2062 / 63 are also annexed to this Report (**Annexure III**).

**AUDITORS:**

M/s. N Amatya & Company, Chartered Accountants, Kathmandu and M/s. Lovelock & Lewes, Chartered Accountants, Kolkata, India retire at the ensuing Annual General Meeting, and being eligible, have offered themselves for reappointment.

**FUTURE OUTLOOK:**

The current political situation in Nepal is viewed with cautious optimism. Your Company continues to endeavour that its businesses grow profitably. In addition your Company continues to explore growth opportunities and looks forward to the future with hope and confidence.

On behalf of the Board  
A Singh Y.C. Deveshwar  
Director Chairman

26th Bhadra 2063 (11th September 2006)

**Annexure I**

Sl. No.	Name of Director	Number of Ordinary Shares of NRs. 100/- each held singly and / or jointly as on 32nd Asadh 2063 (16th July 2006)
1.	Y.C. Deveshwar	Nil
2.	A. Singh	Nil
3.	B B Chatterjee	Nil
4.	P Chatterjee	Nil
5.	D B Mathema	50,400
6.	S SJB Rana	60
7.	H M Dar	Nil
8.	S. Puri	Nil

**Annexure II**

THE AMOUNT OF REMUNERATION, ALLOWANCE AND FACILITIES PAID TO DIRECTOR, MANAGING DIRECTOR, CHIEF EXECUTIVE AND OFFICIALS

During the financial year 2062/63, the following amounts were paid to the Directors.

- Board Meeting Fee paid NRs. 47,941
- Incidental expenses paid NRs. 45,000

Payment to/ on behalf of Managing Director for the financial year 2062/63:

Salary – NRs. 5,574,484  
Allowances – NRs. 3,586,848

In addition to the above, the Company also provided the following facilities to the Managing Director:

- Fully furnished accommodation with gas, electricity, water, security guard, gardener and furnishings.
- Airfares incurred for the Managing Director and his family for the purpose of Leave Travel & Reporting Trips.
- Entrance fees and annual subscription charges for two clubs.
- Personal accident insurance.
- Company car with driver and telephone at residence.

Payment to/ on behalf of officials for the financial year 2062/63:

Salary – NRs. 14,821,094  
Allowances – NRs. 6,929,796

In addition to the above, some of the officials have been provided the following facilities as per their terms of appointment:

- Accommodation with gas, electricity, water, security guard, gardener and furnishings.
- Airfares incurred for the Managers and their families for the purpose of Leave Travel & Reporting Trips.
- Entrance fees and annual subscription charges for clubs as applicable.
- Personal accident insurance.
- Company car with driver and telephone at residence.

**Annexure III**

**MANAGEMENT EXPENSES**

The management expenses for the financial year 2062/63 comprising rent; electricity; fuel & water; repair & improvement; travel & conveyance; postage; telephone; telex; fax; audit fees; legal fees; printing & stationery; entertainment; board meeting fees; donations and charity; books & periodicals; membership fees; miscellaneous expenses etc. amounted to NRs. 255,006,992.

**AUDITORS' REPORT TO THE SHAREHOLDERS OF SURYA NEPAL PRIVATE LIMITED**

We have audited the accompanying Balance Sheet of Surya Nepal Private Limited as at Asadh 32, 2063 (July 16, 2006), the related Profit and Loss Account for the year ended on that date annexed thereto and the Cash Flow Statement for the year ended on that date. These financial statements are the responsibility of the management of the Company. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with Nepal Standards on Auditing or relevant practices. Those Standards or relevant practices 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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.

We report that:

- a) We have obtained all the information and explanations which to the best of our knowledge and belief were considered necessary for the purpose of our audit;
- b) The enclosed Balance Sheet, Profit and Loss Account and the Statement of Cash Flow have been prepared as per the provisions of Companies Ordinance, 2005 and the same are in conformity with the books of account maintained by the Company;

- c) The books and records of the Company have been maintained accurately as required by law;
- d) In our opinion and to the best of our information and according to the explanations given to us the enclosed financial statements read with the notes attached thereto, in accordance with Nepal Accounting Standards or relevant practices, give a true and fair view of:
  - i) in the case of Balance Sheet, the state of affairs of the Company as on Asadh 32, 2063 (July 16, 2006).
  - ii) in the case of Profit & Loss Account and the Statement of Cash Flow, the profit and cash flow respectively of the Company for the year ended on Asadh 32, 2063 (July 16, 2006).
- e) In our opinion and to the best of our information and according to the explanations given to us and from our examination of the books and records of the Company, carried out in accordance with the generally accepted auditing practices in Nepal, we have neither come across cases where the Board of Directors or any member thereof or any employee of the Company has acted contrary to the provisions of Law relating to the accounts or committed any misappropriation or caused loss or damage to the Company nor any fraud relating to the accounts committed in the Company.

