

REPORT OF THE DIRECTORS FOR THE FINANCIAL YEAR ENDED 32ND ASADH 2064 (16TH JULY 2007)

Your Directors are pleased to submit their Report and Audited Accounts of your Company for the year ended 32nd Ashad 2064 (16th July 2007).

SOCIO-ECONOMIC ENVIRONMENT

The year under review has been one of cautious optimism with the socio-political scenario in the country showing signs of improvement. Whilst the interim constitution has been adopted, political disturbances continue in the run up to the constituent assembly elections, which are scheduled for 22nd November 2007. The Terai region in particular has remained extremely disturbed with incidents of violence and frequent bandhs called by Madhesi and Janjati groups. These disturbances resulted in numerous supply chain disruptions as well as loss of 8 days of production at the Cigarette Factory and 13 days of production at the Garment Factory during the year.

During the month of November 2006, 17 Managers of your Company were prevented from leaving the Simra Factory premises for a period of 34 hours by the trade union alongwith other trade unions federations. The managers were released unharmed upon the intervention of the Nepal Government and mediation by the district administration and civil society members.

The disturbed socio-political environment reflected in a lower GDP growth of 2.3% for the year ended 32nd Ashad 2064 against 3.14% in the previous year. It is expected that during the current financial year the rate of GDP growth will improve.

COMPANY PERFORMANCE

Your Company's proactive supply chain and inventory management, commitment to delivering superior value to consumers and focus on productivity resulted in improved market standing. Your Company has turned in impressive performance for the year ended 32nd Ashad 2064.

Overall Gross Turnover at NRs. 663 Crores (as compared to NRs. 547 Crores last year) has grown by 21%. Profit Before Tax for the year at NRs. 112 Crores (as against NRs. 72 Crores last year) reflects a growth of 55%, while Profit After Tax has increased from NRs.50 Crores to NRs. 75 Crores - an increase of 50%. Return on net worth has increased to 30% as compared to 24% last year and earnings per share has grown to NRs. 224 as against NRs. 149 last year.

CONTRIBUTION TO THE EXCHEQUER

Your Company is justifiably proud to retain its status as the single largest contributor to the Government Exchequer. The outgo of NRs. 318 Crores towards Excise Duty, VAT, Income Tax and other taxes represents nearly 3.7% of the total revenue collected by the Government.

BUSINESS SEGMENTS

CIGARETTE BUSINESS

Brand Portfolio

The Brand portfolio was strengthened through continuous innovation and your Company's competitive position was enhanced. Surya Classic in an exclusive 97mm shoulder box format was launched in eight upcountry towns during the year. The brand has been well accepted in the market. Khukuri Filter in a new pack, Shikhar Menthol in a Hinge Lid pack and Shikhar Special Filter - a Premium RSFT, alongwith Bijuli Filter - a RSFT, were also launched during the year.

Distribution and Supply Chain Management

Your Company continued its focus on ensuring uninterrupted supplies to the trade and consumers. To mitigate the impact of strikes, blockades and curfew, inventories were increased at the factory and regional godowns.

Quality

Rigorous practice of quality systems and modules and adoption of mechanised tobacco handling systems enhanced overall quality standards.

Energy

Your Company has undertaken several initiatives in energy savings over the last two years. These initiatives have resulted in saving of 7% on energy cost per unit of production which is expected to improve further.

Environment Health and Safety

The Simra factory was accredited with SA 8000:2001 (Social Accountability Certificate) based on an audit conducted by Netherlands based DNV. Utmost care and precautions are taken on an ongoing basis through a systems led approach to ensure safety of all employees.

Leaf Tobacco

Crop development programmes have suffered on account of disturbed operating conditions and many farmers have opted for alternate crops. As a result the total acreage of tobacco plantation as envisaged could not be achieved.

Process related knowledge on Vermi-composting is imparted to farmers in all leaf growing areas to convert biodegradable waste into good quality compost, towards improving crop quality.

GARMENT BUSINESS - EXPORT

Garment Exports during the year increased by more than 15%. Your Company continues to receive substantial orders from its holding company, ITC Limited, for the John Players and Wills range of apparel. Your Company has been performing well in meeting increased volume and variety needs of this business.

The continued imposition of Additional Customs Duty of 4% on all garment imports into India as per the Indian Finance Act, 2006 continues to be a cause of concern, as it adversely impacts the competitiveness of exports from Nepal. Your Company continues to make representations to the appropriate authorities in this regard and is hopeful that this issue will be redressed.

To leverage emerging opportunities in the domestic and export markets, your Company is investing in a state-of-the-art garment manufacturing facility at Biratnagar. Migration of manufacture from the existing factory to the new facility is expected to take place towards the end of December 2007.

GARMENT BUSINESS - DOMESTIC

This has been the second full year of John Players operations in the domestic market. Your Company has strengthened its position in the Nepal urban market and distribution has been extended to all key towns. Exclusive Brand Outlets of John Players were opened in the Kathmandu valley during the year. Having test-marketed Springwood, a mass-market men's western wear offering, to leverage the opportunity vis-a-vis low price imports from China and South East Asia, the brand has since been launched in April 2007. Springwood is currently available in major readymade garment outlets across key towns. Initial sales and consumer feedback have been encouraging.

DIVIDEND

Your Directors have declared an interim Dividend of NRs. 120 per Ordinary Share for the year ended 32nd Ashad 2064. The consequent outflow on this account, including Dividend Tax, amounts to NRs. 40.32 Crores. No Final Dividend has been proposed.

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

TAX MATTERS

As reported in earlier years, a demand letter for NRs. 37.17 Crores of Excise Duty excluding late fees and Value Added Tax, for the period 2055/56 to 2059/60 (1998/99 to 2002/03) had 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. Your Company had challenged the demand in the Supreme Court, which admitted the petition and issued notices to the respondents.

