

REPORT OF THE DIRECTORS FOR THE FINANCIAL YEAR ENDED 32ND ASADH 2060 (16TH JULY 2003)

Your Directors are pleased to submit their Report and Audited Accounts of your Company for the Year ended 32nd Asadh 2060 (16th July 2003).

SOCIO ECONOMIC ENVIRONMENT :

The year under review witnessed a welcome return to growth in GDP at around 2.3 % compared to a decline of 0.6% last year. While imports increased at a much faster rate than exports, the balance of payments continues to be buoyed mainly by remittances from non-resident Nepalese. The impending accession to the WTO heightens the urgent need for all constituents of the Nepal economy to rapidly acquire competitiveness.

COMPANY PERFORMANCE :

The financial performance of the Company for the year ended 32nd Ashad 2060 is satisfying as it has been achieved in the wake of uncertain and disturbed operating conditions.

During the year the Gross Turnover of your Company increased to NRs. 414 crores, an increase of 17% over the previous year. Growth in your Company's strategic brands and continuous productivity improvements with constant focus on management of costs resulted in a robust growth of 21% in pre tax profit to NRs. 40 crores. Profit after tax at NRs. 24 crores registered a substantial growth of 20%. Earnings per share stand at NRs. 433 per share compared to NRs.359 per share last year.

Reserves (excluding Capital Reserves) have grown to NRs. 121 crores, thereby strengthening the Balance Sheet of your Company. Your Directors are pleased to recommend a dividend of NRs. 135 per equity share for the year ended 32nd Ashad 2060 (16th July 2003). The consequent outflow on this account including dividend tax amounts to NRs. 796 lacs, representing a payout of 32.9% of the profit after tax.

CONTRIBUTION TO THE EXCHEQUER :

Your Company continues to be the single largest contributor to His Majesty's Government Exchequer, with an outgo of approximately NRs. 206 crores in Excise Duty, VAT, and other annual taxes. Such contribution represents about 30% of total Excise Duties collections and nearly 4% of the total revenue collected by His Majesty's Government.

BUSINESS SEGMENTS :

CIGARETTE BUSINESS

Your Company continues to consolidate its volume and value leadership in the cigarette industry. During the year growth in volumes was led by Surya and Shikhar in the King size segment, Khukuri in the RSFT segment and Chautari in the Plains segment.

Your Company's strategy of continuous value addition to brands enabled the manufacture and marketing of high quality products for consumers. Drawing upon the deep insights into consumer preferences, several of your Company's brands were upgraded.

Initiatives taken for strengthening the infrastructure in the cigarette factory continued. Further, quality systems, training of workmen and steps to further increase productivity received extreme focus. Certification of the cigarette factory was upgraded to ISO 9001 – 2000.

INVESTMENTS IN TECHNOLOGY UPGRADATION

Your Company continues to invest in contemporary technology with a view to further enhancing value to consumers and improving productivity. During the year your Company installed a RSFT 20HL line together with key quality control and processing equipment. Currently more than 29% of your Company's cigarette volume is marketed in the internationally preferred Hinged Lid form of packaging.

LEAF DEVELOPMENT

Notwithstanding a decline in production of Nepalese tobaccos to 347 MT against 520 MT last year, your Company recorded impressive progress in the Nepalisation of tobacco procurement. The share of Nepalese tobacco in the total tobacco usage by your Company increased to 46% in the case of HDBRG and 38% in the case of Burley tobaccos, compared to 25% and 29% respectively last year. Your Company's purchases account for 37% of the total Cigarette Type Tobacco grown in the country. Your Company's crop development programmes contributed in significant measure towards improvement in indigenous tobacco quality and chemistry, particularly over the last 2 years.

IN-HOUSE MANUFACTURE OF FILTER RODS :

In-house Filter Rod manufacturing operations commenced in August 2002 at your Company's plant in Simara. It is a measure of your Company's ability to assimilate and absorb technology that in the first year of operations,

the plant attained quality, efficiency and waste benchmarks of similar facilities in South-East Asia. Currently 99% of the filter rods used in the cigarette facility are manufactured in-house. The Company also exported 30 Million Filters to ITC during the year.

GARMENTS BUSINESS :

As approved by the Shareholders last year, your Company commenced exports of apparel to ITC Limited. Manufacture is currently outsourced to identified converters. In order to deliver the world-class quality specifications of the John Players brand of apparel, your Company invested nearly NRs. 500 lacs in upgrading manufacturing capability and infrastructure of the converters, besides imparting training in contemporary work processes, technology, work aids and quality systems. The resultant transformation in the competitive capability of these apparel manufacturers enabled your Company to export nearly 5 lac garments during the year under review, clocking a turnover of NRs.23 crores.

Encouraged by the initial success in this business segment, your Board of Directors approved the setting up of an in-house manufacturing facility for garments at an investment of nearly NRs. 36 crores. It is expected that such investment would significantly enhance competency to deliver world-class quality, reduce response time and showcase your Company's capabilities to prospective buyers from other export markets.