Nem Lal Amatya	Partha Mitra
Partner	Partner
N Amatya & Co.	Lovelock & Lewes
Chartered Accountants	Chartered Accountants

Date : 26th Bhadra 2063 (11th September 2006)  
Place : Kolkata, India

BALANCE SHEET AS AT 32ND ASADH 2063 (16TH JULY 2006)

	Schedule	Figures in NRs.	Figures in Rs.	Figures in NRs.	Figures in Rs.
		As at 32nd Asadh 2063 (16th July 2006)	As at 32nd Asadh 2063 (16th July 2006)	As at 31st Asadh 2062 (15th July 2005)	As at 31st Asadh 2062 (15th July 2005)
<b>CAPITAL &amp; LIABILITIES</b>					
<b>SHARE CAPITAL AND RESERVES</b>					
(a) Share Capital	1	33,60,00,000	21,00,00,000	33,60,00,000	21,00,00,000
(b) Reserves & Surplus	2	1,76,93,88,601	1,10,58,67,876	1,47,31,08,836	92,06,93,023
<b>Total</b>		<u>2,10,53,88,601</u>	<u>1,31,58,67,876</u>	<u>1,80,91,08,836</u>	<u>1,13,06,93,023</u>
<b>ASSETS</b>					
(1) Fixed Assets	3				
(a) Gross Block		1,88,31,73,744	1,17,69,83,590	1,81,12,44,593	1,13,20,27,871
(b) Less : Accumulated Depreciation		<u>90,22,52,871</u>	<u>56,39,08,044</u>	<u>78,99,79,141</u>	<u>49,37,36,963</u>
(c) Net Block		98,09,20,873	61,30,75,546	1,02,12,65,452	63,82,90,908
(d) Capital Work-in-Progress and In-transit		15,25,894	9,53,684	83,63,373	52,27,108
(2) Investments	4	8,42,50,000	5,26,56,250	8,42,50,000	5,26,56,250
(3) Current Assets					
(a) Inventories	5	69,00,62,235	43,12,88,897	65,75,11,284	41,09,44,553
(b) Sundry Debtors	6	3,90,33,300	2,43,95,813	1,98,49,259	1,24,05,787
(c) Cash and Bank Balances	7	72,57,77,560	45,36,10,975	18,94,27,186	11,83,91,991
(d) Loans and Advances	8	30,32,04,620	18,95,02,887	32,10,36,843	20,06,48,027
<b>Total</b>		<u>1,75,80,77,715</u>	<u>1,09,87,98,572</u>	<u>1,18,78,24,572</u>	<u>74,23,90,358</u>
Less: Current Liabilities and Provisions					
(a) Liabilities	9	38,20,02,522	23,87,51,576	30,55,89,703	19,09,93,565
(b) Provisions	10	33,73,83,359	21,08,64,600	18,70,04,858	11,68,78,036
<b>Total</b>		<u>71,93,85,881</u>	<u>44,96,16,176</u>	<u>49,25,94,561</u>	<u>30,78,71,601</u>
Net Current Assets		<u>1,03,86,91,834</u>	<u>64,91,82,396</u>	<u>69,52,30,011</u>	<u>43,45,18,757</u>
<b>Total</b>		<u>2,10,53,88,601</u>	<u>1,31,58,67,876</u>	<u>1,80,91,08,836</u>	<u>1,13,06,93,023</u>

Notes to the Accounts and Contingent Liabilities 16

The schedules referred to above form an integral part of the Balance Sheet.

This is the Balance Sheet referred to in our Report of even date.

A R Banerjee  
Vice President Finance

H M Dar  
Managing Director

S SJB Rana  
Director

A Singh  
Director

Y C Deveshwar  
Chairman

D B Mathema  
Director

P Chatterjee  
Director

B B Chatterjee  
Director

Nem Lal Amatya  
Partner  
N. Amatya & Co.  
Chartered Accountants

Partha Mitra  
Partner  
Lovelock & Lewes  
Chartered Accountants

Date : 26th Bhadra 2063 (11th September 2006)

**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 32ND ASADH 2063 (16TH JULY 2006)**

		Figures in NRs.	Figures in Rs.	Figures in NRs.	Figures in Rs.
	Schedule	For the year ended 32nd Asadh 2063 (16th July 2006)	For the year ended 32nd Asadh 2063 (16th July 2006)	For the year ended 31st Asadh 2062 (15th July 2005)	For the year ended 31st Asadh 2062 (15th July 2005)
Gross Revenue	11	5,47,27,02,236	3,42,04,38,898	4,72,68,64,743	2,95,42,90,464
Less: Excise Duty/Value Added Tax	12	2,39,04,63,470	1,49,40,39,669	2,16,35,33,879	1,35,22,08,674
Net Sales		<u>3,08,22,38,766</u>	<u>1,92,63,99,229</u>	<u>2,56,33,30,864</u>	<u>1,60,20,81,790</u>
Raw Materials Consumed etc.	13	1,42,69,79,820	89,18,62,388	1,20,95,16,827	75,59,48,017
Cost of Sales		<u>1,42,69,79,820</u>	<u>89,18,62,388</u>	<u>1,20,95,16,827</u>	<u>75,59,48,017</u>
Gross Profit		1,65,52,58,946	1,03,45,36,841	1,35,38,14,037	84,61,33,773
Other Income	14	2,98,14,001	1,86,33,751	2,18,33,989	1,36,46,244
Total		<u>1,68,50,72,947</u>	<u>1,05,31,70,592</u>	<u>1,37,56,48,026</u>	<u>85,97,80,017</u>
Manufacturing, Admin, Selling Expenses etc.	15	69,66,41,844	43,54,01,153	59,04,49,941	36,90,31,213
Provision For Employees' Housing		4,19,48,746	2,62,17,966	3,29,84,282	2,06,15,176
Provision For Employees' Bonus		7,24,56,925	4,52,85,578	5,69,72,852	3,56,08,033
Operating Profit		<u>87,40,25,432</u>	<u>54,62,65,895</u>	<u>69,52,40,951</u>	<u>43,45,25,595</u>
Interest		1,94,806	1,21,753	8,58,614	5,36,634
Depreciation		12,73,42,602	7,95,89,126	11,61,44,888	7,25,90,555
Loss on Fixed Assets sold / discarded (Net)		2,19,18,780	1,36,99,238	85,08,934	53,18,084
Profit before Income Tax		<u>72,45,69,244</u>	<u>45,28,55,778</u>	<u>56,97,28,515</u>	<u>35,60,80,322</u>
Provision for Income Tax		22,26,59,278	13,91,62,049	18,84,78,349	11,77,98,968
Profit after Income Tax		<u>50,19,09,966</u>	<u>31,36,93,729</u>	<u>38,12,50,166</u>	<u>23,82,81,354</u>
Available for Appropriation		<u>50,19,09,966</u>	<u>31,36,93,729</u>	<u>38,12,50,166</u>	<u>23,82,81,354</u>
Appropriation					
Interim Dividend {Refer 2(i) of Schedule 16}		24,75,78,947	15,47,36,842	12,37,89,474	7,73,68,421
Balance Carried Over to Balance Sheet		<u>25,43,31,019</u>	<u>15,89,56,887</u>	<u>25,74,60,692</u>	<u>16,09,12,933</u>
		<u>50,19,09,966</u>	<u>31,36,93,729</u>	<u>38,12,50,166</u>	<u>23,82,81,354</u>