During the year fresh demands were raised on your Company by the Inland Revenue Department, Government of Nepal on account of Value Added Tax (VAT) for NRs 13.27 Crores and Income Tax for NRs. 35.68 Crores. These demands pertain to the years 2058/59 and 2059/60 (2001-02 and 2002-03). The basis of these demands is the same as the one used in the previous years' demand for NRs. 37.17 Crores.

While the VAT demand for the year 2058/59 for NRs. 7.55 crores is pending review before the Director General of Inland Revenue, your Company has challenged all other demands at the Supreme Court.

The cumulative demands to date on the Company on account of theoretical production stands at NRs. 86.12 Crores.

Your Company has been advised by eminent counsel that the case made out by the Department has no legal or factual basis and that the demand notices being raised against your Company are not sustainable.

RISK MANAGEMENT

Your Company's Corporate Governance 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, procedures and internal control systems covering areas such as Finance & Accounting and Information Technology.

PROMOTION OF TOURISM AND SPORTS

As part of our commitment to promote Tourism and Sports in the country under Surya Nepal Khelpariyatan, your Company in association with Nepal Tourism Board and Nepal Golf Association sponsored the country's most premier professional Golf tournament - the "Surya Nepal Masters".

AWARDS

During the year your Company was awarded the FNCCI National Excellence Award in recognition of the highest standards achieved in the professional management of the Company.

EMPLOYEES

Human Resource Development continues to be a critical focus area. Industrial relations with employees have been satisfactory barring the incident of confinement of some managers as stated earlier in this Report. The Directors of your Company place on record their sincere appreciation for the dedication and performance of the employees during the year.

DIRECTORS

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

The details of shares held by your Directors in the Company as on 32nd Ashad 2064 are 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 details of payments made during the year to the Directors, Managing Director and other Officials, by way of Board meeting fees etc., are also

annexed to this Report (Annexure II).

Details of Management expenses for the year 2063/64 are also annexed to this Report (Annexure III)

AUDITORS

M/s. N Amatya & Company, Chartered Accountants, Kathmandu, Nepal 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

In spite of the challenges posed by the current political situation, your Company continues to endeavour that its businesses grow profitably. Further 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

10th Ashwin 2064 (27th September 2007)

Director Chairman

Annexure I

Sl. No.	Name of Director	Number of Ordinary shares of NRs. 100/- each held singly and /or jointly as on 32nd Ashad 2064 (16th July 2007)
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	100
7.	H. M. Dar	Nil

Annexure II

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

During the financial year 2063/64, the following amounts were paid to the Directors.

- Board Meeting Fee paid NRs. 47,059
- Incidental expenses paid NRs. 22,500

Payment to/on behalf of Managing Director for the financial year 2063/64:

- Salary - NRs. 4,788,000
- Allowances - NRs. 1,929,016

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 2063/64:

- Salary - NRs. 12,895,752
- Allowances - NRs. 8,090,260

In addition to the above, some 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 2063/64 comprising rent; electricity; fuel & water; repair & improvement; travel & conveyance; insurance premium; postage; telephone; telex; fax; legal and service fees; printing & stationary; entertainment; board meeting fees; donations and charity; books & periodicals; miscellaneous expenses etc. amounted to NRs 267,758,837.

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, 2064 (July 16, 2007), 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:

- 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;
- The enclosed Balance Sheet, Profit and Loss Account and the Statement of Cash Flow have been prepared as per the provisions of Company Act, 2063 of Nepal and the same are in conformity with the books of account maintained by the Company;
- The books and records of the Company have been maintained accurately as required by law;

- 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 :
 - in the case of Balance Sheet, the state of affairs of the Company as at Asadh 32, 2064 (July 16, 2007).
 - in the case of Profit & Loss Account, the profit of the Company for the year ended on Asadh 32, 2064 (July 16, 2007).
 - in the case of the Statement of Cash Flow, the cash flows of the Company for the year ended on Asadh 32, 2064 (July 16, 2007)
- 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
Partner
N Amatya & Co.
Chartered Accountants

Partha Mitra
Partner
Lovelock & Lewes
Chartered Accountants

Date : 27th September 2007

Place : Kathmandu

BALANCE SHEET AS AT 32ND ASADH 2064 (16TH JULY 2007)

		Figures in NRs. As at 32nd Asadh 2064 (16th July 2007)	Figures in Rs. As at 32nd Asadh 2064 (16th July 2007)	Figures in NRs. As at 32nd Asadh 2063 (16th July 2006)	Figures in Rs. As at 32nd Asadh 2063 (16th July 2006)
CAPITAL & LIABILITIES					
SHARE CAPITAL AND RESERVES					
(a) Share Capital	1	33,60,00,000	21,00,00,000	33,60,00,000	21,00,00,000
(b) Reserves & Surplus	2	2,17,43,02,039	1,35,89,38,774	1,76,93,88,601	1,10,58,67,876
Total		2,51,03,02,039	1,56,89,38,774	2,10,53,88,601	1,31,58,67,876
ASSETS					
(1) Fixed Assets	3				
(a) Gross Block		1,95,50,93,143	1,22,19,33,214	1,88,31,73,744	1,17,69,83,590
(b) Less : Accumulated Depreciation		1,02,23,47,429	63,89,67,143	90,22,52,871	56,39,08,044
(c) Net Block		93,27,45,714	58,29,66,071	98,09,20,873	61,30,75,546
(d) Capital Work-in-Progress and In-transit		5,35,91,393	3,34,94,620	15,25,894	9,53,684
(2) Investments	4	10,98,82,338	6,86,76,461	8,42,50,000	5,26,56,250
(3) Current Assets					
(a) Inventories	5	86,22,99,462	53,89,37,164	69,00,62,235	43,12,88,897
(b) Sundry Debtors	6	17,90,77,741	11,19,23,588	3,90,33,300	2,43,95,813
(c) Cash and Bank Balances	7	89,75,81,214	56,09,88,259	72,57,77,560	45,36,10,975
(d) Loans and Advances	8	46,61,55,264	29,13,47,040	30,28,96,658	18,93,10,411
Total		2,40,51,13,681	1,50,31,96,051	1,75,77,69,753	1,09,86,06,096
Less: Current Liabilities and Provisions					
(a) Liabilities	9	47,14,68,338	29,46,67,711	38,16,94,560	23,85,59,100
(b) Provisions	10	51,95,62,749	32,47,26,718	33,73,83,359	21,08,64,600
Total		99,10,31,087	61,93,94,429	71,90,77,919	44,94,23,700
Net Current Assets		1,41,40,82,594	88,38,01,622	1,03,86,91,834	64,91,82,396
Total		2,51,03,02,039	1,56,89,38,774	2,10,53,88,601	1,31,58,67,876
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

