

DIRECTORS' REPORT

Your Directors are pleased to submit their Report and Audited Accounts of your Company for the year ended 31st Ashad 2065 (15th July 2008).

SOCIO-ECONOMIC ENVIRONMENT

The year under review has been a landmark year in the history of Nepal. After a prolonged period of political and economic uncertainty the Constituent Assembly elections finally took place on April 10, 2008, transitioning Nepal from a monarchy to a parliamentary republic.

During the year the labour union at the Simra cigarette factory submitted a charter of unreasonable demands for the new Long Term Agreement and went on strike on January 23, 2008. The strike lasted 20 days and on February 11, 2008, post a tripartite meeting between the company management, the labour union and the Labour Ministry of the Government of Nepal, the strike was withdrawn and normal operations were resumed. A political blockade in the Terai region from February 13, 2008 for 15 days resulted in complete disruption of movement of goods further adding to the pressure on the supply chain.

The Ministry of Finance, Government of Nepal has indicated that GDP grew at a healthy 5.6% during the year ended 31st Ashad 2065, the highest growth rate in the past 8 years. This was led by a growth of 5.65% in the agricultural sector and 5.57% in the non-agricultural sector. However with a politically settled democratic scenario it is expected that during the current financial year the rate of GDP growth will continue to be robust.

COMPANY PERFORMANCE

Despite the difficult operating conditions your Company's strength in brand portfolio management along with proactive supply chain and inventory management practices, committed to delivering superior value to consumers continued to make satisfactory progress with enhanced market standing and an impressive financial performance for the year ended 31st Ashad 2065.

Gross Turnover (net of VAT) grew to NRs. 670 (Rs. 419) Crores, up from NRs. 593 (Rs. 371) Crores last year, a growth of 13%. Profit Before Tax grew 38 % from NRs. 112 (Rs. 70) Crore last year to NRs.154 (Rs. 96) Crores while Profit After Tax grew 37% from NRs.75 (Rs. 47) Crores to NRs.103 (Rs. 64) Crores. Return on net worth has increased to more than 38% as compared to 30% last year and earnings per share has grown 37% to NRs. 307 (Rs. 192) as against NRs. 224 (Rs. 140) last year.

CONTRIBUTION TO THE EXCHEQUER

Your Company is justifiably proud to retain its status as the single largest private sector contributor to the Government Exchequer. The outflow of NRs. 373 (Rs. 233) Crores towards Excise Duty, VAT, Income Tax and other taxes represents nearly 3.5% of the total revenue collected by the Government.

BUSINESS SEGMENTS

CIGARETTE BUSINESS

Brand Portfolio

With a continued focus on improving value share, new brands were launched to strengthen the portfolio and consolidate your Company's position in key product segments and channels. Surya 24 CARAT Lights and Kings were launched in an international level

edge pack at the super-premium end of the market and Pilot Filter at the lower end of the regular filter size segment. The new brands reflecting the extensively researched consumer insights have been well received by consumers.

Distribution and Supply Chain Management

Despite the factory strike and other constraints enumerated under Socio-Economic Environment, your Company with its proactive supply chain and inventory management was able to ensure uninterrupted supplies to the trade and consumers by maintaining higher inventory levels at the factory and regional godowns.

Quality

Persistent focus on quality systems and modules enhanced further the overall quality standards and ratings.

Energy

Your Company has undertaken several initiatives in energy savings over the last few years. During the current year an energy efficient screw chilling system for air conditioning was installed at the cigarette factory. This has resulted in substantial savings on the total energy bill.

Environment Health and Safety

In continuing with its initiative in achieving operational excellence your Company's cigarette factory at Simra was accredited with the OHSAS 18001:1999 certification and the Employee's Housing Colony in Simra was accredited with OHSAS 18001:1999 and ISO 14001:2004.

Utmost care and precautions are taken on an ongoing basis through a systems led approach to ensure the safety of all employees.

Leaf Tobacco

On account of the disturbed operating conditions many farmers have opted for alternate crops, disrupting the crop development initiatives. As a result the total acreage of tobacco plantation as envisaged could not be achieved. A concerted effort is underway to increase the area under cultivation as well as improve the quality and chemistry of the domestic grades.

GARMENT BUSINESS – EXPORT

The Company's Garment Exports business continued to fulfill export orders for the 'Wills Lifestyle' and 'John Players' range of apparel from the Lifestyle Retailing Business of the holding company, ITC Limited. Your Company has also successfully executed a trial order placed for third country exports for the first time and repeat orders are expected.

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 for a resolution.

As mentioned in last year's report, to leverage emerging opportunities in the domestic and export markets, your Company had invested 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 September 2008.

GARMENT BUSINESS – DOMESTIC

In the domestic market 'John Players' has consolidated its position in the branded apparel segment. Two new Exclusive Brand Outlets of John Players were added in the Kathmandu valley during the year.

'Springwood', your Company's mass-market men's western wear brand, which offers an alternative to low price imports from China and South East Asia, was successfully launched across the country. Sales and consumer response have been encouraging.

DIVIDEND AND BONUS SHARES

Your Directors have declared an Interim Dividend of NRs. 200 (Rs. 125) per Ordinary Share for the year ended 31st Ashad 2065. The consequent outflow on this account, including Dividend Tax, amounts to NRs. 67.20 (Rs. 42) Crores. Your Board has also proposed issue of bonus shares in the ratio of 5 Bonus Shares for every Ordinary Share held, and Final Dividend of NRs. 60 (Rs. 37.50) per Ordinary Share, subject to the approval of the shareholders of the Company.

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, your Company continues to receive Show Cause Notices (SCNs) and demands from Excise, Income Tax and VAT authorities seeking to recover taxes for different years, on the same issue of theoretical production. All these SCNs and demands are based on 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 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.

During the current year fresh demands raised on your Company on account of Excise duty was NRs 14.95 (Rs. 9.34) Crores and on account of Value Added Tax (VAT) was NRs 1.07 (Rs. 0.67) Crores. These demands pertain to the years 2060/61 to 2062/63 (2003/04 to 2005/06).

While the VAT demand for the year 2058/59 for NRs.7.55 (Rs. 4.72) 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. 102.14 (Rs. 63.84) Crores.