PURCHASE OF ADDITIONAL SHARES BY ITC LIMITED

During the year ITC Limited acquired a further 10% shares of your Company offered by other shareholders. With this acquisition the total shareholding of ITC Limited in your Company has increased from 49% to 59%, resulting in your Company becoming a subsidiary of ITC Limited with effect from 20th August 2002.

CONTRIBUTION TO SOCIETY

The Company continued its endeavor as a responsible corporate citizen and engaged in several social initiatives including providing facilities for drinking water, uniforms/ sponsorship programme for schools, an ambulance, tree plantation, project for education of the girl child, as well as organizing medical and tailoring camps.

INDUSTRIAL RELATIONS

During the year, the Company concluded an Agreement with the workers union of the Cigarette Factory. This agreement will be valid for the next 2 years.

In pursuit of your Company's strategy to create new engines of growth, Human Resource Development will continue to be a critical focus area for the future. The Directors of your Company place on record their sincere appreciation of the efforts made by the employees of your Company at all levels.

FUTURE OUTLOOK :

Your Company remains committed to sustaining growth over the long term. Towards this end, business diversification initiatives implemented during 2002-03 create additional platforms for growth. The Company is also examining opportunities in other lines of businesses in which ITC Limited is currently engaged in. A recommendation to the shareholders for enlarging the Memorandum of Association is under consideration.

DIRECTORS :

Mr. Prabhakar SJB Rana stepped down as the Chairman of your Company with effect from 20th August 2002. Your Directors would like to place on record their appreciation of the services rendered by Mr. Rana during his tenure of 16 years as the Chairman of your Company.

Mr. Y C Deveshwar, Chairman of ITC Limited was appointed as the Chairman of your Company with effect from 20th August 2002.

Mr. M S Hayes ceased to be a Non- Executive Director of your Company with effect from 20th August 2002. Your Directors would like to record their appreciation of the services rendered by Mr. M S Hayes during his tenure as the Director of your Company.

M/s. P Chatterjee and B B Chatterjee were nominated by the ITC Limited and were appointed as Non-Executive Directors of your Company with effect from 20th August 2002.

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.

23rd Bhadra 2060 (9th September 2003)
Kathmandu

Y. C. Deveshwar
Chairman

AUDITORS' REPORT TO THE SHAREHOLDERS OF SURYA NEPAL PRIVATE LIMITED (FORMERLY KNOWN AS SURYA TOBACCO CO. (P) LTD.)

We have examined the enclosed Balance Sheet of Surya Nepal Private Limited (formerly known as Surya Tobacco Co. (P) Ltd.) as at Asadh 32, 2060 (July 16, 2003), the Profit and Loss Account and the Statement of Cash Flow for the year ended on that date annexed thereto with the books and records of the Company and have to 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, 2053 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 accounts read with the notes attached thereto, give a true and fair view of:

- in the case of Balance Sheet, the state of affairs of the Company as on Asadh 32, 2060 (July 16, 2003).
 - 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, 2060 (July 16, 2003).
- 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, we have not 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.

Nem Lal Amatya
Proprietor
N Amatya & Co.
Chartered Accountants

Partha Mitra
Partner
Lovelock & Lewes
Chartered Accountants

Date : 23rd Bhadra 2060 (9th September 2003)
Place : Kathmandu, Nepal

BALANCE SHEET AS AT 32ND ASADH 2060 (16TH JULY 2003)

Schedule	Figures in NRs.		Figures in Rs.		
	As at 32nd Asadh 2060 (16th July 2003)	As at 32nd Asadh 2060 (16th July 2003)	As at 32nd Asadh 2059 (16th July 2002)	As at 32nd Asadh 2059 (16th July 2002)	
CAPITAL & LIABILITIES					
SHARE CAPITAL AND RESERVES					
(a) Share Capital	1	5,60,00,000	3,50,00,000	5,60,00,000	3,50,00,000
(b) Reserves & Surplus	2	1,21,55,99,751	75,97,49,844	1,02,98,07,680	64,36,29,799
Total		<u>1,27,15,99,751</u>	<u>79,47,49,844</u>	<u>1,08,58,07,680</u>	<u>67,86,29,799</u>
ASSETS					
(1) Fixed Assets	3				
(a) Gross Block		1,45,44,04,767	90,90,02,979	1,35,77,56,651	84,85,97,906
(b) Less: Depreciation		60,46,57,390	37,79,10,869	53,07,71,825	33,17,32,391
(c) Net Block		84,97,47,377	53,10,92,110	82,69,84,826	51,68,65,515
(d) Capital Work in Progress and In-transit		2,19,945	1,37,466	7,16,412	4,47,758
(2) Current Assets					
(a) Inventories	4	44,47,32,237	27,79,57,649	21,51,30,768	13,44,56,731
(b) Sundry Debtors	5	2,27,42,138	1,42,13,836	89,14,530	55,71,581
(c) Cash and Bank Balances	6	1,53,60,976	96,00,609	3,75,44,207	2,34,65,129
(d) Loans and Advances	7	45,98,37,343	28,73,98,339	33,78,33,835	21,11,46,146
Total		<u>94,26,72,694</u>	<u>58,91,70,433</u>	<u>59,94,23,340</u>	<u>37,46,39,587</u>
Less: Current Liabilities and Provisions					
(a) Liabilities	8	22,70,83,486	14,19,27,179	17,14,41,284	10,71,50,803
(b) Provisions	9	30,23,22,923	18,89,51,827	18,63,67,902	11,64,79,939
Total		<u>52,94,06,409</u>	<u>33,08,79,006</u>	<u>35,78,09,186</u>	<u>22,36,30,742</u>
Net Current Assets		41,32,66,285	25,82,91,427	24,16,14,154	15,10,08,845
Miscellaneous Expenditure (to the extent not written off)					
Deferred Revenue Expenditure		83,66,144	52,28,841	1,64,92,288	1,03,07,681
Total		<u>1,27,15,99,751</u>	<u>79,47,49,844</u>	<u>1,08,58,07,680</u>	<u>67,86,29,799</u>