**Notes to the Accounts and Contingent Liabilities** 16

The schedules referred to above form an integral part of the Profit & Loss Account.

This is the Profit & Loss Account referred to in our Report of even date.

A R Banerjee  
Vice President Finance

H M Dar  
Managing Director

S SJB Rana  
Director

A Singh  
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Y C Deveshwar  
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D B Mathema  
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B B Chatterjee  
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Nem Lal Amatya  
Partner  
N. Amatya & Co.  
Chartered Accountants

Partha Mitra  
Partner  
Lovelock & Lewes  
Chartered Accountants

Date : 26th Bhadra 2063 (11th September 2006)

**CASH FLOW STATEMENT FOR THE YEAR ENDED 32ND ASADH 2063 (16TH JULY 2006)**

	Figures in NRs. For the year ended 32nd Asadh 2063 (16th July 2006)	Figures in Rs. For the year ended 32nd Asadh 2063 (16th July 2006)	Figures in NRs. For the year ended 31st Asadh 2062 (15th July 2005)	Figures in Rs. For the year ended 31st Asadh 2062 (15th July 2005)
<b>A. Cash Flow From Operating Activities</b>				
Net Profit Before Tax	72,45,69,244	45,28,55,778	56,97,28,515	35,60,80,322
<b>Adjustments for :</b>				
Depreciation	12,73,42,602	7,95,89,126	11,61,44,888	7,25,90,555
Interest	1,94,806	1,21,754	8,58,614	5,36,634
Interest from Investments	(42,12,500)	(26,32,813)	(42,47,604)	(26,54,753)
Interest on Short Term/Call Deposits	(93,16,742)	(58,22,964)	(24,95,782)	(15,59,864)
Unrealised Loss/(Gain) on Foreign Exchange (Net)	(2,00,224)	(1,25,140)	2,26,062	1,41,289
Provision for Employees' Housing	4,19,48,746	2,62,17,966	3,29,84,282	2,06,15,176
Loss on Fixed Assets sold / discarded (Net)	2,19,18,780	1,36,99,238	85,08,934	53,18,084
Amortisation of Deferred Revenue Expenditure	—	—	2,40,000	1,50,000
Claims and Advance written off	1,46,498	91,561	—	—
Provision for Doubtful Advance	2,72,695	1,70,435	74,446	46,529
Provision for Usuable Inventories	—	—	56,71,622	35,44,764
<b>Operating Profit Before Working Capital Changes</b>	<u>90,26,63,905</u>	<u>56,41,64,941</u>	<u>72,76,93,977</u>	<u>45,48,08,736</u>
<b>Adjustments for :</b>				
Trade and Other Receivables	(16,22,842)	(10,14,277)	(13,68,19,808)	(8,55,12,380)
Inventories	(3,25,50,951)	(2,03,44,344)	(9,06,35,937)	(5,66,47,461)
Trade Payables	9,40,20,948	5,87,63,093	6,64,68,307	4,15,42,692
<b>Cash Generated From Operation</b>	<u>96,25,11,060</u>	<u>60,15,69,413</u>	<u>56,67,06,539</u>	<u>35,41,91,587</u>
Income Tax Paid	(21,36,78,379)	(13,35,48,987)	(21,29,79,700)	(13,31,12,313)
<b>Net Cash From Operating Activities (A)</b>	<u>74,88,32,681</u>	<u>46,80,20,426</u>	<u>35,37,26,839</u>	<u>22,10,79,274</u>
<b>B. Cash Flow From Investing Activities</b>				
Purchase of Long Term Investments	—	—	—	—
Purchase of Fixed Assets	(10,20,93,924)	(6,38,08,703)	(23,49,49,754)	(14,68,43,596)
Proceeds from disposal of Fixed Assets	14,600	9,125	10,60,516	6,62,823
Interest Received	1,33,81,073	83,63,171	67,43,386	42,14,616
<b>Net Cash Used in Investing Activities (B)</b>	<u>(8,86,98,251)</u>	<u>(5,54,36,407)</u>	<u>(22,71,45,852)</u>	<u>(14,19,66,157)</u>
<b>C. Cash Flow From Financing Activities</b>				
Interest Paid	(1,94,806)	(1,21,754)	(8,58,614)	(5,36,634)
Dividends Paid	(12,37,89,474)	(7,73,68,421)	(10,61,05,263)	(6,63,15,789)
<b>Net Cash Used in Financing Activities (C)</b>	<u>(12,39,84,280)</u>	<u>(7,74,90,175)</u>	<u>(10,69,63,877)</u>	<u>(6,68,52,423)</u>
<b>Net Increase/(Decrease) in Cash &amp; Cash Equivalents (A+B+C)</b>	53,61,50,150	33,50,93,844	1,96,17,110	1,22,60,694
<b>Cash and Cash Equivalents (Opening balance)</b>	<u>18,94,27,186</u>	<u>11,83,91,991</u>	<u>17,00,36,138</u>	<u>10,62,72,586</u>
<b>Cash and Cash Equivalents (Closing balance)</b>	<u>72,55,77,336</u>	<u>45,34,85,835</u>	<u>18,96,53,248</u>	<u>11,85,33,280</u>
<b>Cash and Cash Equivalents Comprises:</b>				
Cash and Bank Balances	72,57,77,560	45,36,10,975	18,94,27,186	11,83,91,991
Unrealised Loss/(Gain) on Foreign Currency Cash and Cash Equivalents	(2,00,224)	(1,25,140)	2,26,062	1,41,289
<b>Total</b>	<u>72,55,77,336</u>	<u>45,34,85,835</u>	<u>18,96,53,248</u>	<u>11,85,33,280</u>