Your Company has been advised by eminent counsel that the cases made out by the Department have 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 lays down the structure, roles and responsibilities of the key entities in the governance process and 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 Khelparyatan, 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' and also the Surya Nepal 9th SAARC Golf Championship, which was held for the first time in Nepal.

EMPLOYEES

Human Resource Development continues to be a critical focus area. Industrial relations with employees have been satisfactory barring the incident of strike by workers 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

Mr. H. M. Dar, who was on secondment to your Company, was recalled by ITC Limited and he stepped down as the Managing Director of your Company on 5th May, 2008. Your Directors would like to place on record their appreciation for the services rendered by Mr. Dar.

Mr. S. Keshava was seconded from ITC Limited and was appointed the Managing Director of your Company with effect from 6th May, 2008.

There were no other 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 31st Ashad 2065 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 2064 / 65 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

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
Director Chairman

18th Bhadra 2065 (3rd September 2008)

Annexure I

Sl. No.	Name of Director	Number of Ordinary Shares of NRs. 100/- each held singly and / or jointly as on 31st Ashad 2065 (15th July 2008)
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.	Sanjiv Keshava	Nil

Annexure II

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

During the financial year 2064/65, the following amounts were paid to the Directors.

- Board Meeting Fee paid NRs. 30,294 (Rs. 18,934)
- Incidental expenses paid NRs. 35,000 (Rs. 21,875)

Payment to/ on behalf of Managing Director for the financial year 2064/65:

Salary – NRs. 4,891,226 (Rs. 3,057,016)

Allowances – NRs. 4,822,478 (Rs. 3,014,049)

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 2064/65:

Salary – NRs. 14,217,591 (Rs. 8,885,994)

Allowances – NRs. 12,683,276 (Rs. 7,927,048)

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 2064/65 comprising rent, electricity, fuel & water, repair & improvement, travel & conveyance, insurance premium, postage, telephone, telex, fax, legal and service fees, bank charges, rates & taxes, printing & stationery, entertainment, board meeting fees, donations and charity, books & periodicals, miscellaneous expenses etc. amounted to NRs. 298,362,560 (Rs. 186,476,600).

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 31, 2065 (July 15, 2008), 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 Company Act, 2063 of Nepal 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 at Asadh 31, 2065 (July 15, 2008).
- ii) in the case of Profit & Loss Account, the profit of the Company for the year ended on Asadh 31, 2065 (July 15, 2008).
- iii) in the case of the Statement of Cash Flow, the cash flows of the Company for the year ended on Asadh 31, 2065 (July 15, 2008).
- 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
<i>Partner</i>	<i>Partner</i>
N Amatya & Co.	Lovelock & Lewes
Chartered Accountants	Chartered Accountants

Date : 18th Bhadra 2065 (3rd September 2008)
Place: Kathmandu

**BALANCE SHEET
AS AT 31ST ASADH 2065 (15TH JULY 2008)**

	Schedule	Figures in NRs.	Figures in Rs.	Figures in NRs.	Figures in Rs.
		As at 31st Asadh 2065 (15th July 2008)	As at 31st Asadh 2065 (15th July 2008)	As at 32nd Asadh 2064 (16th July 2007)	As at 32nd Asadh 2064 (16th July 2007)
CAPITAL & LIABILITIES					
SHARE CAPITAL AND RESERVES					
(a) Share Capital	1	336,000,000	210,000,000	336,000,000	210,000,000
(b) Reserves & Surplus	2	2,354,356,999	1,471,473,124	2,174,302,039	1,358,938,774
Total		2,690,356,999	1,681,473,124	2,510,302,039	1,568,938,774
ASSETS					
(1) Fixed Assets	3				
(a) Gross Block		2,024,169,409	1,265,105,880	1,955,093,143	1,221,933,214
(b) Less: Accumulated Depreciation		1,101,380,892	688,363,057	1,022,347,429	638,967,143
(c) Net Block		922,788,517	576,742,823	932,745,714	582,966,071
(d) Capital Work in Progress and In-transit		260,229,445	162,643,402	53,591,393	33,494,620
(2) Investments	4	109,882,338	68,676,461	109,882,338	68,676,461
(3) Deferred Tax Asset (Net) (Refer 2G of Schedule 17)		26,274,722	16,421,701	-	-
(4) Current Assets					
(a) Inventories	5	854,908,209	534,317,630	862,299,462	538,937,164
(b) Sundry Debtors	6	126,713,719	79,196,075	179,077,741	111,923,588
(c) Cash and Bank Balances	7	1,399,913,123	874,945,702	897,581,214	560,988,259
(d) Loans and Advances	8	422,379,339	263,987,088	466,155,264	291,347,040
Total		2,803,914,390	1,752,446,495	2,405,113,681	1,503,196,051
Less: Current Liabilities and Provisions					
(a) Liabilities	9	373,804,675	233,627,922	471,468,338	294,667,711
(b) Provisions	10	1,058,927,738	661,829,836	519,562,749	324,726,718
Total		1,432,732,413	895,457,758	991,031,087	619,394,429
Net Current Assets		1,371,181,977	856,988,737	1,414,082,594	883,801,622
Total		2,690,356,999	1,681,473,124	2,510,302,039	1,568,938,774

NOTES TO THE ACCOUNTS AND CONTINGENT LIABILITIES 17

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

Sanjiv Keshava
Managing Director

Saurya SJB Rana
Alternate 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: 18th Bhadra 2065 (3rd September 2008)

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31ST ASADH 2065 (15TH JULY 2008)**