Notes to the Accounts and Contingent Liabilities

14

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.

Anil Seth
Vice President
(Finance)

Sanjiv Puri
Managing Director

Siddhartha S. J. B. Rana
Director

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

Partha Mitra
Partner
Lovelock & Lewes
Chartered Accountants

Date : 23rd Bhadra 2060 (9th September 2003)

SURYA NEPAL PRIVATE LIMITED [Formerly known as Surya Tobacco Co. (P) Ltd.]

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 32ND ASADH 2060 (16TH JULY 2003)

Schedule	Figures in NRs.		Figures in Rs.		
	For the year ended 32nd Asadh 2060 (16th July 2003)	For the year ended 32nd Asadh 2060 (16th July 2003)	For the year ended 32nd Asadh 2059 (16th July 2002)	For the year ended 32nd Asadh 2059 (16th July 2002)	
Sales	10	4,14,45,16,853	2,59,03,23,034	3,54,16,93,869	2,21,35,58,668
Raw Materials, etc	11	1,14,38,15,745	71,48,84,840	92,34,09,974	57,71,31,234
Duties	12	1,90,24,79,474	1,18,90,49,672	1,74,54,49,909	1,09,09,06,194
Cost of Sales		3,04,62,95,219	1,90,39,34,512	2,66,88,59,883	1,66,80,37,428
Gross Profit		1,09,82,21,634	68,63,88,522	87,28,33,986	54,55,21,240
Other Income		61,31,907	38,32,442	7,32,17,585	4,57,60,990
Total		1,10,43,53,541	69,02,20,964	94,60,51,571	59,12,82,230
Manufacturing, Admin, Selling Expenses etc.	13	51,30,71,698	32,06,69,811	45,31,48,852	28,32,18,032
Provision For Employees' Housing		2,31,12,556	1,44,45,348	1,99,06,363	1,24,41,477
Provision For Employees' Bonus		3,99,21,688	2,49,51,055	3,43,83,718	2,14,89,824
Operating Profit before Interest and Depreciation		52,82,47,599	33,01,54,750	43,86,12,638	27,41,32,897
Interest		70,37,362	43,98,351	94,96,559	59,35,349
Depreciation		10,59,17,008	6,61,98,130	9,37,01,439	5,85,63,399
Operating Profit		41,52,93,229	25,95,58,269	33,54,14,640	20,96,34,149
Loss on Fixed Assets/Materials sold / discarded (Net)		1,60,76,346	1,00,47,716	48,39,817	30,24,886
Profit before Income Tax		39,92,16,883	24,95,10,553	33,05,74,823	20,66,09,263
Provision for Income Tax		15,69,58,421	9,80,99,013	12,95,26,647	8,09,54,154
Profit after Income Tax		24,22,58,462	15,14,11,540	20,10,48,176	12,56,55,109
Balance brought forward from previous years		12,73,63,965	7,96,02,477	—	—
Available for Appropriation		36,96,22,427	23,10,14,017	20,10,48,176	12,56,55,109
Appropriation					
First Interim Dividend		—	—	5,60,00,000	3,50,00,000
Second Interim Dividend		—	—	1,76,84,211	1,10,52,632
Proposed Final Dividend		7,95,78,947	4,97,36,842	—	—
Balance Carried Over to Balance Sheet		29,00,43,480	18,12,77,175	12,73,63,965	7,96,02,477
		36,96,22,427	23,10,14,017	20,10,48,176	12,56,55,109

Notes to the Accounts and Contingent Liabilities

14

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.