A R Banerjee  
Vice President Finance

H M Dar  
Managing Director

S SJB Rana  
Director

A Singh  
Director

Y C Deveshwar  
Chairman

D B Mathema  
Director

P Chatterjee  
Director

B B Chatterjee  
Director

Nem Lal Amatya  
Partner  
N. Amatya & Co.  
Chartered Accountants

Partha Mitra  
Partner  
Lovelock & Lewes  
Chartered Accountants

Date : 26th Bhadra 2063 (11th September 2006)

STATEMENT OF CHANGE IN EQUITY FOR THE YEAR ENDED 32ND ASADH 2063 (16TH JULY 2006)

	Figures in NRs. Share Capital	Figures in Rs. Share Capital	Figures in NRs. Revaluation Reserve	Figures in Rs. Revaluation Reserve	Figures in NRs. General Reserve	Figures in Rs. General Reserve	Figures in NRs. Total	Figures in Rs. Total
<b>Balance as at 1st Shrawan 2062 (16th July 2005)</b>	33,60,00,000	21,00,00,000	1,21,81,280	76,13,300	1,46,09,27,556	91,30,79,723	1,80,91,08,836	1,13,06,93,023
Housing Fund transferred to General Reserve	—	—	—	—	4,19,48,746	2,62,17,966	4,19,48,746	2,62,17,966
Net Profit for the year	—	—	—	—	50,19,09,966	31,36,93,729	50,19,09,966	31,36,93,729
Dividend	—	—	—	—	(24,75,78,947)	(15,47,36,842)	(24,75,78,947)	(15,47,36,842)
<b>Total</b>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>29,62,79,765</u>	<u>18,51,74,853</u>	<u>29,62,79,765</u>	<u>18,51,74,853</u>
<b>Balance as at 32nd Asadh 2063 (16th July 2006)</b>	<u>33,60,00,000</u>	<u>21,00,00,000</u>	<u>1,21,81,280</u>	<u>76,13,300</u>	<u>1,75,72,07,321</u>	<u>1,09,82,54,576</u>	<u>2,10,53,88,601</u>	<u>1,31,58,67,876</u>

SCHEDULES TO THE ACCOUNTS

	Figures in NRs. As at 32nd Asadh 2063 (16th July 2006)	Figures in Rs. As at 32nd Asadh 2063 (16th July 2006)	Figures in NRs. As at 31st Asadh 2062 (15th July 2005)	Figures in Rs. As at 31st Asadh 2062 (15th July 2005)
<b>SCHEDULE 1 : SHARE CAPITAL</b>				
<b>Authorised</b>				
1,00,00,000 Ordinary Shares of NRs. 100.00 each	<u>1,00,00,00,000</u>	<u>62,50,00,000</u>	<u>1,00,00,00,000</u>	<u>62,50,00,000</u>
<b>Issued, Subscribed &amp; Paid up</b>				
33,60,000 Ordinary Shares of NRs.100.00 each, fully paid	<u>33,60,00,000</u>	<u>21,00,00,000</u>	<u>33,60,00,000</u>	<u>21,00,00,000</u>
	<u>33,60,00,000</u>	<u>21,00,00,000</u>	<u>33,60,00,000</u>	<u>21,00,00,000</u>

Out of the above;

- 2,80,000 Ordinary Shares were issued as fully paid up bonus shares in 2052/53 (1995/96).
- 28,00,000 Ordinary Shares were issued as fully paid up bonus shares in 2060/61 (2003/04).
- 19,82,400 Ordinary Shares are held by the Holding Company, ITC Limited.