Schedule	Figures in NRs.	Figures in Rs.	Figures in NRs.	Figures in Rs.	
	For the Year ended 31st Asadh 2065 (15th July 2008)	For the Year ended 31st Asadh 2065 (15th July 2008)	For the Year ended 32nd Asadh 2064 (16th July 2007)	For the Year ended 32nd Asadh 2064 (16th July 2007)	
Gross Revenue	11	6,704,883,900	4,190,552,439	5,928,428,635	3,705,267,896
Less: Duties	12	2,392,058,961	1,495,036,850	2,108,028,497	1,317,517,811
Net Sales		<u>4,312,824,939</u>	<u>2,695,515,589</u>	<u>3,820,400,138</u>	<u>2,387,750,085</u>
Raw Materials Consumed, etc.	13	1,683,213,412	1,052,008,383	1,673,530,568	1,045,956,605
Cost of Sales		<u>1,683,213,412</u>	<u>1,052,008,383</u>	<u>1,673,530,568</u>	<u>1,045,956,605</u>
Gross Profit		<u>2,629,611,527</u>	<u>1,643,507,206</u>	<u>2,146,869,570</u>	<u>1,341,793,480</u>
Other Income	14	101,605,894	63,503,684	42,791,252	26,744,533
Total		<u>2,731,217,421</u>	<u>1,707,010,890</u>	<u>2,189,660,822</u>	<u>1,368,538,013</u>
Manufacturing, Admin, Selling Expenses etc.	15	837,143,652	523,214,785	763,986,552	477,491,595
Provision For Employees' Housing		89,090,884	55,681,803	64,816,622	40,510,388
Provision For Employees' Bonus		153,884,254	96,177,659	111,955,984	69,972,490
Operating Profit		<u>1,651,098,631</u>	<u>1,031,936,643</u>	<u>1,248,901,664</u>	<u>780,563,540</u>
Depreciation		110,197,196	68,873,247	125,152,166	78,220,104
Loss on Fixed Assets sold / discarded (Net)		2,058,893	1,286,808	4,189,654	2,618,533
Profit before Taxation		<u>1,538,842,542</u>	<u>961,776,588</u>	<u>1,119,559,844</u>	<u>699,724,903</u>
Provision for Taxation	16	507,382,098	317,113,811	368,026,416	230,016,510
Profit after Taxation		<u>1,031,460,444</u>	<u>644,662,777</u>	<u>751,533,428</u>	<u>469,708,393</u>
Available for Appropriation		<u>1,031,460,444</u>	<u>644,662,777</u>	<u>751,533,428</u>	<u>469,708,393</u>
Appropriation					
Interim Dividend		672,000,000	420,000,000	403,200,000	252,000,000
Proposed Final Dividend		201,600,000	126,000,000	-	-
Balance Carried Over to Balance Sheet		157,860,444	98,662,777	348,333,428	217,708,393
		<u>1,031,460,444</u>	<u>644,662,777</u>	<u>751,533,428</u>	<u>469,708,393</u>

NOTES TO THE ACCOUNTS AND CONTINGENT LIABILITIES 17

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

Sanjiv Keshava
Managing Director

Saurya SJB Rana
Alternate 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: 18th Bhadra 2065 (3rd September 2008)

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST ASADH 2065 (15TH JULY 2008)**

	Figures in NRs.		Figures in Rs.	
	For the year ended 31st Asadh 2065 (15th July 2008)	For the year ended 31st Asadh 2065 (15th July 2008)	For the year ended 32nd Asadh 2064 (16th July 2007)	For the year ended 32nd Asadh 2064 (16th July 2007)
A Cash Flow From Operating Activities				
Net Profit Before Tax	1,538,842,542	961,776,588	1,119,559,844	699,724,903
Adjustments for :				
Depreciation	110,197,196	68,873,247	125,152,166	78,220,104
Interest from Investments	(5,663,526)	(3,539,704)	(5,149,268)	(3,218,293)
Interest on Short Term/Call Deposits	(55,450,609)	(34,656,630)	(29,427,073)	(18,391,921)
Unrealised Loss/(Gain) on Foreign Exchange (Net)	(891,401)	(557,126)	479,672	299,795
Provision for Employees' Housing	89,090,884	55,681,803	64,816,622	40,510,389
Loss on Fixed Assets sold / discarded (Net)	2,058,893	1,286,808	4,189,654	2,618,534
Claims and Advance written off	-	-	7,101	4,438
Liability no longer required written back	(29,842,360)	(18,651,475)	(823,688)	(514,805)
Operating Profit Before Working Capital Changes	1,648,341,619	1,030,213,511	1,278,805,030	799,253,144
Adjustments for :				
Trade and Other Receivables	96,022,464	60,014,040	(302,524,197)	(189,077,623)
Inventories	7,391,253	4,619,533	(172,237,227)	(107,648,267)
Trade Payables	(68,580,158)	(42,862,599)	74,029,538	46,268,461
Cash Generated From Operation	1,683,175,178	1,051,984,485	878,073,144	548,795,715
Income Tax Paid	(529,429,344)	(330,893,340)	(334,536,763)	(209,085,477)
Net Cash From Operating Activities	(A) 1,153,745,834	721,091,145	543,536,381	339,710,238
B Cash Flow From Investing Activities				
Purchase of Long Term Investment	-	-	(25,632,338)	(16,020,211)
Purchase of Fixed Assets	(316,299,145)	(197,686,966)	(135,221,596)	(84,513,498)
Proceeds from Disposal of Fixed Assets	5,962,201	3,726,376	3,389,436	2,118,398
Interest Received	61,231,618	38,269,762	33,790,390	21,118,994
Net Cash Used in Investing Activities	(B) (249,105,326)	(155,690,828)	(123,674,108)	(77,296,317)
C Cash Flow From Financing Activities				
Dividends Paid	(403,200,000)	(252,000,000)	(247,578,947)	(154,736,842)
Net Cash Used in Financing Activities	(C) (403,200,000)	(252,000,000)	(247,578,947)	(154,736,842)
Net Increase/(Decrease) in Cash & Cash Equivalents (A+B+C)	501,440,508	313,400,317	172,283,326	107,677,079
Cash and Cash Equivalents (Opening balance)	897,581,214	560,988,259	725,777,560	453,610,975
Cash and Cash Equivalents (Closing balance)	1,399,021,722	874,388,576	898,060,886	561,288,054
Cash and Cash Equivalents Comprises:				
Cash and Bank Balances	1,399,913,123	874,945,702	897,581,214	560,988,259
Unrealised Loss/(Gain) on Foreign Currency Cash and Cash Equivalents	(891,401)	(557,126)	479,672	299,795
Total	1,399,021,722	874,388,576	898,060,886	561,288,054

A R Banerjee Sanjiv Keshava Surya SJB Rana
Vice President Finance Managing Director Alternate Director

A Singh Y C Deveshwar
Director Chairman

D B Mathema P Chatterjee B B Chatterjee
Director Director Director

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

Date: 18th Bhadra 2065 (3rd September 2008)