Anil Seth
Vice President
(Finance)

Sanjiv Puri
Managing Director

Siddhartha S. J. B. Rana
Director

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

Partha Mitra
Partner
Lovelock & Lewes
Chartered Accountants

Date : 23rd Bhadra 2060 (9th September 2003)

CASH FLOW STATEMENT FOR THE YEAR ENDED 32ND ASADH 2060 (16TH JULY, 2003)

	Figures in NRs. For the year ended 32nd Asadh 2060 (16th July 2003)	Figures in Rs. For the year ended 32nd Asadh 2060 (16th July 2003)	Figures in NRs. For the year ended 32nd Asadh 2059 (16th July 2002)	Figures in Rs. For the year ended 32nd Asadh 2059 (16th July 2002)
A. Cash Flow From Operating Activities				
Net Profit Before Tax	39,92,16,883	24,95,10,553	33,05,74,823	20,66,09,263
Adjustments for :				
Depreciation	10,59,17,008	6,61,98,130	9,37,01,439	5,85,63,399
Interest	70,37,362	43,98,351	94,96,559	59,35,349
Provision for Employees' Housing	2,31,12,556	1,44,45,348	1,99,06,363	1,24,41,477
Loss on Fixed Assets/Materials Discarded	1,60,76,346	1,00,47,716	48,39,817	30,24,886
Amortisation of Deferred Revenue Expenditure	81,26,144	50,78,840	81,26,144	50,78,840
Provision for Leave Encashment	45,32,127	28,32,579	—	—
Write off of Debts & Advances	30,287	18,929	19,838	12,399
Operating Profit Before Working Capital Changes	56,40,48,713	35,25,30,446	46,66,64,983	29,16,65,613
Adjustments for :				
Sundry Debtors	(1,38,27,608)	(86,42,255)	(29,64,348)	(18,52,718)
Loans & Advances	(7,86,02,671)	(4,91,26,669)	3,26,49,118	2,04,05,699
Inventories	(23,01,05,774)	(14,38,16,109)	3,96,64,255	2,47,90,159
Current Liabilities & Provisions	6,30,18,096	3,93,86,310	2,51,65,698	1,57,28,561
Cash Generated From Operations	30,45,30,756	19,03,31,723	56,11,79,706	35,07,37,314
Interest Paid	(70,47,584)	(44,04,740)	(1,19,43,722)	(74,64,826)
Income Tax Paid	(15,38,23,784)	(9,61,39,865)	(11,04,53,040)	(6,90,33,150)
Net Cash From Operating Activities (A)	14,36,59,388	8,97,87,118	43,87,82,944	27,42,39,338
B. Cash Flow From Investing Activities				
Purchase of Fixed Assets	(14,37,55,134)	(8,98,46,959)	(11,66,85,285)	(7,29,28,303)
Sale of Fixed Assets	—	—	42,88,227	26,80,142
Net Cash Used in Investing Activities (B)	(14,37,55,134)	(8,98,46,959)	(11,23,97,058)	(7,02,48,161)
C. Cash Flow From Financing Activities				
Loans received	18,00,00,000	11,25,00,000	26,20,00,000	16,37,50,000
Loans repaid	(18,00,00,000)	(11,25,00,000)	(35,08,00,000)	(21,92,50,000)
Net Increase / (Decrease) in Bank Overdraft	(44,03,274)	(27,52,046)	(11,02,45,338)	(6,89,03,336)
Dividends Paid	(1,76,84,211)	(1,10,52,632)	(10,02,10,526)	(6,26,31,579)
Net Cash Used in Financing Activities (C)	(2,20,87,485)	(1,38,04,678)	(29,92,55,864)	(18,70,34,915)
Net Increase/(Decrease) in Cash & Cash Equivalents (A+B+C)	(2,21,83,231)	(1,38,64,519)	2,71,30,022	1,69,56,262
Cash and Cash Equivalents (Opening balance)	3,75,44,207	2,34,65,129	1,04,14,185	65,08,866
Cash and Cash Equivalents (Closing balance)	1,53,60,976	96,00,610	3,75,44,207	2,34,65,128

Anil Seth
Vice President
(Finance)

Sanjiv Puri
Managing Director

Siddhartha S. J. B. Rana
Director

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

Partha Mitra
Partner
Lovell & Lewes
Chartered Accountants

Date : 23rd Bhadra 2060 (9th September 2003)

SCHEDULES TO THE ACCOUNTS

	Figures in NRs. As at 32nd Asadh 2060 (16th July 2003)	Figures in Rs. As at 32nd Asadh 2060 (16th July 2003)	Figures in NRs. As at 32nd Asadh 2059 (16th July 2002)	Figures in Rs. As at 32nd Asadh 2059 (16th July 2002)
SCHEDULE 1 : SHARE CAPITAL				
Authorised				
10,00,000 Ordinary Shares of NRs. 100/-each	<u>10,00,00,000</u>	<u>6,25,00,000</u>	<u>10,00,00,000</u>	<u>6,25,00,000</u>
Issued, Subscribed & Paid up				
5,60,000 Ordinary Shares of NRs.100/- each, fully paid	<u>5,60,00,000</u>	<u>3,50,00,000</u>	<u>5,60,00,000</u>	<u>3,50,00,000</u>
	<u>5,60,00,000</u>	<u>3,50,00,000</u>	<u>5,60,00,000</u>	<u>3,50,00,000</u>
Out of the above;				
1. 2,80,000 Ordinary Shares were issued as fully paid up bonus shares in 2052/53.				
2. 3,30,400 Ordinary Shares are held by the Holding Company, ITC Limited.				