D B Mathema
Director

A Singh
Director

Y C Deveshwar
Chairman

P Chatterjee
Director

B B Chatterjee
Director

Nem Lal Amatya
Partner

Partha Mitra
Partner

N. Amatya & Co.
Chartered Accountants

Lovelock & Lewes
Chartered Accountants

Date: 10th Aswin 2064 (27th September 2007)

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 32ND ASADH 2064 (16TH JULY 2007)

		Figures in NRs.	Figures in Rs.	Figures in NRs.	Figures in Rs.
	Schedule	For the year ended 32nd Asadh 2064 (16th July 2007)	For the year ended 32nd Asadh 2064 (16th July 2007)	For the year ended 32nd Asadh 2063 (16th July 2006)	For the year ended 32nd Asadh 2063 (16th July 2006)
Gross Revenue	11	6,62,75,44,571	4,14,22,15,357	5,47,27,02,236	3,42,04,38,898
Less: Excise Duty/Value Added Tax	12	2,80,40,93,048	1,75,25,58,155	2,39,04,63,470	1,49,40,39,669
Net Sales		<u>3,82,34,51,523</u>	<u>2,38,96,57,202</u>	<u>3,08,22,38,766</u>	<u>1,92,63,99,229</u>
Raw Materials Consumed, etc.	13	1,67,35,30,568	1,04,59,56,605	1,42,69,79,820	89,18,62,388
Cost of Sales		<u>1,67,35,30,568</u>	<u>1,04,59,56,605</u>	<u>1,42,69,79,820</u>	<u>89,18,62,388</u>
Gross Profit		<u>2,14,99,20,955</u>	<u>1,34,37,00,597</u>	<u>1,65,52,58,946</u>	<u>1,03,45,36,841</u>
Other Income	14	4,27,91,252	2,67,44,532	2,98,14,001	1,86,33,751
Total		<u>2,19,27,12,207</u>	<u>1,37,04,45,129</u>	<u>1,68,50,72,947</u>	<u>1,05,31,70,592</u>
Manufacturing, Admin, Selling Expenses etc.	15	76,70,37,937	47,93,98,711	69,66,41,844	43,54,01,153
Provision For Employees' Housing		6,48,16,622	4,05,10,388	4,19,48,746	2,62,17,966
Provision For Employees' Bonus		11,19,55,984	6,99,72,490	7,24,56,925	4,52,85,578
Operating Profit		<u>1,24,89,01,664</u>	<u>78,05,63,540</u>	<u>87,40,25,432</u>	<u>54,62,65,895</u>
Interest		—	—	1,94,806	1,21,754
Depreciation		12,51,52,166	7,82,20,104	12,73,42,602	7,95,89,126
Loss on Fixed Assets sold / discarded (Net)		41,89,654	26,18,533	2,19,18,780	1,36,99,237
Profit before Income Tax		<u>1,11,95,59,844</u>	<u>69,97,24,903</u>	<u>72,45,69,244</u>	<u>45,28,55,778</u>
Provision for Income Tax		36,80,26,416	23,00,16,510	22,26,59,278	13,91,62,049
Profit after Income Tax		<u>75,15,33,428</u>	<u>46,97,08,393</u>	<u>50,19,09,966</u>	<u>31,36,93,729</u>
Available for Appropriation		<u>75,15,33,428</u>	<u>46,97,08,393</u>	<u>50,19,09,966</u>	<u>31,36,93,729</u>
Appropriation					
Interim Dividend {Refer 2A. of Schedule 16}		40,32,00,000	25,20,00,000	24,75,78,947	15,47,36,842
Balance Carried Over to Balance Sheet		<u>34,83,33,428</u>	<u>21,77,08,393</u>	<u>25,43,31,019</u>	<u>15,89,56,887</u>
		<u>75,15,33,428</u>	<u>46,97,08,393</u>	<u>50,19,09,966</u>	<u>31,36,93,729</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

D B Mathema
Director

A Singh
Director

Y C Deveshwar
Chairman

P Chatterjee
Director

B B Chatterjee
Director

Nem Lal Amatya
Partner

Partha Mitra
Partner

N. Amatya & Co.

Lovelock & Lewes

Chartered Accountants

Chartered Accountants

Date: 10th Aswin 2064 (27th September 2007)

CASH FLOW STATEMENT FOR THE YEAR ENDED 32ND ASADH 2064 (16TH JULY 2007)