**STATEMENT OF CHANGE IN EQUITY
FOR THE YEAR ENDED 31ST ASADH 2065 (15TH JULY 2008)**

	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 2064 (17th July 2007)	336,000,000	210,000,000	12,181,280	7,613,300	2,162,120,759	1,351,325,474	2,510,302,039	1,568,938,774
Initial recognition of Deferred Tax Assets (Net)	-	-	-	-	22,194,516	13,871,573	22,194,516	13,871,573
Net Profit for the year	-	-	-	-	1,031,460,444	644,662,777	1,031,460,444	644,662,777
Dividend	-	-	-	-	(873,600,000)	(546,000,000)	(873,600,000)	(546,000,000)
Total	-	-	-	-	180,054,960	112,534,350	180,054,960	112,534,350
Balance as at 31st Asadh 2065 (15th July 2008)	336,000,000	210,000,000	12,181,280	7,613,300	2,342,175,719	1,463,859,824	2,690,356,999	1,681,473,124

SCHEDULES TO THE ACCOUNTS

	Figures in NRs.	Figures in Rs.	Figures in NRs.	Figures in Rs.
	As at 31st Asadh 2065 (15th July 2008)	As at 31st Asadh 2065 (15th July 2008)	As at 32nd Asadh 2064 (16th July 2007)	As at 32nd Asadh 2064 (16th July 2007)
SCHEDULE - 1				
SHARE CAPITAL				
Authorised				
10,000,000 Ordinary Shares of NRs. 100/-each	1,000,000,000	625,000,000	1,000,000,000	625,000,000
Issued, Subscribed & Paid up				
3,360,000 Ordinary Shares of NRs.100/- each, fully paid	336,000,000	210,000,000	336,000,000	210,000,000
	336,000,000	210,000,000	336,000,000	210,000,000

Out of the above:

1. 280,000 Ordinary Shares were issued as fully paid up bonus shares in 2052/53 (1995/96).
2. 2,800,000 Ordinary Shares were issued as fully paid up bonus shares in 2060/61 (2003/04).
3. 1,982,400 Ordinary Shares are held by the Holding Company, ITC Limited.

SCHEDULES TO THE ACCOUNTS

SCHEDULE - 2	Figures in NRs.	Figures in Rs.	Figures in NRs.	Figures in Rs.	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)	Addition	Addition	Withdrawal	Withdrawal	As at 31st Asadh 2065 (15th July 2008)	As at 31st Asadh 2065 (15th July 2008)
RESERVES & SURPLUS								
Capital Reserve								
Revaluation of Land	12,181,280	7,613,300	-	-	-	-	12,181,280	7,613,300
Revenue Reserve								
General Reserve	2,162,120,759	1,351,325,474	180,054,960	112,534,350 *	-	-	2,342,175,719	1,463,859,824
Surplus								
Profit & Loss Account	-	-	157,860,444	98,662,777	157,860,444	98,662,777	-	-
	2,174,302,039	1,358,938,774	337,915,404	211,197,127	157,860,444	98,662,777	2,354,356,999	1,471,473,124

* Addition to General Reserve includes NRs. 22,194,516 (Rs. 13,871,573) representing recognition of Deferred Tax Assets (Net) for earlier years on initial adoption of NAS 9 - Income Taxes issued by Institute of Chartered Accountants of Nepal.

SCHEDULES TO THE ACCOUNTS

SCHEDULE - 3
FIXED ASSETS

Description	Basic Depreciation Rates (%)	Gross Block								Depreciation								Net Block			
		NRs		Rs		NRs		Rs		NRs		Rs		NRs		Rs		NRs		Rs	
		As at	As at	Additions	Additions	Withdrawals/ Adjustments	Withdrawals/ Adjustments	As at	As at	As at	As at	For the Year	For the Year	Withdrawals/ Adjustments	Withdrawals/ Adjustments	As at	As at	As at	As at	As at	As at
		31.03.2064 (16.07.2007)	32.03.2064 (16.07.2007)					31.03.2065 (15.07.2008)	31.03.2065 (15.07.2008)	32.03.2064 (16.07.2007)	32.03.2064 (16.07.2007)					31.03.2065 (15.07.2008)	31.03.2065 (15.07.2008)	31.03.2065 (15.07.2008)	31.03.2065 (15.07.2008)	32.03.2064 (16.07.2007)	32.03.2064 (16.07.2007)
Freehold Land & Land Development		144,544,936	90,340,585	-	-	-	-	144,544,936	90,340,585	-	-	-	-	-	-	-	-	144,544,936	90,340,585	144,544,936	90,340,585
Buildings	1.65	282,125,215	176,328,259	3,509,697	2,193,561	-	-	285,634,912	178,521,820	69,404,020	43,377,513	7,785,685	4,866,053	-	-	-	-	208,445,207	130,278,254	212,721,195	132,950,746
Plant and Machinery	5.30	1,388,210,025	867,631,266	88,551,992	55,344,995	28,050,177	17,531,361	1,448,711,840	905,444,900	903,318,025	564,573,766	91,704,525	57,315,328	25,648,261	16,030,163	969,374,289	605,858,931	479,337,551	299,585,969	484,892,000	303,057,500
Furniture and Fixtures	3.40 & 5.30	18,149,007	11,343,130	2,534,851	1,584,282	84,822	53,014	20,599,036	12,874,398	8,178,600	5,111,625	1,551,872	969,920	65,984	41,240	9,664,488	6,040,305	10,934,548	6,834,093	9,970,407	6,231,505
Vehicles	5.30	48,354,894	30,221,808	9,110,531	5,694,082	9,307,715	5,817,322	48,157,710	30,098,568	11,404,449	7,127,780	3,040,027	1,900,017	4,555,885	2,847,428	9,888,591	6,180,369	38,269,119	23,918,199	36,950,445	23,094,028
Computers	7.30	42,925,114	26,828,196	2,415,678	1,509,799	1,143,366	714,604	44,197,426	27,623,391	19,591,173	12,244,483	4,001,845	2,501,153	663,287	414,554	22,929,731	14,331,082	21,267,695	13,292,309	23,333,941	14,583,713
Office Equipments	5.30	30,783,952	19,239,970	2,138,344	1,336,465	598,747	374,217	32,323,549	20,202,218	10,451,162	6,531,976	2,113,242	1,320,776	230,316	143,948	12,334,088	7,708,804	19,989,461	12,493,414	20,332,790	12,707,994
Total		1,955,093,143	1,221,933,214	108,261,093	67,663,184	39,184,827	24,490,518	2,024,169,409	1,265,105,880	1,022,347,429	638,967,143	110,197,196	68,873,247	31,163,733	19,477,333	1,101,380,892	688,363,057	922,788,517	576,742,823	932,745,714	582,966,071
Capital Work-in-Progress and in Transit		53,591,393	33,494,620	233,722,970	146,076,856	27,084,918	16,928,074	260,229,445	162,643,402	-	-	-	-	-	-	-	-	260,229,445	162,643,402	53,591,393	33,494,620
Grand Total		2,008,684,536	1,255,427,834	341,984,063	213,740,040	66,269,745	41,418,592	2,284,398,854	1,427,749,282	1,022,347,429	638,967,143	110,197,196	68,873,247	31,163,733	19,477,333	1,101,380,892	688,363,057	1,183,017,962	739,386,225	986,337,107	616,460,691
Previous Year		1,884,699,638	1,177,937,274	138,147,490	86,342,180	14,162,592	8,851,620	2,008,684,536	1,255,427,834	902,252,871	563,908,044	125,152,166	78,220,104	5,057,608	3,161,005	1,022,347,429	638,967,143	986,337,107	616,460,691	-	-