	NRs. As at 32nd Asadh 2059 (16th July 2002)	Rs. As at 32nd Asadh 2059 (16th July 2002)	NRs. Addition	Rs. Addition	NRs. Withdrawal	Rs. Withdrawal	NRs. As at 32nd Asadh 2060 (16th July 2003)	Rs. As at 32nd Asadh 2060 (16th July 2003)
SCHEDULE 2 : RESERVES & SURPLUS								
Capital Reserve								
Revaluation of Land	1,21,81,280	76,13,300	—	—	—	—	1,21,81,280	76,13,300
Revenue Reserve								
General Reserve	89,02,62,435	55,64,14,02	31,31,56,036	19,57,22,523	—	—	1,20,34,18,471	75,21,36,544
Surplus								
Profit & Loss Account	12,73,63,965	7,96,02,478	16,26,79,515	10,16,74,697	29,00,43,480	18,12,77,175	—	—
Others								
Housing Fund*	—	—	2,31,12,556	144,45,348	2,31,12,556	1,44,45,348	—	—
	<u>1,02,98,07,680</u>	<u>64,36,29,799</u>	<u>49,89,48,107</u>	<u>31,18,42,568</u>	<u>31,31,56,036</u>	<u>19,57,22,523</u>	<u>1,21,55,99,751</u>	<u>75,97,49,844</u>
* Housing Fund Utilisation:								
Opening Balance	(18,29,96,690)	(11,43,72,931)						
Provided during the year	<u>2,31,12,556</u>	<u>1,44,45,348</u>						
	(159,884,134)	(9,99,27,583)						
Utilisation during the year	—	—						
Closing Balance (excess expenditure to be adjusted in future years)	<u>(15,98,84,134)</u>	<u>(9,99,27,583)</u>						

SCHEDULES TO THE ACCOUNTS (Contd.)

Schedule 3 - FIXED ASSETS

Description	GROSS BLOCK						DEPRECIATION						NET BLOCK		
	NRs. As At 32.03.2059 (16.07.2002)	Rs. As At 32.03.2059 (16.07.2002)	NRs. Additions	Rs. Additions	NRs. Withdrawals/ Adjustments	Rs. Withdrawals/ Adjustments	NRs. As at 32.03.2059 (16.07.2002)	Rs. As at 32.03.2059 (16.07.2002)	NRs. For the year	Rs. For the year	NRs. Withdrawals/ Adjustments	Rs. Withdrawals/ Adjustments	NRs. As At 32.03.2060 (16.07.2003)	Rs. As At 32.03.2060 (16.07.2003)	NRs. As At 32.03.2059 (16.07.2002)
Land & Land Development	12,641,294	7,90,08,091	—	—	—	—	—	—	—	—	—	12,641,294	7,90,08,091	12,641,294	7,90,08,091
Building	22,09,22,546	13,80,76,591	1,67,33,470	1,04,58,419	7,62,622	4,76,639	2,37,35,869	57,22,740	35,76,713	2,07,439	1,29,649	19,34,00,703	12,08,75,439	18,29,45,156	11,43,40,723
Plant & Machinery	92,21,42,180	57,63,38,863	10,81,78,010	6,76,11,256	2,69,15,878	1,68,22,424	28,94,01,928	9,21,59,879	5,75,99,924	2,36,39,713	14,774,821	33,22,27,032	29,49,00,663	45,90,99,095	28,69,36,934
Furniture & fixtures	97,15,739	60,72,337	17,35,575	10,84,734	21,151	13,219	27,94,033	8,43,031	5,26,894	19,260	12,038	61,35,939	38,34,962	52,45,286	32,78,304
Vehicles	1,85,09,814	1,15,68,634	1,19,29,706	74,56,066	—	—	31,74,366	14,57,829	9,11,143	—	—	65,36,814	1,49,39,191	1,34,30,829	83,94,268
Computer	2,63,05,789	1,64,41,118	41,27,389	25,79,618	10,61,464	6,63,415	57,47,510	33,09,106	20,68,191	8,59,473	5,37,171	40,85,509	1,10,78,791	1,71,09,773	1,06,93,608
Office Equipment	1,69,06,712	1,05,66,695	15,47,451	9,67,157	20,01,445	12,50,903	37,39,658	12,35,455	7,72,160	10,94,147	6,83,842	38,27,976	64,54,973	1,09,23,259	68,27,037
Advertisement Materials	1,68,40,925	1,05,25,578	—	—	1,68,40,925	1,05,25,578	31,39,027	11,88,968	7,43,105	62,11,411	38,82,132	—	—	1,18,18,482	73,86,551
TOTAL	1,35,77,56,651	84,85,97,906	14,42,51,601	9,01,57,251	4,76,03,485	2,97,52,178	33,17,32,391	10,59,17,008	6,61,98,130	3,20,31,443	2,00,19,652	37,79,10,869	53,10,92,110	82,69,84,826	51,68,65,516
Capital Work in Progress and in Transit	7,16,412	4,47,758	2,19,945	1,37,466	7,16,412	4,47,758	—	—	—	—	—	2,19,945	1,37,466	7,16,412	4,47,758
Grand Total	1,35,84,73,063	84,90,45,664	14,44,71,546	9,02,94,716	4,83,19,897	3,01,99,936	33,17,32,391	10,59,17,008	6,61,98,130	3,20,31,443	2,00,19,652	37,79,10,869	53,12,29,576	82,77,01,238	51,73,13,274
Previous Year	1,27,77,20,977	79,85,75,611	12,20,23,871	7,62,64,919	4,12,71,785	2,57,94,866	29,01,90,299	9,37,01,439	585,63,399	2,72,34,093	1,70,21,308	33,17,32,391	51,73,13,274	—	—