	NRs. As at 31st Asadh 2062 (15th July 2005)	Rs. As at 31st Asadh 2062 (15th July 2005)	NRs. Addition	Rs. Addition	NRs. Withdrawal	Rs. Withdrawal	NRs. As at 32nd Asadh 2063 (16th July 2006)	Rs. As at 32nd Asadh 2063 (16th July 2006)
<b>SCHEDULE 2 : RESERVES &amp; SURPLUS</b>								
<b>Capital Reserve</b>								
Revaluation of Land	1,21,81,280	76,13,300	—	—	—	—	1,21,81,280	76,13,300
<b>Revenue Reserve</b>								
General Reserve	1,46,09,27,556	91,30,79,723	29,62,79,765	18,51,74,853	—	—	1,75,72,07,321	1,09,82,54,576
<b>Surplus</b>								
Profit & Loss Account	—	—	25,43,31,019	15,89,56,887	25,43,31,019	15,89,56,887	—	—
<b>Others</b>								
Housing Fund**	—	—	4,19,48,746	2,62,17,966	4,19,48,746	2,62,17,966	—	—
	<u>1,47,31,08,836</u>	<u>92,06,93,023</u>	<u>59,25,59,530</u>	<u>37,03,49,706</u>	<u>29,62,79,765</u>	<u>18,51,74,853</u>	<u>1,76,93,88,601</u>	<u>1,10,58,67,876</u>

\*\*Housing Fund Utilisation:

Opening Balance	(9,85,28,756)	(6,15,80,473)
Provided during the year	4,19,48,746	2,62,17,966
	<u>(5,65,80,010)</u>	<u>(3,53,62,507)</u>
Utilisation during the year	—	—
Closing Balance (excess expenditure to be adjusted in future years)	<u>(5,65,80,010)</u>	<u>(3,53,62,507)</u>



**SCHEDULES TO THE ACCOUNTS (Contd.)**

	Figures in NRs. As at 32nd Asadh 2063 (16th July 2006)	Figures in Rs. As at 32nd Asadh 2063 (16th July 2006)	Figures in NRs. As at 31st Asadh 2062 (15th July 2005)	Figures in Rs. As at 31st Asadh 2062 (15th July 2005)
<b>SCHEDULE 4 : INVESTMENTS – LONG TERM</b>				
Investments in 5% Bikash Rinpatra 2071 issued by Government of Nepal	<u>8,42,50,000</u>	<u>5,26,56,250</u>	<u>8,42,50,000</u>	<u>5,26,56,250</u>
	<u>8,42,50,000</u>	<u>5,26,56,250</u>	<u>8,42,50,000</u>	<u>5,26,56,250</u>
<b>SCHEDULE 5 : INVENTORIES</b>				
Stores & Supplies (including in-transit) Stock	4,39,36,499	2,74,60,312	4,84,55,196	3,02,84,498
Raw Materials (including in-transit)	27,77,50,701	17,35,94,188	19,68,27,716	12,30,17,323
Stock-In-Process	6,35,76,196	3,97,35,123	4,46,88,352	2,79,30,220
Finished Goods				
At Cost	27,54,87,400	17,21,79,625	36,37,73,084	22,73,58,178
At Net Realisable Value	<u>2,93,11,439</u>	<u>1,83,19,649</u>	<u>37,66,936</u>	<u>23,54,334</u>
	<u>69,00,62,235</u>	<u>43,12,88,897</u>	<u>65,75,11,284</u>	<u>41,09,44,553</u>
<b>SCHEDULE 6 : SUNDRY DEBTORS</b>				
(Receivable within twelve months unless otherwise stated)				
Due for more than six months - Considered good				
Unsecured	22,79,246	14,24,529	—	—
Due for less than six months - Considered good				
Secured	6,00,000	3,75,000	3,00,000	1,87,500
Unsecured				
From Holding Company	1,20,78,814	75,49,259	50,91,945	31,82,466
From Others	<u>2,40,75,240</u>	<u>1,50,47,025</u>	<u>1,44,57,314</u>	<u>90,35,821</u>
	<u>3,90,33,300</u>	<u>2,43,95,813</u>	<u>1,98,49,259</u>	<u>1,24,05,787</u>
<b>SCHEDULE 7 : CASH AND BANK BALANCES</b>				
Cash & Cheques on Hand	44,59,444	27,87,153	7,68,530	4,80,331
Cash at Bank				
Current Account	13,72,79,561	8,57,99,726	4,59,03,064	2,86,89,415
Savings Account (Provident Fund)	2,76,442	1,72,776	43,461	27,163
Short Term - Call Deposits	<u>58,37,62,113</u>	<u>36,48,51,320</u>	<u>14,27,12,131</u>	<u>8,91,95,082</u>
	<u>72,57,77,560</u>	<u>45,36,10,975</u>	<u>18,94,27,186</u>	<u>11,83,91,991</u>
<b>SCHEDULE 8 : LOANS &amp; ADVANCES</b>				
(Recoverable within twelve months unless otherwise stated)				
Receivables from Holding Company (Net)	21,75,65,488	13,59,78,430	25,17,79,532	15,73,62,208
Advance to Employees	4,60,19,946	2,87,62,466	2,67,97,287	1,67,48,304
[Includes NRs. 3,99,29,085 (2061-62 — NRs. 2,17,10,105) recoverable after twelve months]				
Margin Money Deposit	10,08,942	6,30,589	8,41,511	5,25,944
Advance to Others	1,85,43,640	1,15,89,775	2,26,20,658	1,41,37,911
Prepaid Expenses	59,65,549	37,28,468	58,22,758	36,39,224
Accrued Interest Receivable	2,40,498	1,50,311	92,329	57,706
Claims Receivable	67,342	42,089	1,06,698	66,686
Deposits: With Government Authorities	50,18,865	31,36,791	39,84,262	24,90,164
With Others	<u>99,34,554</u>	<u>62,09,096</u>	<u>99,53,763</u>	<u>62,21,102</u>
	<u>30,43,64,824</u>	<u>19,02,28,015</u>	<u>32,19,98,798</u>	<u>20,12,49,249</u>
Less: Provision for Doubtful Advance	<u>11,60,204</u>	<u>7,25,128</u>	<u>9,61,955</u>	<u>6,01,222</u>
	<u>30,32,04,620</u>	<u>18,95,02,887</u>	<u>32,10,36,843</u>	<u>20,06,48,027</u>
<b>SCHEDULE 9 : CURRENT LIABILITIES</b>				
(Payable within twelve months unless otherwise stated)				
Retention Money	33,78,420	21,11,513	23,55,321	14,72,076
Sundry Creditors	24,07,92,571	15,04,95,357	14,77,04,486	9,23,15,304
Advances From Wholesale Dealers	12,90,76,126	8,06,72,579	14,21,74,724	8,88,59,203
Deposits From Wholesale Dealers	32,50,000	20,31,250	30,50,000	19,06,250
Other Liabilities	<u>55,05,405</u>	<u>34,40,877</u>	<u>1,03,05,172</u>	<u>64,40,732</u>
	<u>38,20,02,522</u>	<u>23,87,51,576</u>	<u>30,55,89,703</u>	<u>19,09,93,565</u>
<b>SCHEDULE 10 : PROVISIONS</b>				
Provision for Income Tax	3,78,58,883	2,36,61,802	2,88,77,984	1,80,48,740
{Net of payment of Income Tax Advance/Deposits amounting to NRs. 28,14,17,047 (2061-62 NRs. 23,91,47,584)}				
Provision for Gratuity and Leave Encashment	5,19,45,529	3,24,65,956	3,43,37,400	2,14,60,875
Provision for Interim Dividend	<u>24,75,78,947</u>	<u>15,47,36,842</u>	<u>12,37,89,474</u>	<u>7,73,68,421</u>
	<u>33,73,83,359</u>	<u>21,08,64,600</u>	<u>18,70,04,858</u>	<u>11,68,78,036</u>