SCHEDULES TO THE ACCOUNTS

	Figures in NRs.	Figures in Rs.	Figures in NRs.	Figures in Rs.
	As at 31st Asadh 2065 (15th July 2008)	As at 31st Asadh 2065 (15th July 2008)	As at 32nd Asadh 2064 (16th July 2007)	As at 32nd Asadh 2064 (16th July 2007)
SCHEDULE - 4				
INVESTMENTS - LONG TERM				
Investment in Stocks issued by Nepal Government 5% Bikash Rinpatra, 2071 *	84,250,000	52,656,250	84,250,000	52,656,250
Investment in Promissory Note issued by Nepal Government 6.5% Bikash Rinpatra, 2075 *	25,632,338	16,020,211	25,632,338	16,020,211
	109,882,338	68,676,461	109,882,338	68,676,461
* Pledged with a bank for obtaining letter of credit, guarantee facilities.				
SCHEDULE - 5				
INVENTORIES				
Stores & Supplies (including in-transit)	53,850,886	33,656,804	49,112,898	30,695,561
Raw Materials (including in-transit)	417,827,887	261,142,429	302,913,620	189,321,013
Stock - In - Process	65,280,477	40,800,298	71,246,507	44,529,067
Finished Goods		-		-
At Cost	302,069,520	188,793,450	430,081,949	268,801,218
At Net Realisable Value	15,879,439	9,924,649	8,944,488	5,590,305
	854,908,209	534,317,630	862,299,462	538,937,164
SCHEDULE - 6				
SUNDRY DEBTORS				
(Receivable within twelve months, unless otherwise stated)				
Due for more than six months - Considered good Unsecured	34,584,528	21,615,330	1,810,723	1,131,702
Due for less than six months - Considered good Secured	1,049,619	656,012	215,201	134,501
Unsecured				
From Holding Company	39,709,948	24,818,718	128,925,263	80,578,289
From Others	51,369,624	32,106,015	48,126,554	30,079,096
	126,713,719	79,196,075	179,077,741	111,923,588
SCHEDULE - 7				
CASH AND BANK BALANCES				
Cash & Cheques on Hand	418,314	261,446	5,096,721	3,185,451
Cash at Bank				
Current Account	23,455,554	14,659,721	13,102,259	8,188,912
Savings Account (Provident Fund)	55,630	34,769	74,874	46,796
Short Term - Call Deposits	1,375,983,625	859,989,766	879,307,360	549,567,100
	1,399,913,123	874,945,702	897,581,214	560,988,259

SCHEDULES TO THE ACCOUNTS

	Figures in NRs.	Figures in Rs.	Figures in NRs.	Figures in Rs.
	As at 31st Asadh 2065 (15th July 2008)	As at 31st Asadh 2065 (15th July 2008)	As at 32nd Asadh 2064 (16th July 2007)	As at 32nd Asadh 2064 (16th July 2007)
SCHEDULE - 8				
LOANS & ADVANCES				
(Recoverable within twelve months, unless otherwise stated)				
Receivables from Holding Company (Net)	138,892,427	86,807,767	254,426,003	159,016,252
Advance to Employees	101,128,565	63,205,353	106,268,528	66,417,830
[Includes NRs. 90,832,993 (Rs. 56,770,621) {2063-64 - NRs. 96,279,316 (Rs. 60,174,573)} recoverable after twelve months]				
Margin Money Deposit	4,236,042	2,647,526	46,594	29,121
Advance to Others	131,696,102	82,310,064	57,342,124	35,838,827
Prepaid Expenses	3,626,592	2,266,620	3,696,065	2,310,041
Accrued Interest Receivable	908,966	568,104	1,026,449	641,531
Claims Receivable	2,420,206	1,512,629	62,304	38,940
Deposits: With Government Authorities	27,425,522	17,140,952	27,374,957	17,109,348
With Others	13,205,121	8,253,201	17,072,444	10,670,278
	423,539,543	264,712,216	467,315,468	292,072,168
Less: Provision for Doubtful Advance	1,160,204	725,128	1,160,204	725,128
	422,379,339	263,987,088	466,155,264	291,347,040
SCHEDULE - 9				
CURRENT LIABILITIES				
(Payable within twelve months, unless otherwise stated)				
Retention Money	6,816,429	4,260,268	3,958,139	2,473,837
Sundry Creditors	262,877,541	164,298,463	269,890,536	168,681,585
Advances From Wholesale Dealers	91,831,693	57,394,808	187,238,578	117,024,111
Deposits From Wholesale Dealers	3,700,000	2,312,500	3,300,000	2,062,500
Other Liabilities	8,579,012	5,361,883	7,081,085	4,425,678
	373,804,675	233,627,922	471,468,338	294,667,711
SCHEDULE - 10				
PROVISIONS				
Provision for Income Tax	53,381,496	33,363,435	71,348,536	44,592,835
[Net of payment of Income Tax Advance/Deposits amounting to NRs. 556,454,357 (Rs. 347,783,973) {2063-64 NRs. 394,173,553 (Rs. 246,358,471)}]				
Provision for Gratuity and Leave Encashment	34,618,746	21,636,716	36,777,601	22,986,001
Provision for Interim Dividend	672,000,000	420,000,000	403,200,000	252,000,000
Provision for proposed Final Dividend	201,600,000	126,000,000	-	-
Provision for Employees' Housing	97,327,496	60,829,685	8,236,612	5,147,882
	1,058,927,738	661,829,836	519,562,749	324,726,718