SCHEDULES TO THE ACCOUNTS (Contd.)

	Figures in NRs. As at 32nd Asadh 2060 (16th July 2003)	Figures in Rs. As at 32nd Asadh 2060 (16th July 2003)	Figures in NRs. As at 32nd Asadh 2059 (16th July 2002)	Figures in Rs. As at 32nd Asadh 2059 (16th July 2002)
SCHEDULE 4 : INVENTORIES				
Stores & Supplies (including in-transit)	4,89,58,509	3,05,99,068	3,59,28,440	2,24,55,275
Stock				
Raw Materials (including in-transit)	21,51,41,801	13,44,63,626	15,81,34,137	9,88,33,836
Stock - In - Process	4,78,95,650	2,99,34,782	35,58,007	22,23,755
Finished Goods	13,27,36,277	8,29,60,173	1,75,10,184	1,09,43,865
	<u>44,47,32,237</u>	<u>27,79,57,649</u>	<u>21,51,30,768</u>	<u>13,44,56,731</u>
SCHEDULE 5 : SUNDRY DEBTORS				
Due for less than six months				
Considered good				
Secured	7,50,000	4,68,750	13,55,509	8,47,193
Unsecured	2,19,92,138	1,37,45,086	75,59,021	47,24,388
	<u>2,27,42,138</u>	<u>1,42,13,836</u>	<u>89,14,530</u>	<u>55,71,581</u>
SCHEDULE 6 : CASH AND BANK BALANCES				
Cash & Cheques on Hand	1,47,394	92,121	98,599	61,624
Cash At Bank				
Current A/C	57,50,847	35,94,279	70,47,730	44,04,831
Savings A/C (Provident Fund)	27,05,008	16,90,630	25,32,309	15,82,693
Fixed Deposit				
Short Term	67,57,727	42,23,579	2,78,65,569	1,74,15,981
	<u>1,53,60,976</u>	<u>96,00,609</u>	<u>3,75,44,207</u>	<u>2,34,65,129</u>
SCHEDULE 7 : LOANS & ADVANCES				
Advances to/Receivables from Holding Company	18,84,84,001	11,78,02,501	13,99,18,698	8,74,49,186
Accrued Interest Receivable	4,010	2,506	—	—
Advance to Employees	40,31,733	25,19,833	24,28,898	15,18,062
Advance to Others	7,47,09,436	4,66,93,397	6,85,24,436	4,28,27,772
Margin Money Deposit	1,30,19,507	81,37,192	21,51,615	13,44,759
Other Deposits	1,18,68,206	74,17,629	8,97,065	5,60,665
Prepaid Expenses	38,00,559	23,75,349	34,24,356	21,40,222
Advance Income Tax	16,39,19,891	10,24,49,932	12,04,88,767	7,53,05,480
	<u>45,98,37,343</u>	<u>28,73,98,339</u>	<u>33,78,33,835</u>	<u>21,11,46,146</u>
SCHEDULE 8 : CURRENT LIABILITIES				
Short Term Loan				
Bank Overdraft (Secured)	—	—	44,03,274	27,52,046
Interest Accrued and Due on the above	323	202	10,545	6,591
	<u>323</u>	<u>202</u>	<u>44,13,819</u>	<u>27,58,637</u>
(Secured by way of mortgage, hypothecation and assignment of the Company's entire present and future current and fixed assets)				
Book Overdraft (Temporary)	71,39,748	44,62,342	19,42,351	12,13,969
Retention Money	33,05,059	20,65,662	26,04,028	16,27,517
Sundry Creditors	14,30,95,783	8,94,34,865	12,28,28,029	7,67,67,518
Advances from Wholesale Dealers	6,12,09,828	3,82,56,143	2,84,41,195	1,77,75,747
Deposits from Wholesale Dealers	25,50,000	15,93,750	24,00,000	15,00,000
Other Liabilities	97,82,745	61,14,215	88,11,862	55,07,415
	<u>22,70,83,486</u>	<u>14,19,27,179</u>	<u>17,14,41,284</u>	<u>10,71,50,803</u>
SCHEDULE 9 : PROVISIONS				
Provision for Income Tax	19,47,28,132	12,17,05,083	14,81,62,371	9,26,01,482
Provision for Gratuity and Leave Encashment	2,80,15,844	1,75,09,902	2,05,21,320	1,28,25,825
Provision for Second Interim Dividend	—	—	1,76,84,211	1,10,52,632
Provision for Proposed Dividend	7,95,78,947	4,97,36,842	—	—
	<u>30,23,22,923</u>	<u>18,89,51,827</u>	<u>18,63,67,902</u>	<u>11,64,79,939</u>

SCHEDULES TO THE ACCOUNTS (Contd.)