SCHEDULES TO THE ACCOUNTS (Contd.)

	Figures in NRs. For the year ended 32nd Asadh 2063 (16th July 2006)	Figures in Rs. For the year ended 32nd Asadh 2063 (16th July 2006)	Figures in NRs. For the year ended 31st Asadh 2062 (15th July 2005)	Figures in Rs. For the year ended 31st Asadh 2062 (15th July 2005)
<b>SCHEDULE 11 : GROSS REVENUE</b>				
Domestic :				
Cigarette	4,99,36,52,553	3,12,10,32,846	4,42,68,30,666	2,76,67,69,166
Garments	3,90,50,093	2,44,06,308	2,31,08,343	1,44,42,714
Others	—	—	2,07,021	1,29,388
Exports :				
Garments	43,99,99,590	27,49,99,744	27,67,18,713	17,29,49,196
	<u>5,47,27,02,236</u>	<u>3,42,04,38,898</u>	<u>4,72,68,64,743</u>	<u>2,95,42,90,464</u>
<b>SCHEDULE 12 : DUTIES</b>				
Excise Duty	1,81,14,79,979	1,13,21,74,987	1,71,19,68,186	1,06,99,80,116
Value Added Tax	57,89,83,491	36,18,64,682	45,15,65,693	28,22,28,558
	<u>2,39,04,63,470</u>	<u>1,49,40,39,669</u>	<u>2,16,35,33,879</u>	<u>1,35,22,08,674</u>
<b>SCHEDULE 13 : RAW MATERIALS CONSUMED ETC.</b>				
Leaf	54,24,08,481	33,90,05,301	51,80,63,177	32,37,89,486
Casing Materials	1,11,91,747	69,94,842	1,04,30,308	65,18,943
Wrapping Materials	49,34,86,714	30,84,29,196	44,99,14,822	28,11,96,764
Purchase of Goods	82,12,478	51,32,799	73,40,512	45,87,820
Fabrics, Contract Manufacturing Charges etc.	37,53,68,062	23,46,05,038	23,47,17,024	14,66,98,139
	<u>1,43,06,67,482</u>	<u>89,41,67,176</u>	<u>1,22,04,65,843</u>	<u>76,27,91,152</u>
Adjustment of overheads loaded etc. on Finished Goods				
Opening	2,36,51,961	1,47,82,476	1,27,02,945	79,39,341
Closing	(2,73,39,623)	(1,70,87,264)	(2,36,51,961)	(1,47,82,476)
	<u>1,42,69,79,820</u>	<u>89,18,62,388</u>	<u>1,20,95,16,827</u>	<u>75,59,48,017</u>
<b>SCHEDULE 14 : OTHER INCOME</b>				
Interest Received	22,27,819	13,92,387	46,35,173	28,96,983
Less: Interest paid on Trading Debts	12,96,907	8,10,567	8,39,107	5,24,442
	<u>9,30,912</u>	<u>5,81,820</u>	<u>37,96,066</u>	<u>23,72,541</u>
Interest on Short Term/Call Deposit	93,16,742	58,22,964	24,95,782	15,59,864
Gain on Foreign Exchange (Net)	2,00,224	1,25,140	—	—
Interest from Investments	42,12,500	26,32,813	42,47,604	26,54,753
Miscellaneous Income	1,51,53,623	94,71,014	1,12,94,537	70,59,086
	<u>2,98,14,001</u>	<u>1,86,33,751</u>	<u>2,18,33,989</u>	<u>1,36,46,244</u>
<b>SCHEDULE 15 :</b>				
<b>MANUFACTURING, ADMIN, SELLING EXPENSES ETC.</b>				
Salaries, Wages and Allowances {Refer 2(v)(a) of Schedule 16}	16,08,51,048	10,05,31,905	12,60,45,300	7,87,78,313
Contribution to Provident Fund	52,91,014	33,06,884	45,17,326	28,23,329
Labour & Staff Welfare	1,06,82,200	66,76,375	1,05,79,957	66,12,473
Uniform	9,33,429	5,83,393	16,60,087	10,37,554
Rent	3,03,71,685	1,89,82,303	2,67,96,910	1,67,48,069
Electricity Fuel & Water	4,80,59,544	3,00,37,215	4,29,95,857	2,68,72,411
Rates & Taxes	28,07,676	17,54,798	1,18,19,755	73,87,347
Insurance Premium	1,97,06,597	1,23,16,623	2,05,18,121	1,28,23,826
Repairs & Improvement - Depreciable Assets	6,41,04,899	4,00,65,562	7,22,34,080	4,51,46,300
Safety and Pollution Control Cost	27,24,065	17,02,541	32,06,916	20,04,323
Maintenance to Other Properties	1,14,51,323	71,57,077	88,37,633	55,23,521
Consumable Stores & Spares	1,15,18,629	71,99,143	78,41,404	49,00,878
Freight	2,43,90,968	1,52,44,355	2,37,07,178	1,48,16,986
Product Development	85,94,419	53,71,512	1,92,88,538	1,20,55,336