	Figures in NRs.	Figures in Rs.	Figures in NRs.	Figures in Rs.
	For the year ended 32nd Asadh 2064 (16th July 2007)	For the year ended 32nd Asadh 2064 (16th July 2007)	For the year ended 32nd Asadh 2063 (16th July 2006)	For the year ended 32nd Asadh 2063 (16th July 2006)
A. Cash Flow From Operating Activities				
Net Profit Before Tax	1,11,95,59,844	69,97,24,903	72,45,69,244	45,28,55,778
Adjustments for :				
Depreciation	12,51,52,166	7,82,20,104	12,73,42,602	7,95,89,126
Interest	—	—	1,94,806	1,21,754
Interest from Investments	(51,49,268)	(32,18,293)	(42,12,500)	(26,32,813)
Interest on Short Term/Call Deposits	(2,94,27,073)	(1,83,91,921)	(93,16,742)	(58,22,964)
Unrealised loss / (Gain) on Foreign Exchange (Net)	4,79,672	2,99,795	(2,00,224)	(1,25,140)
Provision for Employees' Housing	6,48,16,622	4,05,10,389	4,19,48,746	2,62,17,966
Loss on Fixed Assets sold / discarded (Net)	41,89,654	26,18,534	2,19,18,780	1,36,99,238
Claims and advance written off	7,101	4,438	1,46,498	91,561
Liability no longer required written back	(8,23,688)	(5,14,805)	(10,12,499)	(6,32,812)
Provision for Doubtful Advance	—	—	2,72,695	1,70,434
Operating Profit Before Working Capital Changes	<u>1,27,88,05,030</u>	<u>79,92,53,144</u>	<u>90,16,51,406</u>	<u>56,35,32,129</u>
Adjustments for :				
Trade and Other Receivables	(30,25,24,197)	(18,90,77,623)	(13,14,880)	(8,21,800)
Inventories	(17,22,37,227)	(10,76,48,267)	(3,25,50,951)	(2,03,44,344)
Trade Payables	7,40,29,538	4,62,68,461	9,47,25,485	5,92,03,428
Cash Generated From Operation	<u>87,80,73,144</u>	<u>54,87,95,715</u>	<u>96,25,11,060</u>	<u>60,15,69,413</u>
Income Tax Paid	(33,45,36,763)	(20,90,85,477)	(21,36,78,379)	(13,35,48,987)
Net Cash From Operating Activities (A)	<u>54,35,36,381</u>	<u>33,97,10,238</u>	<u>74,88,32,681</u>	<u>46,80,20,426</u>
B. Cash Flow From Investing Activities				
Purchase of Long Term Investments	(2,56,32,338)	(1,60,20,211)	—	—
Purchase of Fixed Assets	(13,52,21,596)	(8,45,13,498)	(10,20,93,924)	(6,38,08,703)
Proceeds from Disposal of Fixed Assets	33,89,436	21,18,398	14,600	9,125
Interest Received	3,37,90,390	2,11,18,994	1,33,81,073	83,63,171
Net Cash Used in Investing Activities (B)	<u>(12,36,74,108)</u>	<u>(7,72,96,317)</u>	<u>(8,86,98,251)</u>	<u>(5,54,36,407)</u>
C. Cash Flow From Financing Activities				
Interest Paid	—	—	(1,94,806)	(1,21,754)
Dividends Paid	(24,75,78,947)	(15,47,36,842)	(12,37,89,474)	(7,73,68,421)
Net Cash Used in Financing Activities (C)	<u>(24,75,78,947)</u>	<u>(15,47,36,842)</u>	<u>(12,39,84,280)</u>	<u>(7,74,90,175)</u>
Net Increase/(Decrease) in Cash & Cash Equivalents (A+B+C)	<u>17,22,83,326</u>	<u>10,76,77,079</u>	<u>53,61,50,150</u>	<u>33,50,93,844</u>
Cash and Cash Equivalents (Opening Balance)	<u>72,57,77,560</u>	<u>45,36,10,975</u>	<u>18,94,27,186</u>	<u>11,83,91,991</u>
Cash and Cash Equivalents (Closing Balance)	<u>89,80,60,886</u>	<u>56,12,88,054</u>	<u>72,55,77,336</u>	<u>45,34,85,835</u>
Cash and Cash Equivalents Comprises:				
Cash and Bank Balances	89,75,81,214	56,09,88,259	72,57,77,560	45,36,10,975
Unrealised Loss / (gain) on Foreign Currency Cash and Cash Equivalents	4,79,672	2,99,795	(2,00,224)	(1,25,140)
Total	<u>89,80,60,886</u>	<u>56,12,88,054</u>	<u>72,55,77,336</u>	<u>45,34,85,835</u>

A R Banerjee
Vice President Finance

H M Dar
Managing Director

D B Mathema
Director

A Singh
Director

Y C Deveshwar
Chairman

P Chatterjee
Director

B B Chatterjee
Director

Nem Lal Amatya
Partner

Partha Mitra
Partner

Date: 10th Aswin 2064 (27th September 2007)

N. Amatya & Co.
Chartered Accountants

Lovelock & Lewes
Chartered Accountants

STATEMENT OF CHANGE IN EQUITY FOR THE YEAR ENDED 32ND ASADH 2064 (16TH JULY 2007)

	Figures in NRs.	Figures in Rs.	Figures in NRs.	Figures in Rs.	Figures in NRs.	Figures in Rs.	Figures in NRs.	Figures in Rs.
	Share Capital	Share Capital	Revaluation Reserve	Revaluation Reserve	General Reserve	General Reserve	Total	Total
Balance as at 1st Shrawan 2063 (17th July 2006)	33,60,00,000	21,00,00,000	1,21,81,280	76,13,300	1,75,72,07,321	1,09,82,54,576	2,10,53,88,601	1,31,58,67,876
Housing Fund transferred to General Reserve	—	—	—	—	5,65,80,010	3,53,62,505	5,65,80,010	3,53,62,505
Net Profit for the year	—	—	—	—	75,15,33,428	46,97,08,393	75,15,33,428	46,97,08,393
Dividend	—	—	—	—	(40,32,00,000)	(25,20,00,000)	(40,32,00,000)	(25,20,00,000)
Total	—	—	—	—	40,49,13,438	25,30,70,898	40,49,13,438	25,30,70,898
Balance as at 32nd Asadh 2064 (16th July 2007)	<u>33,60,00,000</u>	<u>21,00,00,000</u>	<u>1,21,81,280</u>	<u>76,13,300</u>	<u>2,16,21,20,759</u>	<u>1,35,13,25,474</u>	<u>2,51,03,02,039</u>	<u>1,56,89,38,774</u>