	Figures in NRs. For the year ended 32nd Asadh 2060 (16th July 2003)	Figures in Rs. For the year ended 32nd Asadh 2060 (16th July 2003)	Figures in NRs. For the year ended 32nd Asadh 2059 (16th July 2002)	Figures in Rs. For the year ended 32nd Asadh 2059 (16th July 2002)
SCHEDULE 10 : SALES				
Cigarette Sales	3,90,73,87,812	2,44,21,17,383	3,52,15,58,417	2,200,9,74,011
Cigarette Sales (Trading)	—	—	1,45,81,600	9,1,13,500
Seed Sales	—	—	1,97,600	1,23,500
Exports	23,71,29,041	14,82,05,651	53,56,252	3,3,47,657
	<u>4,14,45,16,853</u>	<u>2,59,03,23,034</u>	<u>3,54,16,93,869</u>	<u>2,213,5,58,668</u>
SCHEDULE 11 : RAW MATERIALS CONSUMED ETC				
Leaf	48,88,56,731	30,55,35,457	43,84,44,205	27,40,27,628
Casing Materials	85,99,951	53,74,969	88,92,228	55,57,642
Wrapping Materials	44,88,48,464	28,05,30,290	46,00,84,622	28,75,52,889
Purchase of Goods (Trading & Export)	—	—	1,59,88,919	99,93,075
Fabrics, Contract Manufacturing Charges etc.	19,75,10,599	12,34,44,124	—	—
	<u>1,14,38,15,745</u>	<u>71,48,84,840</u>	<u>92,34,09,974</u>	<u>57,71,31,234</u>
SCHEDULE 12 : DUTIES				
Excise Duty	1,44,93,24,600	90,58,27,875	1,32,88,20,000	83,05,12,500
Value Added Tax	35,53,14,814	22,20,71,759	32,16,82,391	20,10,51,495
Smoking & Liquor Fees	9,67,81,900	6,04,88,688	9,39,83,800	5,87,39,875
Sticker Charges	10,58,160	6,61,350	9,63,718	6,02,324
	<u>1,90,24,79,474</u>	<u>1,18,90,49,672</u>	<u>1,74,54,49,909</u>	<u>1,09,09,06,194</u>
SCHEDULE 13 : OTHER EXPENSES				
Salaries, Wages and Allowances	8,22,11,116	5,13,81,947	6,96,91,500	4,35,57,188
Contribution to Provident Fund	30,15,210	18,84,506	26,36,819	16,48,012
Labour & Staff Welfare	99,24,122	62,02,576	93,77,473	58,60,921
Uniform	7,02,434	4,39,021	10,12,825	6,33,015
Rent	1,54,58,430	96,61,519	1,18,49,686	74,06,054
Electricity, Fuel & Water	3,85,02,425	2,40,64,016	3,14,22,296	1,96,38,935
Rates & Taxes	1,74,35,533	1,08,97,208	1,34,73,262	84,20,788
Insurance Premium	1,72,48,424	1,07,80,265	1,41,69,777	88,56,111
Repairs & Improvement-Depreciable Assets	5,70,51,137	3,56,56,961	7,31,44,399	4,57,15,249
Safety and Pollution Control Cost	27,96,338	17,47,711	35,47,763	22,17,352
Maintenance to Other Properties	49,71,643	31,07,277	59,07,910	36,92,443
Consumable Stores & Spares	1,23,17,847	76,98,654	67,60,254	42,25,159
Freight	2,34,32,469	1,46,45,293	2,08,40,729	1,30,25,456
Product Development	60,03,966	37,52,479	2,06,87,958	1,29,29,974
Advertising	5,98,18,338	3,73,86,461	5,06,61,664	3,16,63,540
Travel & Conveyance	2,86,22,816	1,78,89,260	2,58,56,877	1,61,60,548
Training & Recruitment Expenses	40,48,708	25,30,442	40,90,387	25,56,492
Postage, Telephone, Telex, Fax etc.	84,92,109	53,07,568	95,82,939	59,89,337
Bank Charges and Commission	26,72,882	16,70,551	16,19,692	10,12,307
Audit Fees	3,08,000	1,92,500	2,70,000	1,68,750
Legal Fees	2,21,550	1,38,469	2,54,375	1,58,984
Printing & Stationery	24,55,013	15,34,383	19,53,005	12,20,628
Consultancy, Service Charges & Other Fees	1,85,51,116	1,15,94,447	64,17,842	40,11,151
Entertainment	16,12,787	10,07,992	17,65,046	11,03,154
Sales Promotion	5,64,80,351	3,53,00,219	3,82,59,382	2,39,12,114
Packing Boxes	1,29,62,215	81,01,385	1,14,84,567	71,77,855
Damaged & Destroyed Cigarettes	5,32,588	3,32,868	5,90,122	3,68,826
Board Meeting Fees	78,235	48,897	1,41,176	88,235
Donations & Charity	7,74,904	4,84,315	4,70,279	2,93,924
Books & Periodicals	2,62,247	1,63,905	2,71,745	1,69,841
Membership Fee	3,47,527	2,17,204	3,67,337	2,29,586
Debts and Advances written off	30,287	18,929	19,838	12,399
Amortisation of Deferred Revenue Expenditure	81,26,144	50,78,840	81,26,144	50,78,840
Provision for Gratuity and Leave Encashment	76,28,272	47,67,670	26,52,371	16,57,732
Loss on Foreign Exchange (Net)	2,15,692	1,34,807	—	—
Miscellaneous Expenses	77,58,823	48,49,264	37,71,413	23,57,132
Total	<u>51,30,71,698</u>	<u>32,06,69,811</u>	<u>45,31,48,852</u>	<u>28,32,18,032</u>