Advertising	11,95,52,421	7,47,20,263	8,10,15,128	5,06,34,455
Travel & Conveyance	2,99,34,938	1,87,09,336	2,52,25,207	1,57,65,754
Training & Recruitment Expenses	49,17,596	30,73,498	57,87,701	36,17,313
Postage, Telephone, Telex, Fax etc.	66,52,880	41,58,050	79,55,278	49,72,049
Bank Charges and Commission	27,83,590	17,39,744	26,78,932	16,74,333
Audit Fees	3,60,000	2,25,000	3,08,000	1,92,500
Legal Fees	7,90,853	4,94,283	2,85,570	1,78,481
Printing & Stationery	23,47,766	14,67,354	24,97,689	15,61,056
Consultancy Service Charges & Other Fees	2,01,72,129	1,26,07,581	1,94,73,926	1,21,71,204
Entertainment	32,59,414	20,37,134	13,81,376	8,63,360
Sales promotion	7,32,32,744	4,57,70,465	4,95,82,319	3,09,88,949
Damaged & Destroyed Cigarettes	25,157	15,723	5,89,024	3,68,140
Board Meeting Fees	47,941	29,963	47,059	29,412
Donations & Charity	16,97,196	10,60,748	12,80,050	8,00,031
Books & Periodicals	3,37,037	2,10,648	5,52,784	3,45,490
Membership Fee	7,04,437	4,40,273	5,78,799	3,61,749
Claims and Advance Written off (Net of provision write back of Rs. 74,446)	1,46,498	91,561	—	—
Provision for Doubtful Advances	2,72,695	1,70,434	74,446	46,529
Provision for Unusable Inventories	—	—	56,71,622	35,44,763
Provision for Retirement Benefits	2,01,61,597	1,26,00,998	—	—
Loss on Foreign Exchange (Net)	—	—	2,26,774	1,41,733
Amortisation of Deferred Revenue Expenditure	—	—	2,40,000	1,50,000
Miscellaneous Expenses {Refer 2(v)(b) of Schedule 16}	77,57,459	48,48,411	49,49,195	30,93,246
	<u>69,66,41,844</u>	<u>43,54,01,153</u>	<u>59,04,49,941</u>	<u>36,90,31,213</u>

## SCHEDULES TO THE ACCOUNTS (Contd.)

## SCHEDULE 16 - NOTES TO THE ACCOUNTS

## 1. Significant Accounting Policies

## i) Convention

These financial statements have been prepared in accordance with applicable Accounting Standards in Nepal and generally accepted accounting principles. A summary of significant accounting policies, which have been applied consistently, is set out below. The financial statements have also been prepared in accordance with the relevant presentational requirements of the Companies Ordinance, 2005 of Nepal.

## ii) Basis of Accounting

These financial statements have been prepared in accordance with the historical cost convention modified by revaluation of certain freehold land as detailed in (iii) below.

## iii) Fixed Assets

Fixed assets are stated at cost of acquisition inclusive of incidental expenses related to acquisition. Freehold land acquired up to 17.12.2043 (31.03.1987) was revalued and the resultant increase in the value of such land was credited to Capital Reserve.

Depreciation on fixed assets has been provided on straight line basis at the rates prescribed by the erstwhile Income Tax (First Amendment) Rules, 2039. The said rates have further been increased by 33 1/3 % as allowed by the Industrial Enterprises Act, 2049.

## iv) Inventories

Inventories are valued at cost or net realizable value whichever is lower. The cost is calculated on weighted average method. Cost comprises expenditure incurred in the normal course of business in bringing such inventories to its location and includes, where applicable, appropriate overheads based on normal level of activity.

Obsolete, slow moving and defective inventories are identified at the time of physical verification and where necessary provision is made for such inventories.