SCHEDULES TO THE ACCOUNTS

	Figures in NRs.	Figures in Rs.	Figures in NRs.	Figures in Rs.
	As at 32nd Asadh 2064 (16th July 2007)	As at 32nd Asadh 2064 (16th July 2007)	As at 32nd Asadh 2063 (16th July 2006)	As at 32nd Asadh 2063 (16th July 2006)
SCHEDULE 1 : SHARE CAPITAL				
Authorised				
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>
Issued, Subscribed & Paid up				
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.

SCHEDULE 2 : RESERVES & SURPLUS

	NRs.	Rs.	NRs.	Rs.	NRs.	Rs.	NRs.	Rs.
	As at 32nd Asadh 2063 (16th July 2006)	As at 32nd Asadh 2063 (16th July 2006)	Addition	Addition	Withdrawal	Withdrawal	As at 32nd Asadh 2064 (16th July 2007)	As at 31st Asadh 2064 (16th July 2007)
Capital Reserve								
Revaluation of Land	1,21,81,280	76,13,300	—	—	—	—	1,21,81,280	76,13,300
Revenue Reserve								
General Reserve	1,75,72,07,321	1,09,82,54,576	40,49,13,438	25,30,70,899	—	—	2,16,21,20,759	1,35,13,25,474
Surplus								
Profit & Loss Account	—	—	34,83,33,428	21,77,08,393	34,83,33,428	21,77,08,393	—	—
Others								
Housing Fund**	—	—	5,65,80,010	3,53,62,506	5,65,80,010	3,53,62,506	—	—
	<u>1,76,93,88,601</u>	<u>1,10,58,67,876</u>	<u>80,98,26,876</u>	<u>50,61,41,798</u>	<u>40,49,13,438</u>	<u>25,30,70,899</u>	<u>2,17,43,02,039</u>	<u>1,35,89,38,774</u>

**Housing Fund Utilisation:

Opening Balance	(5,65,80,010)	(3,53,62,506)
Provided during the year	<u>6,48,16,622</u>	<u>4,05,10,389</u>
	82,36,612	51,47,883
Utilisation during the year	—	—
Closing Balance (excess over expenditure transferred to Housing Provision)	<u>82,36,612</u>	<u>51,47,883</u>

SCHEDULES TO THE ACCOUNTS (Contd.)