SCHEDULES TO THE ACCOUNTS

	Figures in NRs.	Figures in Rs.	Figures in NRs.	Figures in Rs.
	For the Year ended 31st Asadh 2065 (15th July 2008)	For the Year ended 31st Asadh 2065 (15th July 2008)	For the Year ended 32nd Asadh 2064 (16th July 2007)	For the Year ended 32nd Asadh 2064 (16th July 2007)
SCHEDULE - 11				
GROSS REVENUE				
Domestic : Cigarette	6,269,695,572	3,918,559,733	5,312,762,421	3,320,476,513
Garments	84,590,161	52,868,851	63,462,167	39,663,854
Matches	24,276,235	15,172,647	1,590,359	993,974
Exports : Garments	326,321,932	203,951,208	550,613,688	344,133,555
	6,704,883,900	4,190,552,439	5,928,428,635	3,705,267,896
SCHEDULE - 12				
DUTIES				
Excise Duty	2,362,180,450	1,476,362,781	2,104,977,112	1,315,610,695
Sticker Charges	29,878,511	18,674,069	3,051,385	1,907,116
	2,392,058,961	1,495,036,850	2,108,028,497	1,317,517,811
SCHEDULE - 13				
RAW MATERIALS CONSUMED ETC.				
Leaf	700,929,023	438,080,639	605,794,129	378,621,331
Casing Materials	13,175,964	8,234,978	11,795,497	7,372,186
Wrapping Materials	623,222,748	389,514,218	582,876,145	364,297,591
Purchase of Goods	16,247,703	10,154,814	11,411,845	7,132,403
Fabrics, Contract Manufacturing Charges etc.	327,277,897	204,548,686	473,441,826	295,901,141
	1,680,853,335	1,050,533,335	1,685,319,442	1,053,324,652
Adjustment of overheads loaded, etc. on Finished Goods				
Opening	39,128,497	24,455,311	27,339,623	17,087,264
Closing	(36,768,420)	(22,980,263)	(39,128,497)	(24,455,311)
	1,683,213,412	1,052,008,383	1,673,530,568	1,045,956,605
SCHEDULE - 14				
OTHER INCOME				
Interest Received	3,154,581	1,971,613	-	-
Less: Interest paid on Trading Debts	1,900,417	1,187,761	-	-
	1,254,164	783,852	-	-
Interest on Short Term/Call Deposit	55,450,609	34,656,631	29,427,073	18,391,921
Gain on Foreign Exchange (Net)	911,800	569,875	-	-
Interest from Investments	5,663,526	3,539,704	5,149,268	3,218,293
Liability no longer required written back	29,842,360	18,651,475	823,688	514,805
Miscellaneous Income	8,483,435	5,302,147	7,391,223	4,619,514
	101,605,894	63,503,684	42,791,252	26,744,533

SCHEDULES TO THE ACCOUNTS

	Figures in NRs. For the Year ended 31st Asadh 2065 (15th July 2008)	Figures in Rs. For the Year ended 31st Asadh 2065 (15th July 2008)	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)
SCHEDULE - 15				
MANUFACTURING, ADMIN, SELLING EXPENSES ETC.				
Salaries, Wages & Allowances	203,861,443	127,413,402	172,740,565	107,962,853
Contribution to Provident Fund	6,895,736	4,309,835	6,034,017	3,771,261
Labour & Staff Welfare	14,206,782	8,879,239	11,732,608	7,332,880
Uniform	1,556,908	973,068	1,455,922	909,951
Rent	38,332,584	23,957,865	31,540,275	19,712,672
Electricity, Fuel & Water	63,439,120	39,649,450	55,818,235	34,886,397
Rates & Taxes	1,362,454	851,534	1,488,067	930,042
Insurance Premium	24,904,105	15,565,066	21,466,187	13,416,367
Repairs & Improvement - Depreciable Assets	65,925,243	41,203,277	60,817,123	38,010,702
Safety & Pollution Control Cost	4,781,209	2,988,256	3,663,892	2,289,933
Maintenance to Other Properties	14,966,623	9,354,139	15,865,891	9,916,182
Consumable Stores & Spares	9,782,208	6,113,880	13,851,559	8,657,224
Freight	35,238,741	22,024,213	31,883,430	19,927,144
Product Development	5,202,754	3,251,721	12,076,213	7,547,633
Advertising	137,956,829	86,223,018	126,396,610	78,997,881
Travel & Conveyance	37,067,974	23,167,484	31,455,731	19,659,832
Training & Recruitment Expenses	7,093,282	4,433,301	7,808,898	4,880,561
Postage, Telephone, Telex, Fax etc.	7,482,119	4,676,324	6,915,823	4,322,389
Bank Charges and Commission	4,554,576	2,846,610	3,318,620	2,074,138
Audit Fees	450,000	281,250	360,000	225,000
Legal Fees	440,800	275,500	960,280	600,175
Printing & Stationery	2,533,132	1,583,208	2,411,024	1,506,890
Consultancy, Service Charges & Other Fees	22,656,449	14,160,281	21,217,650	13,261,031
Licence Fee	1,134,032	708,770	1,280,375	800,234
Entertainment	3,256,029	2,035,018	1,860,005	1,162,503
Sales promotion	91,423,378	57,139,611	89,028,853	55,643,033
Board Meeting Fees	30,294	18,934	47,059	29,412
Donations & Charity	552,350	345,219	713,113	445,696
Books & Periodicals	254,401	159,001	395,027	246,892
Membership Fee	439,347	274,592	584,563	365,352
Claims and Advance Written off	-	-	7,101	4,438
Provision for Retirement Benefits	23,539,652	14,712,283	23,274,053	14,546,283
Loss on Foreign Exchange (Net)	-	-	505,183	315,739
Interest Paid on Trading Debts	-	-	2,202,557	1,376,598
Less: Interest received	-	-	1,943,407	1,214,629
Miscellaneous Expenses (Refer 2Fof Schedule 17)	5,823,098	3,639,436	4,753,450	2,970,906
	837,143,652	523,214,785	763,986,552	477,491,595