SCHEDULES TO THE ACCOUNTS (Contd.)

SCHEDULE 14 - NOTES TO THE ACCOUNTS

1. Significant Accounting Policies

a) Convention

These financial statements have been prepared in accordance with generally accepted accounting principles followed in Nepal. A summary of significant accounting policies, which have been applied consistently, except for item 1 (h) (ii), is set out below. The financial statements have also been prepared in accordance with the relevant presentational requirements of Company Act, 2053 of Nepal.

b) 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 below.

c) Fixed Assets

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. Subsequent acquisition of the above asset and the other assets are stated at cost of acquisition inclusive of incidental expenses related to acquisition.

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.

d) Inventories

- i) Raw materials and stores and supplies are valued at weighted average cost.
- ii) Manufactured finished goods are valued at materials cost (where applicable inclusive of taxes, duties etc.) or market value whichever is lower.
- iii) Trading stocks are valued at lower of cost or net realisable value.

e) Deferred Revenue Expenditure

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

f) Sales

Sales, which include Excise Duty, Value Added Tax (VAT) and other duties, represent invoiced value of goods sold.

g) 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 contract. Gain or loss arising on settlement is dealt with in the Profit and Loss Account. 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.

h) Retirement Benefits

(i) Gratuity

In respect of employees covered by the Labour Rules 2050 of Nepal, gratuity is provided as per the said Rules. For other employees provision for gratuity is made as per the Company's Rules.

(ii) Leave Encashment

Until previous year Leave Encashment was accounted for on cash basis. In the current year the same has been provided on accrual basis. Had the previous year's policy been followed charge for the year would have been lower by NRs. 45,32,127.

(iii) Provident Fund

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

i) Bonus

Bonus is provided for at the rate of 10% of profit before tax.

j) Employees' Housing Fund

Employees' Housing Fund is provided at the rate of 5% of Profit before tax and bonus and is transferred to the General Reserve to the extent of utilisation.

2. There are certain disputed Income Tax matters pending with various appellate authorities. In the opinion of the management the above disputes are not tenable and are expected to be settled in favour of the Company. However, as a matter of prudence an additional Income Tax provision of NRs. 2,70,00,000 has been made in the current year.
3. Short term deposits include NRs.18,96,000 (2058-59 – NRs.15,00,000) pledged with Nabil Bank Limited as security by way of first charge against housing loans extended to the employees of the Company. The balance of the said loan as at 32nd Asadh 2060 amounted to NRs. 55,19,542 (2058-59 – NRs. 43,21,728).
4. Contingent Liability not provided for:
 - a) Demands raised on account of Income Taxes for various assessment years against which the Company has filed appeals with the appropriate authorities amounting to NRs. 18,57,52,696 (2058-59 – NRs. 11,97,63,467).
 - b) Estimated amount of contracts remaining to be executed on capital account NRs. 95,66,250 (2058-59 - NRs. 41,65,000).
5. a) Salaries, Wages and Allowances includes payment to Managing Director NRs. 25,80,000 (2058-59 – NRs. 27,94,667).
b) Other Expenses include reimbursement to statutory auditors amounting to NRs. 1,05,920 (2058-59 – NRs. 1,20,306).
6. Figures in the financial statements are rounded off to the nearest rupee.
7. Previous year's figures have been regrouped and/or rearranged wherever necessary.

Note : The Audited Financial Statements of Surya Nepal Private Limited, prepared in accordance with the laws of Nepal, the country of incorporation, do not include the Indian Rupee equivalent figures, which have been arrived at by applying the exchange rate of 1NR = Re. 0.625.

Anil Seth
Vice President
(Finance)

Sanjiv Puri
Managing Director

Siddhartha S. J. B. Rana
Director

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

Partha Mitra
Partner
Lovellock & Lewes
Chartered Accountants

Date : 23rd Bhadra 2060 (9th September 2003)