	Figures in NRs. As at 32nd Asadh 2064 (16th July 2007)	Figures in Rs. As at 32nd Asadh 2064 (16th July 2007)	Figures in NRs. As at 32nd Asadh 2063 (16th July 2006)	Figures in Rs. As at 32nd Asadh 2063 (16th July 2006)
SCHEDULE 4 : INVESTMENTS – LONG TERM				
Investment in Stocks issued by Nepal Government 5% Bikash Rinpatra, 2071*	8,42,50,000	5,26,56,250	8,42,50,000	5,26,56,250
Investment in Promissory Note issued by Nepal Government 6.50% Bikash Rinpatra, 2075*	<u>2,56,32,338</u>	<u>1,60,20,211</u>	—	—
	<u>10,98,82,338</u>	<u>6,86,76,461</u>	<u>8,42,50,000</u>	<u>5,26,56,250</u>
* Pledged with a bank for obtaining letter of credit, guarantee facilities.				
SCHEDULE 5 : INVENTORIES				
Stores & Supplies (including in-transit)	4,91,12,898	3,06,95,561	4,39,36,499	2,74,60,312
Raw Materials (including in-transit)	29,29,90,404	18,31,19,003	27,77,50,701	17,35,94,188
Stock - In - Process	8,11,69,723	5,07,31,077	6,35,76,196	3,97,35,123
Finished Goods				
At Cost	43,00,81,949	26,88,01,218	27,54,87,400	17,21,79,625
At Net Realisable Value	<u>89,44,488</u>	<u>55,90,305</u>	<u>2,93,11,439</u>	<u>1,83,19,649</u>
	<u>86,22,99,462</u>	<u>53,89,37,164</u>	<u>69,00,62,235</u>	<u>43,12,88,897</u>
SCHEDULE 6 : SUNDRY DEBTORS (Receivable within twelve months, unless otherwise stated)				
Due for more than six months - Considered good Unsecured	18,10,723	11,31,702	22,79,246	14,24,529
Due for less than six months - Considered good Secured	2,15,201	1,34,501	6,00,000	3,75,000
Unsecured				
From Holding Company	12,89,25,263	8,05,78,289	1,20,78,814	75,49,259
From Others	<u>4,81,26,554</u>	<u>3,00,79,096</u>	<u>2,40,75,240</u>	<u>1,50,47,025</u>
	<u>17,90,77,741</u>	<u>11,19,23,588</u>	<u>3,90,33,300</u>	<u>2,43,95,813</u>
SCHEDULE 7 : CASH AND BANK BALANCES				
Cash & Cheques on Hand	50,96,721	31,85,451	44,59,444	27,87,152
Cash At Bank				
Current Account	1,31,02,259	81,88,912	13,72,79,561	8,57,99,726
Savings Account (Provident Fund)	74,874	46,796	2,76,442	1,72,776
Short Term - Call Deposits	<u>87,93,07,360</u>	<u>54,95,67,100</u>	<u>58,37,62,113</u>	<u>36,48,51,321</u>
	<u>89,75,81,214</u>	<u>56,09,88,259</u>	<u>72,57,77,560</u>	<u>45,36,10,975</u>
SCHEDULE 8 : LOANS & ADVANCES (Recoverable within twelve months, unless otherwise stated)				
Receivables from Holding Company (Net)	25,44,26,003	15,90,16,252	21,75,65,488	13,59,78,430
Advance to Employees {Includes NRs. 9,62,79,316 (2062-63 - NRs. 3,99,29,085) recoverable after twelve months}	10,62,68,528	6,64,17,830	4,60,19,946	2,87,62,466
Margin Money Deposit	46,594	29,121	10,08,942	6,30,589
Advance to Others	5,73,42,124	3,58,38,827	1,82,35,678	1,13,97,299
Prepaid Expenses	36,96,065	23,10,041	59,65,549	37,28,468
Accrued Interest Receivable	10,26,449	6,41,531	2,40,498	1,50,311
Claims Receivable	62,304	38,940	67,342	42,089
Deposits : With Government Authorities	3,37,33,241	2,10,83,276	50,18,865	31,36,791
With Others	<u>1,07,14,160</u>	<u>66,96,350</u>	<u>99,34,554</u>	<u>62,09,096</u>
	<u>46,73,15,468</u>	<u>29,20,72,168</u>	<u>30,40,56,862</u>	<u>19,00,35,539</u>
Less : Provision for Doubtful Advance	<u>11,60,204</u>	<u>7,25,128</u>	<u>11,60,204</u>	<u>7,25,128</u>
	<u>46,61,55,264</u>	<u>29,13,47,040</u>	<u>30,28,96,658</u>	<u>18,93,10,411</u>
SCHEDULE 9 : CURRENT LIABILITIES (Payable within twelve months, unless otherwise stated)				
Retention Money	39,58,139	24,73,837	33,78,420	21,11,512
Sundry Creditors	26,98,90,536	16,86,81,585	24,07,92,571	15,04,95,357
Advances from Wholesale Dealers	18,72,38,578	11,70,24,111	12,90,76,126	8,06,72,579
Deposits from Wholesale Dealers	33,00,000	20,62,500	32,50,000	20,31,250
Other Liabilities	<u>70,81,085</u>	<u>44,25,678</u>	<u>51,97,443</u>	<u>32,48,402</u>
	<u>47,14,68,338</u>	<u>29,46,67,711</u>	<u>38,16,94,560</u>	<u>23,85,59,100</u>
SCHEDULE 10 : PROVISIONS				
Provision for Income Tax {Net of payment of Income Tax Advance/Deposits amounting to NRs. 39,41,73,553 (2062-63 NRs. 28,14,17,047)}	7,13,48,536	4,45,92,835	3,78,58,883	2,36,61,802
Provision for Gratuity and Leave Encashment	3,67,77,601	2,29,86,001	5,19,45,529	3,24,65,956
Provision for Interim Dividend	40,32,00,000	25,20,00,000	24,75,78,947	15,47,36,842
Provision for Employees' Housing	<u>82,36,612</u>	<u>51,47,882</u>	—	—
	<u>51,95,62,749</u>	<u>32,47,26,718</u>	<u>33,73,83,359</u>	<u>21,08,64,600</u>

SCHEDULES TO THE ACCOUNTS (Contd.)