SCHEDULES TO THE ACCOUNTS

	Figures in NRs.	Figures in Rs.	Figures in NRs.	Figures in Rs.
	For the Year ended 31st Asadh 2065 (15th July 2008)	For the Year ended 31st Asadh 2065 (15th July 2008)	For the Year ended 32nd Asadh 2064 (16th July 2007)	For the Year ended 32nd Asadh 2064 (16th July 2007)
SCHEDULE - 16				
PROVISION FOR TAXATION				
Current Tax	511,462,304	319,663,940 *	368,026,416	230,016,510
Deferred Tax	(4,080,206)	(2,550,129)	-	-
	<u>507,382,098</u>	<u>317,113,811</u>	<u>368,026,416</u>	<u>230,016,510</u>

* Net of NRs. 9,847,086 (Rs. 6,154,429) being write back of provision for earlier years.

SCHEDULES TO THE ACCOUNTS

Schedule – 17

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, except for item (xiii), 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.

xii) Cash and Cash Equivalents

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

xiii) Tax on Income

Provision for current tax is made with reference to profit for the period covered by these financial statements based on the provisions of Income Tax Act, 2058.

Deferred Tax is recognised and provided for on timing differences between taxable income and accounting income. However, deferred tax assets are not recognised unless there is virtual/reasonable certainty that there will be sufficient future taxable income available to realise such assets.

xiv) Dividend

Final 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. 200 (Rs. 125) per share and Final Dividend of NRs 60 (Rs. 37.50) 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 hereinafter. 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. 521,240,189 (Rs. 325,775,118)

- 1. 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 (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 hearing on the matter is 4th September, 2008.

2. A demand letter dated 22nd February, 2008 issued by the Inland Revenue Office, Simra, Bara was received by the company on 29th February 2008. The demand of NRs. 149,515,509 (Rs. 93,447,193) by way of Excise duty, relate to the years 2060/61 to 2062/63 (2003/04 to 2005/06). The Company had filed a writ petition in the Supreme Court on 1st April, 2008 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 2nd April, 2008 and directed issue of Show Cause Notices to the respondents. The next date of appearance at the Supreme Court is 5th November, 2008.

(ii). Value Added Tax Demand for NRs. 143,408,080 (Rs. 89,630,050)

1. A demand letter dated 7th August, 2006 for the period 2058/59 (2001/02) was issued to the Company by the Large Taxpayers' 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. 35,774,287). 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 date of appearance at the court on the matter is 5th November, 2008. A date of hearing will be fixed subsequently.

3. A Show Cause Notice dated 30th June, 2008, for a sum of NRs. 11,328,199 (Rs. 7,080,124) which includes NRs. 10,718,107 (Rs. 6,698,817) on the same issue of 'theoretical production' seeking reasons as to why a demand by way of Value Added Tax should not be raised on the Company for the year 2060/61 (2003/04), was issued to the Company by the Large Taxpayers' Office, Lalitpur and was received on 1st July, 2008. The Company had submitted its reply on 15th July, 2008. Subsequently, a demand letter for the said year and the same amount was issued to the Company by the Large Taxpayers' Office, Lalitpur and was received on 5th August 2008. The Company has filed a writ petition to the Supreme Court, as was done for the earlier demand referred to in 2 above, requesting that the demand order, made on the basis of "theoretical production", be quashed and orders issued such that the tax demanded not be collected. The date of preliminary hearing on admissibility of the writ at the Supreme Court is 5th September 2008.

(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 Taxpayers' 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 date of hearing on the matter is 4th September, 2008.

2. A demand letter dated 12th August, 2007, for the period 2059/60 (2002/03) was issued to the Company by the Large Taxpayers' 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. The next date of appearance on the matter is 5th November, 2008.

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 the appropriate authorities amounting to NRs. 103,283,725 (Rs. 64,552,328) {(Previous Year - NRs. 103,283,725 (Rs. 64,552,328)) (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. 3,100,750 (Rs. 1,937,969))}.
- C. A Show Cause Notice dated 10th February, 2008 on the same matter of 'theoretical production' seeking reasons as to why a demand of NRs. 102,767,497 (Rs. 64,229,686) by way of Excise Duty and NRs. 40,146,347 (Rs. 25,091,467) by way of Value Added Tax, totalling NRs. 142,913,844 (Rs. 89,321,153) should not be raised on the Company for the year 2063/64 (2006/07), was issued to the Company by the Inland Revenue Office, Simra, Bara and was received on 14th

February, 2008. The Company had submitted its reply, rebutting the claim on 29th February, 2008. No further communication has been received by the Company on the matter.

A Show Cause Notice dated 29th June, 2008, for a sum of NRs. 21,020,471 (Rs. 13,137,794) which includes NRs. 18,847,487 (Rs. 11,779,679) on the same matter of 'theoretical production' seeking reasons as to why a demand by way of Income Tax should not be raised on the Company for the year 2060/61 (2003/04), was issued to the Company by the Large Taxpayers' Office, Lalitpur and was received on 1st July, 2008. The Company had submitted its reply, rebutting the claim on 15th July, 2008. No further communication on the matter has been received by the Company from the Large Taxpayer's Office on this matter.

For the years 2050/51 & 2051/52 (1993/94 & 1994/95) Revenue authorities raised a demand for NRs 13.59 (Rs. 8.49) Crores on 'theoretical production', which was quashed by a division bench of the Supreme Court (2 Judges) on April 8, 1998. Government filed a review petition on 8th October, 1998, which was finally admitted by a full bench (3 Judges) on 22nd July, 2007. The matter is slated for a hearing on 13th November 2008. Our counsel advise that the Company has a strong case on merits.