## v) Investments

Long Term Investments are valued at cost. Provision is made where there is a permanent fall in the valuation of such Investments.

## vi) Deferred Revenue Expenditure

This represents license fee and implementation cost for the ERP system, the benefits of which is expected to accrue for more than one accounting period. This is being written off in five equal installments.

## vii) Sales

Net sales are stated after deducting taxes and duties from invoiced value of goods sold.

## viii) Investment Income

Income from investments is accounted for on an accrual basis, inclusive of related tax deducted at source.

## ix) Foreign Exchange Transaction

Foreign Exchange transactions are recorded at the exchange rate prevailing at the time of transactions or where applicable at the exchange rate covered by forward contracts. Gain or loss arising on settlement is dealt with in the Profit and Loss Account, except in respect of fixed assets where exchange variance is adjusted in the carrying amount of the respective fixed asset. Unsettled transactions are translated at the exchange rate prevailing at the year end and the exchange difference, if any, arising on such transaction is accounted for in the Profit & Loss Account as exchange fluctuation, except in respect of liabilities incurred for acquiring fixed assets, in which case such differences are adjusted in the carrying amount of the respective fixed asset.

## x) Retirement Benefits

## (a) Gratuity

Liability for gratuity benefits payable to the employees is actuarially determined and provided for.

## (b) Leave Encashment and Other Retirement Benefits

Leave encashment and other retirement benefits on retirement, wherever applicable, is determined on the basis of actuarial valuation and provided in the accounts.

## (c) Provident Fund

Regular monthly contributions are made to Provident Funds, which are charged against revenue.

## xi) Bonus

Bonus is provided as per the provisions of the Bonus Act, 2030.

## xii) Employees' Housing Fund

Employees' Housing Fund is provided as per the provisions of Labour Act, 2048 and is transferred to the General Reserve to the extent utilised.

## xiii) Cash and Cash Equivalents

Cash and cash equivalents represent cash and cheques on hand and balance in bank accounts.

## xiv) Tax on Income

Tax on Income is determined and provided for based on taxable income for the year as per the provisions of the Income Tax Act, 2058.

## xv) Dividend

Dividend is provided for as proposed by the Directors, pending approval at the Annual General Meeting. Interim dividend is provided for as declared by the Board of Directors.

## 2. Notes to the Accounts

i) Company has declared an interim dividend of NRs. 70 per share (net of tax).

ii) Claims against the Company not acknowledged as debts:

a) Demands raised on account of Income Tax for various assessment years against which the Company has filed appeals with the appropriate authorities amount to NRs. 18,35,61,273 (2061-62 – NRs. 18,35,61,273) (net of provision made for the above assessment years).

b) Value Added Tax matters under dispute amount to NRs. 30,88,097 (2061-62 - NRs. 30,88,097).

iii) Excise Demand for NRs. 37,17,24,680.

A demand letter dated 12 July, 2005 for NRs. 37,17,24,680 for the period 2055/56 to 2059/60 (1998/99 to 2002/03) was issued to the Company by the Inland Revenue Office, Simra, Bara. In reply to the said demand, an administrative petition was filed with the Director General of Inland Revenue, in accordance with the revenue rules. However, the Director General without dealing with the issues raised by the Company, summarily dismissed the petition by an order-dated 17 January, 2006. The Company thereafter filed an appeal to the Revenue Tribunal, which refused to entertain the appeal in the absence of a pre-deposit of the entire sum of NRs.37.17 Crores. Immediately thereafter the Company filed a petition to the Tribunal praying that its appeal may be heard by accepting a bank guarantee for the said amount. This petition was dismissed by the Tribunal on 1 August, 2006. The Company is now taking steps to challenge the demand in the Supreme Court. The Company considers that the demand has no legal or factual basis. This position is re-inforced by opinion received from eminent counsel. Accordingly, the Company is of the view that there is no liability that is likely to arise.

iv) Estimated amount of contracts remaining to be executed on capital account NRs. 3,63,03,607 (2061-62 - NRs. 3,20,49,988).

v) a) Salaries, Wages and Allowances include payment to Managing Director NRs. 55,74,484 (2061-62 – NRs. 38,16,000). Out of the above, payment to the current Managing Director amounting to NRs. 13,13,032 is pending approval of the shareholders at the AGM.

b) Miscellaneous Expenses include reimbursement of expenses to statutory auditors amounting to NRs. 1,53,947 (2061-62 – NRs. 1,61,811).

vi) The Company's entire present and future fixed and current assets (except land at Biratnagar, land for Housing Colony at Simra and portion of land at Kathmandu) have been secured by way of mortgage, hypothecation and assigned with the banks for obtaining credit facilities on pari-passu basis. However, there is no balance outstanding as at the year-end and the Company is in the process of releasing the mortgage / hypothecation from the banks.

vii) Figures in the financial statements are rounded off to the nearest rupee.

viii) Previous year's figures have been regrouped and/or rearranged wherever necessary.

A R Banerjee  
Vice President Finance

H M Dar  
Managing Director

S SJB Rana  
Director

A Singh  
Director

Y C Deveshwar  
Chairman

D B Mathema  
Director

P Chatterjee  
Director

B B Chatterjee  
Director

Nem Lal Amatya  
Partner  
N. Amatya & Co.  
Chartered Accountants

Partha Mitra  
Partner  
Lovellock & Lewes  
Chartered Accountants

Date : 26th Bhadra 2063 (11th September 2006)