	Figures in NRs. For the year ended 32nd Asadh 2064 (16th July 2007)	Figures in Rs. For the year ended 32nd Asadh 2064 (16th July 2007)	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)
SCHEDULE 11 : GROSS REVENUE				
Domestic :				
Cigarette	6,00,34,21,536	3,75,21,38,460	4,99,36,52,553	3,12,10,32,846
Garments	7,17,12,241	4,48,20,151	3,90,50,093	2,44,06,308
Others	17,97,106	11,23,191	—	—
Exports :				
Garments	55,06,13,688	34,41,33,555	43,99,99,590	27,49,99,744
	<u>6,62,75,44,571</u>	<u>4,14,22,15,357</u>	<u>5,47,27,02,236</u>	<u>3,42,04,38,898</u>
SCHEDULE 12 : DUTIES				
Excise Duty	2,10,49,77,112	1,31,56,10,695	1,81,14,79,979	1,13,21,74,987
Value Added Tax	69,91,15,936	43,69,47,460	57,89,83,491	36,18,64,682
	<u>2,80,40,93,048</u>	<u>1,75,25,58,155</u>	<u>2,39,04,63,470</u>	<u>1,49,40,39,669</u>
SCHEDULE 13 : RAW MATERIALS CONSUMED ETC.				
Leaf	60,57,94,129	37,86,21,330	54,24,08,481	33,90,05,300
Casing Materials	1,17,95,497	73,72,186	1,11,91,747	69,94,842
Wrapping Materials	58,28,76,145	36,42,97,591	49,34,86,714	30,84,29,196
Purchase of Goods	1,14,11,845	71,32,403	82,12,478	51,32,799
Fabrics, Contract Manufacturing Charges etc.	47,34,41,826	29,59,01,141	37,53,68,062	23,46,05,039
	<u>1,68,53,19,442</u>	<u>1,05,33,24,651</u>	<u>1,43,06,67,482</u>	<u>89,41,67,176</u>
Adjustment of overheads loaded, etc. on Finished Goods				
Opening	2,73,39,623	1,70,87,265	2,36,51,961	1,47,82,476
Closing	<u>(3,91,28,497)</u>	<u>(2,44,55,311)</u>	<u>(2,73,39,623)</u>	<u>(1,70,87,264)</u>
	<u>1,67,35,30,568</u>	<u>1,04,59,56,605</u>	<u>1,42,69,79,820</u>	<u>89,18,62,388</u>
SCHEDULE 14 : OTHER INCOME				
Interest Received	—	—	22,27,819	13,92,387
Less : Interest paid on Trading Debts	—	—	<u>12,96,907</u>	<u>8,10,567</u>
	—	—	9,30,912	5,81,820
Interest on Short Term /Call Deposit	2,94,27,073	1,83,91,920	93,16,742	58,22,964
Gain on Foreign Exchange (Net)	—	—	2,00,224	1,25,140
Interest from Investments	51,49,268	32,18,293	42,12,500	26,32,812
Liability no longer required written back	8,23,688	5,14,805	10,12,499	6,32,812
Miscellaneous Income	73,91,223	46,19,514	1,41,41,124	88,38,203
	<u>4,27,91,252</u>	<u>2,67,44,532</u>	<u>2,98,14,001</u>	<u>1,86,33,751</u>
SCHEDULE 15 :				
MANUFACTURING, ADMIN, SELLING EXPENSES ETC.				
Salaries, Wages & Allowances (Refer 2E. 1 of Schedule 16)	17,27,40,565	10,79,62,853	16,02,46,359	10,01,53,974
Contribution to Provident Fund	60,34,017	37,71,261	52,91,014	33,06,884
Labour & Staff Welfare	1,17,32,608	73,32,880	1,12,86,890	7,054,306
Uniform	14,55,922	9,09,951	9,33,429	5,83,393
Rent	3,15,40,275	1,97,12,672	3,03,71,685	1,89,82,303
Electricity, Fuel & Water	5,58,18,235	3,48,86,397	4,80,59,544	3,00,37,215
Rates & Taxes	45,39,452	28,37,158	28,07,676	17,54,798
Insurance Premium	2,14,66,187	1,34,16,367	1,97,06,597	1,23,16,623
Repairs & Improvement-Depreciable Assets	6,12,88,089	3,83,05,056	6,41,04,899	4,00,65,562
Safety and Pollution Control Cost	36,63,892	22,89,933	27,24,065	17,02,541
Maintenance to Other Properties	1,58,65,891	99,16,182	1,14,51,323	71,57,077
Consumable Stores & Spares	1,38,51,559	86,57,224	1,15,18,629	71,99,143
Freight	3,18,83,430	1,99,27,144	2,43,90,968	1,52,44,355
Product Development	1,20,76,213	75,47,633	85,94,419	53,71,512
Advertising	12,63,96,610	7,89,97,881	11,95,52,421	7,47,20,263
Travel & Conveyance	3,14,55,731	1,96,59,832	2,97,80,991	1,86,13,119
Training & Recruitment Expenses	78,08,898	48,80,561	49,17,596	30,73,498
Postage, Telephone, Telex, Fax etc.	69,15,823	43,22,389	66,52,880	41,58,050
Bank Charges and Commission	33,18,620	20,74,137	27,83,590	17,39,744
Audit Fees	3,60,000	2,25,000	3,60,000	2,25,000
Legal Fees	9,60,280	6,00,175	7,90,853	4,94,283
Printing & Stationery	24,11,024	15,06,890	23,47,766	14,67,354
Consultancy, Service Charges & Other Fees	2,07,46,684	1,29,66,678	2,01,72,129	1,26,07,581
Licence Fee	12,80,375	8,00,234	—	—
Entertainment	18,60,005	11,62,503	32,59,414	20,37,134
Sales Promotion	8,90,28,853	5,56,43,033	7,57,50,189	4,73,43,868
Board Meeting Fees	47,059	29,412	47,941	29,963
Donations & Charity	7,13,113	4,45,696	16,97,196	10,60,748
Books & Periodicals	3,95,027	2,46,892	3,37,037	2,10,648
Membership Fee	5,84,563	3,65,352	7,04,437	4,40,273
Claims and Advances Written off	7,101	4,438	1,46,498	91,561
(2062-63 Net of provision write back of Rs. 74,446)				
Provision for Doubtful Advances	—	—	2,72,695	1,70,434
Provision for Retirement Benefits	2,32,74,053	1,45,46,283	2,01,61,597	1,26,00,998
Loss on Foreign Exchange (Net)	5,05,183	3,15,739	—	—
Interest Paid on Trading Debts	<u>22,02,557</u>	<u>13,76,598</u>	—	—
Less : Interest received	<u>19,43,407</u>	<u>12,14,629</u>	—	—
Miscellaneous Expenses (Refer 2E.2. of Schedule 16)	47,53,450	29,70,906	54,19,117	33,86,948
	<u>76,70,37,937</u>	<u>47,93,98,711</u>	<u>69,66,41,844</u>	<u>43,54,01,153</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 Company Act, 2063 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 realisable 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) Sales

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

vii) Investment Income

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

viii) 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.

ix) 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.

x) Bonus

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

xi) 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 earlier

xii) Cash and Cash Equivalents

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

xiii) 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.

xiv) 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

A. The Company has proposed an interim dividend of NRs. 120 per share.

B. Claims against the Company not acknowledged as debts :

a) Demands raised by Revenue Authorities on theoretical Production of cigarettes: The Company has been receiving Show Cause Notices (SCNs) and demands from Excise, Income Tax and VAT authorities seeking to recover taxes for different years, details of which are stated herein after. The basis of all these SCNs and demands is an untenable contention by the Revenue authorities that the Company could have produced more cigarettes than it has actually produced in a given year, by applying an input-output ratio allegedly submitted by the Company in the year 2047-48 and, that, the Company is liable to pay taxes on such cigarettes that could have been theoretically produced. It may be pointed out that such an input-output ratio or levy of taxes on such theoretical production has absolutely no basis in law. This position has been confirmed by eminent counsel's opinion. It is not even the allegation of the Revenue authorities that the Company has actually produced and removed any quantity of cigarettes in excess of the quantity declared. In fact, the Company's cigarette factory is under 'physical control' of the Revenue authorities and cigarettes produced are duly accounted for and certified as such by the Revenue authorities.