- D. Estimated amount of contracts remaining to be executed on capital account NRs. 291,880,766 (Rs. 182,425,479) {(2063-64 NRs. 127,716,654 (Rs. 79,822,909))}.
- E.
 1. Payment to Managing Director towards remuneration - NRs. 9,713,704 (Rs. 6,071,065) {(2063-64 - NRs. 6,717,016 (Rs. 4,198,135))}.
 2. Managing Director is also provided the facilities like furnished housing, telephone at residence, chauffeur driven car, etc. as per terms of appointment.
- F. Miscellaneous Expenses include reimbursement of expenses to statutory auditors amounting to NRs. 186,570 (Rs. 116,606) {(2063-64 - NRs. 203,880 (Rs. 127,425))}.

- G. The major components of the Deferred Tax Assets/Liabilities, based on the tax effect of the timing difference as at 31st Asadh 2065, are as under:

	As at 31st Asadh, 2065 (15th July, 2008) In NRs.	As at 31st Asadh, 2065 (15th July, 2008) In Rs.
Deferred Tax Asset		
On employees' separation and retirement	10,700,980	6,688,112
On fiscal allowance on fixed assets	17,787,436	11,117,148
	28,488,416	17,805,260
Deferred Tax Liability		
On other temporary differences	2,213,694	1,383,559
Deferred Tax – Net	26,274,722	16,421,701

- H. Explanation of the relationship between tax expenses and accounting profit:

	For the year ended 31st Asadh, 2065 (15th July, 2008) In NRs.	For the year ended 31st Asadh, 2065 (15th July, 2008) In Rs.
Accounting Profit	1,538,842,542	961,776,588
Tax at the applicable tax rate (Cigarette manufacturing @ 31.5%, Garments manufacturing @ 21.5% and Trading @ 26.5%)	495,713,918	309,821,199
Tax effect of expenses that are not deductible in determining taxable profit	28,063,628	17,539,767
Donation & Charity	173,990	108,744
Write back of Excess Provision not allowed as deduction in earlier year	(6,722,352)	(4,201,470)
Excess provision for income tax made in earlier year reversed	517,229,184 (9,847,086)	323,268,240 (6,154,429)
Tax Expense	507,382,098	317,113,811

- I. Related party Disclosures

Nature of relationship and name of the related parties:

1. Holding Company
 ITC Limited, India
2. Fellow Subsidiaries
 - a) Srinivasa Resorts Limited, India
 - b) Fortune Park Hotels Limited, India
 - c) Bay Islands Hotel Limited, India
 - d) Russell Credit Limited, India and its subsidiary
 - i. Greenacre Holdings Limited, India
 - ii. Wimco Limited, India and its subsidiaries
 1. Pavan Poplar Limited, India
 2. Prag Agro Farm Limited, India
 - iii. Technico Pty Limited, Australia and its subsidiaries
 1. Technico ISC Pty. Limited, Australia
 2. Technico Agri Science Limited
 3. Technico Technologies Inc., Canada
 4. Technico Asia Holdings Pty Limited, Australia
 5. Technico Horticultural (Kunming) Co. Limited, China
 - e) ITC Infotech India Limited, India and its subsidiaries
 - i. ITC Infotech Limited, United Kingdom
 - ii. ITC Infotech (USA), Inc., United States of America
 - f) Wills Corporation Limited, India
 - g) Gold Flake Corporation Limited, India

- h) Landbase India Limited, India
- i) BFIL Finance Limited, India and its subsidiary
 - i. MRR Trading & Investment Company Limited, India
- j) King Maker Marketing, Inc., United States of America

The above list does not include:

- a) ITC Global Holdings Pte. Limited, Singapore (under liquidation)
 - i. Hup Hoon Traders Pte. Limited, Singapore
 - ii. AOZT "Hup Hoon", Moscow
 - iii. Hup Hoon Impex SRL, Romania
 - iv. Fortune Tobacco Co. Limited, Cyprus
 - v. Fortune Tobacco Company Inc., USA, and
- b) BFIL Securities Limited (a subsidiary of BFIL Finance Ltd.) which is under voluntary winding up proceedings.

3. Key Management Personnel:

Y.C. Deveshwar	Chairman & Non-Executive Director
A. Singh	Non-Executive Director
B. B. Chatterjee	Non-Executive Director
D. B. Mathema	Non-Executive Director
P. Chatterjee	Non-Executive Director
S. SJB Rana	Non-Executive Director
H.M. Dar	Managing Director (till 5 th May, 2008)
S. Keshava	Managing Director (w.e.f 6 th May, 2008)

Disclosure of transactions between the Company and related parties and the status of outstanding balances as on 15th July, 2008:

	<i>Holding Company NRs.</i>	<i>Holding Company Rs.</i>	<i>Fellow Subsidiaries NRs.</i>	<i>Fellow Subsidiaries Rs.</i>	<i>Key Management Personnel NRs.</i>	<i>Key Management Personnel Rs.</i>
Sale of Goods/Services	309,442,460	193,401,538	2,653,523	1,658,452		
Purchase of Goods/Services	884,756,826	552,973,016				
Payment to Managing Director (Short Term), refer E above					9,713,704	6,071,065
Sitting Fees/ Incidental Expenses to Other Directors					65,294	40,809
Rent Paid	1,132,312	707,695				
Rent Received	5,120,000	3,200,000				
Dividend Payments	237,888,000	148,680,000				
Expenses recovered	6,690,574	4,181,609				
Expenses reimbursed	953,479	595,924				
Advances Given	439,187,881	274,492,426				
Balances as on 15.07.2008						
- Debtors/ Receivables	39,709,948	24,818,718				
- Advances	168,202,897	105,126,811				
- Creditors / Payables	29,310,470	18,319,044	632,534	395,334		

SURYA NEPAL PRIVATE LIMITED

- J. This being the first year of adoption of Nepal Accounting Standard Ø – Income Taxes and Nepal Accounting Standard 16 – Related Party Disclosures issued by Institute of Chartered Accountants of Nepal, the comparative figures for previous year have not been shown.
- K. Figures have been rounded off to the nearest rupee.
- L. Previous Year's figures have been regrouped and/or rearranged wherever necessary.

A R Banerjee
Vice President
Finance

Sanjiv Keshava
Managing Director

Saurya SJB Rana
Alternate 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: 18th Bhadra 2065 (3rd September 2008)