(i) Excise Demand for NRs. 371,724,680 (Rs.232,327,925)
A demand letter dated 12th July, 2005 for NRs. 371,724,680 (Rs. 232,327,925) 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 review petition was filed with the Director General of Inland Revenue. However, the Director General without dealing with the issues raised by the Company, summarily dismissed the petition by an order dated 17th 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 (Rs 23.23 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 11th August, 2006. The Company has challenged the demand in the Supreme Court, which has admitted the petition on 21st September, 2006 and issued notices to the respondents on 16th October, 2006. The next date of appearance at the Supreme Court is 31st October, 2007. A date of hearing on the matter will be fixed subsequently.

(ii) Value Added Tax Demand for NRs. 132,689,973 (Rs. 82,931,233)

1. A demand letter dated 7th August 2006 for the period 2058/59 (2001/02) was issued to the Company by the Large Tax Payers' Office, Kathmandu. Of a total demand of NRs. 75,463,766 (Rs 47,164,854), the basis of a demand for NRs. 75,451,113 (Rs. 47,156,946) is theoretical production. An administrative review petition on the Value Added Tax matter was filed before the Director General on 1st September, 2006. The Director General's order on the matter is awaited.

2. A demand letter dated 8th August, 2007 has been received on 13th August, 2007, from the Large Tax Payers' Office, Lalitpur, for the period 2059/60 (2002/03). The total demand is for NRs. 57,238,860 (Rs. 35,774,288). The Company has filed a writ petition in the Supreme Court on 11th September, 2007 requesting that the said demand order be quashed and orders issued such that the tax demanded not be collected. The Supreme Court admitted the petition on 12th September, 2007 and directed issue of Show Cause Notices to the respondents.

(iii) Income Tax Demand for NRs. 356,854,299 (Rs. 223,033,937).

1. A demand letter dated 13th October, 2006 for the period 2058/59 (2001/02) was issued to the company by the Large Tax Payers' Office, Kathmandu. Of a total demand of NRs. 168,584,287 (Rs. 105,365,179), the basis of the demand for NRs. 160,761,328 (Rs. 100,475,830) is on theoretical production. The Company filed a petition on 7th November, 2006, before the Supreme Court requesting it to direct the authorities not to proceed on the matter as it is pending before the same court in the Excise matter. The Supreme Court has admitted the matter and issued notices to the respondents on 9th November, 2006. The next date of appearance at the Supreme Court is 31st October, 2007. A date of hearing on the matter will be fixed subsequently.

2. A demand letter dated 12th August, 2007, for the period 2059/60 (2002/03) was issued to the Company by the Large Tax Payers' Office, Lalitpur, on 14th August, 2007 for a sum of NRs. 196,092,971 (Rs. 122,558,107). The Company has filed a writ petition in the Supreme Court on 11th September, 2007 requesting that the said demand order be quashed and orders issued such that the tax demanded not be collected. The Supreme Court admitted the petition on 12th September, 2007 and directed issue of Show Cause Notices to the respondents.

The Company considers that all the demands listed above have no legal or factual basis. This position is re-enforced by opinion received from eminent counsel. Accordingly, the Company is of the view that there is no liability that is likely to arise.

b) Other demands raised on account of,

1. Income Taxes for various assessment years against which the Company has filed appeals with appropriate authorities amounting to NRs.103,283,725 (Rs. 64,552,328) {(Previous year - NRs. 183,561,273 (Rs. 114,725,796)) (net of provision made for the above assessment years).

2. Value Added Tax matters under dispute amounting to NRs. 3,100,750 (Rs. 1,937,969) (Previous Year - NRs. 3,088,097 (Rs. 1,930,061).

C. A Show Cause Notice dated 28th February, 2007, on the same issue of 'theoretical production' seeking reasons as to why a demand of NRs. 44,820,860 (Rs. 28,013,038) by way of Excise Duty and NRs. 19,044,782 (Rs. 11,902,989) by way of Value Added Tax, totalling up to NRs. 63,865,642 (Rs. 39,916,027) should not be raised on the Company for the period 2062/63 (2005/06), was issued to the Company by the Inland Revenue Office, Simra, Bara and was received on 13th March, 2007. The Company has submitted its reply on 28th March, 2007. No further communication has been received on the matter as on date.

For the year 2050/51 & 2051/52 Revenue authorities raised a demand for NRs. 13.59 Crores (Rs. 8.49 Crores) on 'theoretical production', which was quashed by a division bench of the Supreme Court (2 Judges) on April 8, 1998. Govt. filed a review petition on 8th October 1998, which was finally admitted by a full bench (3 Judges) on 22nd July 2007. Having admitted the review petition the Supreme Court will now issue Notice of hearing and will hear the matter afresh. Our counsel advise that the Company has a strong case on merits.

D. Estimated amount of contract remaining to be executed on capital account NRs. 127,716,654 (Rs. 79,822,909) {(2062-63-NRs. 36,303,607 (Rs. 22,689,754)).

E. 1. Salaries, Wages and Allowances include payment to Managing Director NRs. 5,137,500 (Rs. 3,210,938) {(2062-63-NRs. 5,574,484, (Rs.3,484,053).

2. Miscellaneous Expenses include reimbursement of expenses to statutory auditors amounting to NRs. 203,880 (Rs. 127,425) {(2062-63-NRs. 153,947(Rs.96,217)}

F. Figures in the financial statements have been rounded off to the nearest rupee.

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

A R Banerjee
Vice President Finance

H M Dar
Managing Director

D B Mathema
Director

A Singh
Director

Y C Deveshwar
Chairman

P Chatterjee
Director

B B Chatterjee
Director

Nem Lal Amatya
Partner
N Amatya & Co
Chartered Accountants

Partha Mitra
Partner
Lovelock & Lewes
Chartered Accountants

Date: 10th Aswin 2064 (27th September 2007)